London Borough of Bexley Pension Fund

Annual Report 2012/13

LONDON BOROUGH OF BEXLEY

Welcome to the 2012/13 Pension Fund Annual Report

Contents

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

We welcome feedback on this annual report. Please contact Nigel Bate at Room 211, Civic Offices, Bexleyheath DA6 7LB or nigel.bate@bexley.gov.uk or 020 3045 5139.

INVESTMENT POLICY AND PERFORMANCE

Scheme Investment Allocations

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

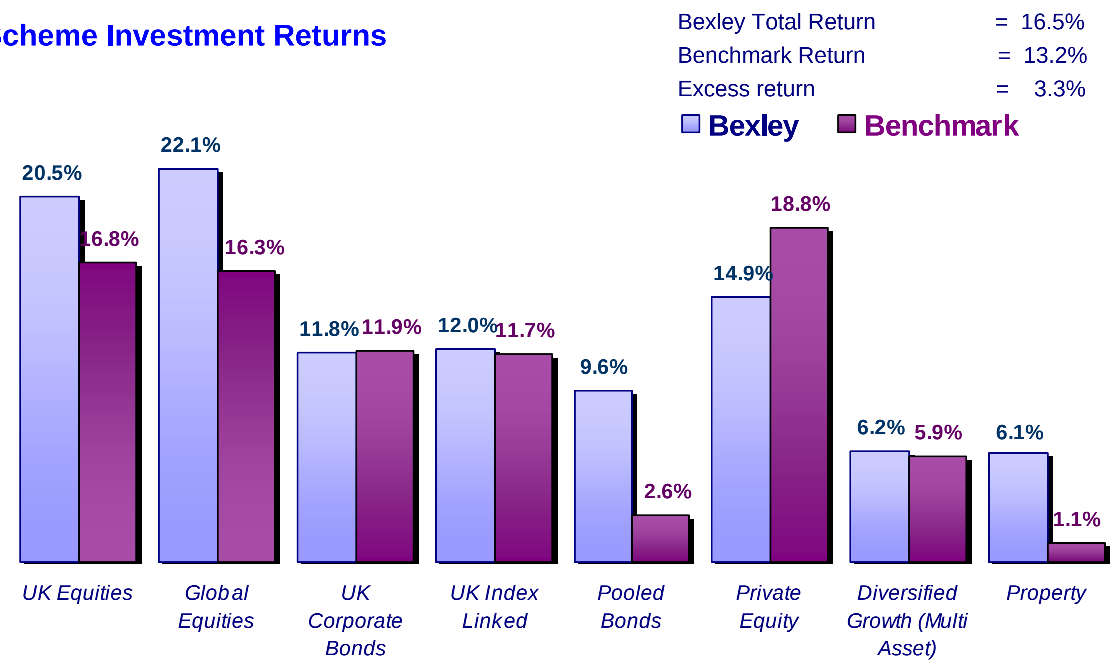
	Benchmark %
UK Equities	15
Global Equities	45
Total Equities	**60**
Gilt Fund	2.5
Corporate Bond Fund	2.5
Dynamic Bond Fund	5
Total Bonds	**10**
Property	10
Private Equity	10
Diversified Growth Fund	10
Total Alternatives	**30**
Cash	0
Total	**100**

Considerable progress was made during 2011/12 and continued in 2012/13 in implementing that new allocation as the following table shows:-

	Allocation at 31.3.11	Allocation at 31.3.12	Allocation at 31.3.13	Target %
UK Equities	18.1	16.6	15.6	15
Global Equities	54.0	44.5	47.9	45
Total Equities	**72.1**	**61.1**	**63.5**	**60**
Gilts/Gilt Fund	5.0	2.9	2.9	2.5
Corporate Bond Fund	7.1	2.9	2.8	2.5
Dynamic Bond Fund	0.0	4.8	4.6	5
Total Bonds	**12.1**	**10.6**	**10.3**	**10**
Property	4.1	6.4	5.6	10
Private Equity	3.4	4.0	5.6	10
Diversified Growth Fund	0.0	16.2	13.9	10

Hedge Fund	2.2	0.0	0.0	0
Total Alternatives	**9.7**	**26.6**	**25.1**	**30**
Cash	6.1	1.7	1.1	0
Total	**100.0**	**100.0**	**100.0**	**100**

Scheme Investment Returns



This graph shows that, in the past year, UK Equities, Global Equities, Pooled Bonds and Property have outperformed their benchmarks for Bexley's Fund. Property performed very well this year but with limited impact since the sector represents just 5.7% of the total fund, however the investment strategy aims to increase this holding to 10% where the opportunities arise. A new property investment manager has been appointed to implement this increase and has made significant progress in the early part of 2013/14. Private Equity has had a disappointing year when viewed against its benchmark, 14.9% against 18.8%, but a yearly return of 14.9% in absolute terms is still impressive. However all investments should be seen in a long term context and should not be judged entirely on the returns of one year.

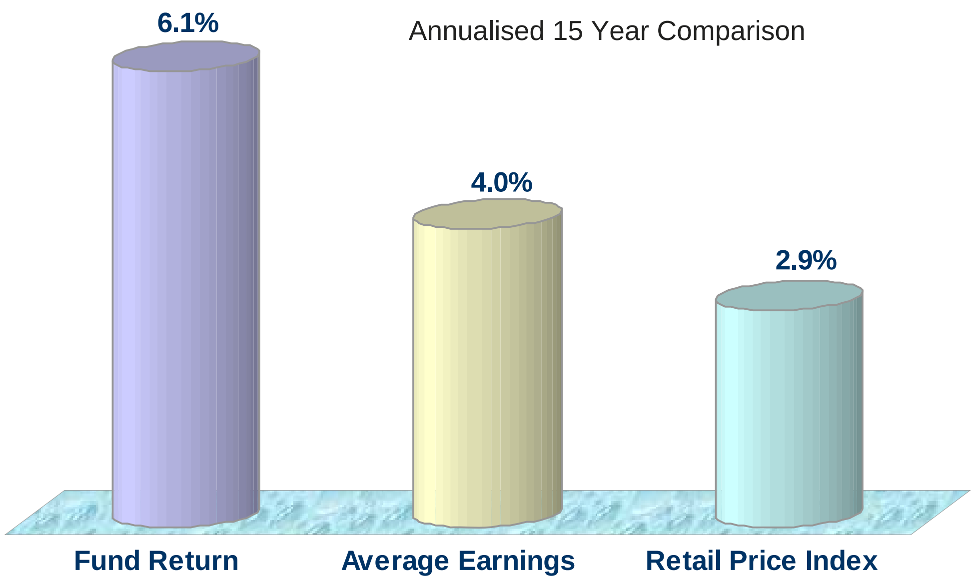
Sector Returns

The benchmark return reflects the return that would be achieved by the market indices invested in the asset allocation recommended by the asset liability study. The pension fund managers may deviate from the set asset allocation by a predetermined range. This deviation and also stock selection is where the managers can add value and beat the benchmark return. This year the combined fund, which is under the management of Newton, UBS, Partners, Standard Life, BlackRock and five property fund managers returned 16.5% against the benchmark return of 13.2%. This year Bexley's Pension Fund return ranked it in the 7th percentile of Local Authority funds.

A long term look at investment returns

This past year Bexley returned 16.5% which was ahead of the benchmark by 3.3%.

Over the last 15 years the fund return is equivalent to an annual return of 6.1%. This compares favourably with both the average earnings index and the retail price index.



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

	Annualised Return (%)		
	15 yrs	10 yrs	5 yrs
Fund Return	6.1	9.8	7.9
Benchmark	5.8	9.6	7.9
Outperformance	0.3	0.2	0.0

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

Manager/mandate		Return %	Relative Return %
Newton			
Global Equities	1 Year	22.1	+4.9
	3 Years	8.3	+0.9
	5 Years	6.5	-1.4
Dynamic Bond Fund	1 Year	9.6	+6.9
UBS			
UK Equities	1 Year	20.0	+2.8
	3 Years	9.1	+0.3
	5 Years	7.7	+0.9
	10 Years	11.2	+0.5
BlackRock			
Index-Linked Gilts and	1 Year	11.8	-0.2
Corporate Bonds	3 Years	n/a	n/a
Partners			
Private Equity	1 Year	13.1	-4.8
	3 Years	12.3	+2.8
	5 Years	1.8	-6.2
Property			
	1 Year	6.1	+4.9
	3 Years	7.4	+1.4
Standard Life			
Diversified Growth Fund	1 Year	6.2	+0.3

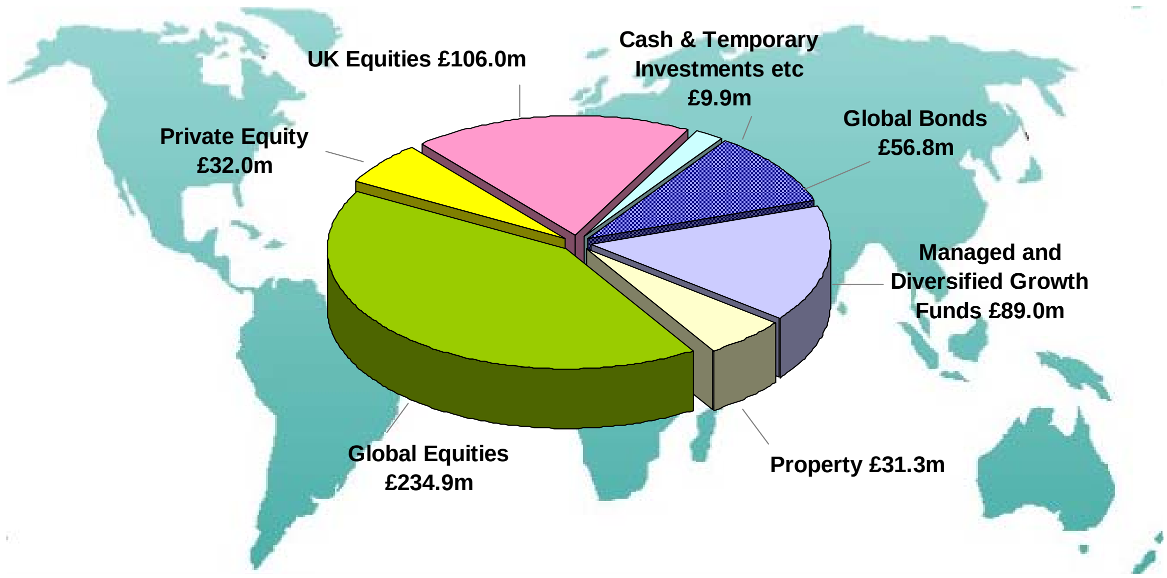
Benchmark indices used for the mandates are:-

Newton Global Equities:	MSCI AC World NDR
Newton Global Dynamic Bonds:	1 month LIBOR + 2%
UBS UK Equities:	FTSE All Share
BlackRock Bonds:	50% FTSE 5+ Years Index Linked Gilts 50% iBoxx Sterling Non Gilt Bonds
Partners Private Equity:	50% FTSE USA, 40% FTSE Europe, 10% FTSE W Asia Pacific
Property:	50:50 IPD All Balanced/Specialist Vehicles
Standard Life Diversified Growth:	6 month LIBOR + 5%

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

Where the money is invested

The chart shows the types of assets in which the total of £559.9m was invested at 31 March 2013.



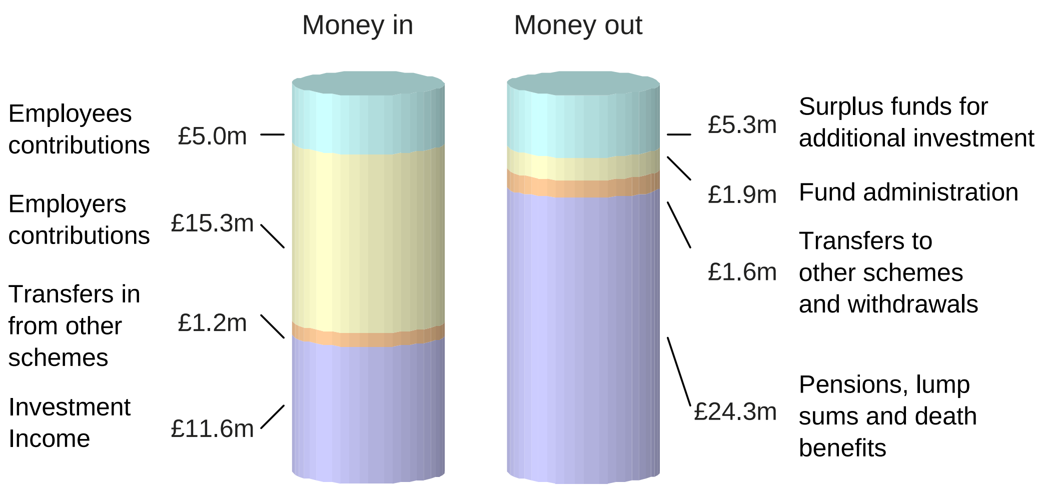
The ten largest equity investments

Company	Market Value (£m)	Percentage of Fund (%)
GlaxoSmithKline	11.0	2.0
BP	8.6	1.5
Royal Dutch Shell	7.3	1.3
Centrica	5.5	1.0
Vodafone	5.1	0.9
Lloyds	5.0	0.9
British American Tobacco	4.7	0.8
Rio Tinto	3.9	0.7
Barclays	3.7	0.7
Associated British Foods	3.5	0.6

How the Fund was used in 2012/13

During the year the fund received £33.1m in income, the main sources of which were the income from assets and contributions from both employees and employers.

From this income, £24.3m was needed to cover the payment of pensions, lump sums and death benefits. After other costs were met the balance was held for investment.



A few words from our Investment Managers

NEWTON

During the 12-month period under review, there was significant uncertainty about the outlook for many of the world's leading debt-laden economies, but investors were swayed by the influence of policymaking by authorities in the main economic areas. Overall, equity returns were strong over the period, albeit that there were disparities in the fortunes of different regions, and emerging-market returns lagged markedly those from their developed counterparts.

Investors grappled throughout the period with fears about the outlook for the major economies, most prominent among challenges continuing to be the state of government finances in Europe. The policy response to Europe's woes was multi-faceted but, until the autumn, it appeared far from durable. Nonetheless, the measures announced by the world's leading central banks from September appeared to mark the adoption of a more 'inflationary' policy stance, and they were received well by equity investors. Against this backdrop, even recent turmoil in Cyprus and Italy appeared to be received relatively nonchalantly by financial-market participants.

In the US, the Federal Reserve launched 'QE3', a third wave of quantitative easing, which will entail its buying of an unlimited quantity of mortgage-related debt until the labour market shows a substantial improvement. The US central bank loosened policy further by resuming its buying of longer-term US Treasuries at an initial rate of $45 billion a month from January 2013. The European Central Bank, meanwhile, unveiled a programme of 'Outright Monetary Transactions', which could involve its buying peripheral European sovereign debt, in order to keep borrowing costs low and prevent the break-up of the eurozone.

Over the 12 months to 31 March 2013, the markets of North America led the way with a return of +19.3% in sterling terms, with some relief greeting the New-Year agreement reached by Congress, which allowed the US economy to avoid going over the 'fiscal cliff' of automatic public spending cuts. Continental Europe also delivered a strong sterling return of +18.0%, despite the region's debt-related challenges. The UK returned +16.8%, and the markets of the Asia-Pacific (ex Japan) region generated an aggregate sterling return of +16.7%. Japan, owing largely to the impetus provided by the announcement of much more concerted (deflation-fighting) monetary policy by the bank of Japan during the first quarter of 2013 posted a return of +14.3%. Emerging markets, meanwhile, delivered a collective return of +7.7%.

In government bond markets, gilts made headway, with the FTA Government All Stocks Index returning +5.3%. Returns from overseas bonds were also solid, with the JPM Global Government Bond Index (ex UK) returning +4.5% in sterling terms.

In corporate bond markets, 'spreads' on higher-quality issues over equivalent-dated government bonds generally narrowed over the period, thereby meaning that such markets delivered returns significantly above those of government bond markets. The ML Non-Gilts Index returned +12.0% over the period.

Performance to 31 March 2013

	1 Year	3 Years	SI
	%	% pa	% pa
Fund	20.90	9.37	6.47
Benchmark	14.96	8.55	5.49

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

UBS
Global Asset Management

UK Economy:

Britain's economy shrank 0.3% in the final quarter of 2012 piling pressure on the coalition government. The outlook of the UK's economic activity remains very subdued. On the back of the weaker-than-expected growth in 2012, markets have recently started to doubt that the UK will manage to achieve the fiscal targets set in its fiscal consolidation plan. Without much wiggle room for further fiscal tightening, the danger is that the UK might no longer be perceived by markets as a safe haven country. Q1 2013 saw the UK Government's triple-A credit rating, the highest rating possible, downgraded by Moody's, one of the three major credit-rating agencies.

The UK budget in March 2013 was broadly neutral except for a series of subsidies for house buyers that pleased voters but was pilloried by analysts as an attempt to restart the same sector that caused the crisis in the first place. Similarly, the budget confirmed that the target to stabilize public debt by fiscal year 2015-2016 would be missed and it had to be postponed by one more year.

After disappointing in the first two months of 2013, both the manufacturing and the service PMI surprised on the upside in March. Inflation increased marginally, driven mostly by commodity prices. The Bank of England held rates and QE unchanged in April. Preliminary estimates, from the Office of National Statistics, show the UK economy grew by 0.3% in the first quarter of 2013, allaying fears of a triple-dip recession in 2013. However, the GDP data for Q1 2013 did little to suggest anything other than a flatlining economy and subdued future growth at best.

Fund Performance	**Fund %**	**Benchmark %**
1 Year	+20.5	+16.8
3 Years (p.a.)	+ 9.2	+ 8.8
5 Years (p.a.)	+ 7.7	+ 6.7

Investment activity

The FTSE All Share Index returned +16.8% during the twelve months to 31st March 2013. The backdrop to financial markets had been one of extreme risk aversion over the previous three years but investor sentiment improved markedly from the middle of 2012. Initially this reflected the view that European financial authorities would be more proactive in resolving the Euro Zone crisis. This new belief was driven by, amongst other comments, the following quote from Mario Draghi, ECB President: “Within our mandate the ECB is ready to do whatever it takes to preserve the Euro. And believe me it will be enough”. It is not totally clear that it will be ‘enough’ but nevertheless it was an indication of greater commitment to solving these deep seated issues. In addition to European measures, the US and UK authorities continued with their loose monetary policies and the new Bank of Japan Governor also initiated a quantitative easing strategy.

Despite this unprecedented monetary stimulus, global economic growth remains modest. Consumers and companies generally either cannot afford to, or are reluctant to, spend and invest more. The possible exception is the United States where there are signs of reducing unemployment and stirrings in housing activity. The UK economy remains lacklustre but structurally it still appears advantaged in comparison to many European peers. In addition, FTSE 100 companies generate around 75% of earnings from overseas with the largest single source of overseas earnings being the United States.

UK equities do not appear to be absolutely expensive on most valuation measures. Although they are close to the nominal peaks of 1999 and 2007, in real terms they are significantly below this level. Relative to other assets UK equities appear positively attractive. Over the last 20 years equities have returned less than government bonds whereas it would be expected that equities, as riskier assets with growth potential, should generate higher returns than bonds over long periods of time.

As shown in the table above, the relative performance of the UK Equity Fund for the year ended 31st March 2013 was strongly positive. This performance was driven mainly by the more cyclical holdings in the portfolio, which benefited from the improved investor sentiment in the stock market. The largest individual positive contributors to outperformance were Lloyds Banking Group, Dixons Retail and 3i Group.

In terms of portfolio activity over the year, we continued to reduce holdings in ‘mega cap’ companies such as GlaxoSmithKline, Vodafone and Unilever in favour of cyclical and other companies where we saw compelling value opportunities. Examples of purchases include Aviva, the insurer, Rio Tinto, the mining conglomerate and Tesco.

In terms of outlook, despite strong performance in the twelve months, most of the shares in the portfolio remain below their long-term or ‘fair’ values. Value stocks were out of favour for a number of years and we expect them to remain in favour for some years. This view is contingent upon a normalisation of share valuations within the UK stock market rather than strongly performing stock markets or economies.

Responsible Investment

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

The Fund's equity managers, Newton and UBS, report regularly on the meetings they have with investee companies and the issues they raise. They both vote on all resolutions at the UK companies they invest in, as well as a significant number of overseas holdings. In 2012/13 UBS voted at 62 UK meetings for the Bexley Fund, voting for 936 (99%) resolutions and against 7 (1%). Newton voted at annual meetings of 18 companies worldwide in which stock was held for Bexley's portfolio. At these meetings there were 318 proposals that could be voted on, and Newton voted for 260 (82%) proposals, against/withheld 26 (8%), and did not vote on 32 (10%) as this would have restricted trading in those stocks.

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

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

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

Funding Strategy

The Fund's Funding Strategy Statement was updated in March 2013 to act as a basis for the 2013 actuarial valuation and to take account of updated guidance. The changes were made in consultation with scheduled and admitted bodies, and are shown later in this document in Appendix 4.

Contribution increases agreed following the 2010 valuation were implemented for 2012/13, including the main Council contribution increasing from 20% to 20.6%.

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

MANAGEMENT AND FINANCIAL PERFORMANCE

Management Structure

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

Employing Bodies

Major Employer

London Borough of Bexley

Scheduled Bodies

Beths Grammar School
Bexley College
Bexley Grammar School
Bexleyheath Academy
Blackfen School for Girls
Chislehurst and Sidcup Grammar School
Cleeve Park School
East Wickham Infant School
Erith School
Harris Academy Falconwood
Hurstmere School
St Catherine's Catholic School
St Columba’s Catholic Boys School
Townley Grammar School
Trinity Church of England School, Belvedere
Welling School
Woodland Academy Trust

Admitted Bodies

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

Risk Management

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

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

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

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

One of the key financial risks for the Council is that of the Pension Fund. The resultant impact of poor investment performance or failure to address other financial risks would be an increase in employers' contributions to be met largely (as the London Borough of Bexley constitutes 86% of the Pension Fund) by Council Tax payers. Each risk in the risk register is scored according to its probability and its impact. Combinations of these scores indicate the overall level of risk to the Council. The risk assessment for the Pension Fund shows the probability as "likely" and any impact as "serious" which gives it an overall "medium" risk rating.

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

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

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

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

During the year internal audit carried out risk based reviews of Pension Fund Management in October 2012, and of Pensions Administration and Pension Fund Management in June 2012. The independent auditor's report is included later in this report.

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

Financial Performance

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

	Actual 2011/12 £'000	Actual 2012/13 £'000	Forecast 2013/14 £'000
INCOME			
Employer contributions	-15,248	-15,335	-15,460
Employee contributions	-5,127	-5,013	-5,050
Transfers in	-1,847	-1,160	-2,800
	-22,222	**-21,508**	**-23,310**
EXPENDITURE			
Pensions payable	19,162	20,652	21,820
Retirement and death benefits	6,992	3,634	4,000
Transfers out	1,996	1,563	2,700
Administration expenses	782	727	771
Investment management expenses	1,223	1,216	1,220
	30,155	**27,792**	**30,511**
NET INVESTMENT INCOME	**-12,443**	**-11,618**	**-12,130**
NET CASH FLOW FOR THE YEAR	**-4,510**	**-5,334**	**-4,929**

	Actual 2011/12 £'000	Actual 2012/13 £'000	Forecast 2013/14 £'000
ADMINISTRATION EXPENSES			
Administrative services	226	228	230
Payroll, personnel and finance services	434	434	434
Actuarial services	24	31	55
Audit fee	32	21	32
Other expenses	66	13	20
TOTAL	**782**	**727**	**771**

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

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

	Forecast 2012/13 £'000	Actual 2012/13 £'000	Variation £'000
INCOME			
Employer contributions	-15,530	-15,335	195
Employee contributions	-5,070	-5,013	57
Transfers in	-2,800	-1,160	1,640
	-23,400	**-21,508**	**1,892**
EXPENDITURE			
Pensions payable	21,040	20,652	-388
Retirement and death benefits	3,900	3,634	-266
Transfers out	2,700	1,563	-1137
Administration expenses	739	727	-12
Investment management expenses	1,220	1,216	-4
	29,599	**27,792**	**-1,807**
NET INVESTMENT INCOME	**-12,130**	**-11,618**	**512**
NET CASH FLOW FOR THE YEAR	**-5,931**	**-5,334**	**597**

	Forecast 2012/13 £'000	Actual 2012/13 £'000	Variation £'000
ADMINISTRATION EXPENSES			
Administrative services	228	228	0
Payroll, personnel and finance services	434	434	0
Actuarial services	25	31	6
Audit fee	32	21	-11
Other expenses	20	13	-7
TOTAL	**739**	**727**	**-12**

The key variations during the year were the reductions in transfer values, both in and out of the Fund, compared to previous years. This reflects a reduction in staff moving authorities in the current economic downturn. There were smaller variations from reductions in pensions payable and contributions received. There was a £512,000 variation in investment income, but dividend yields can be volatile and difficult to forecast. The overall variation was only 2% of forecast gross expenditure.

Contributions due from all employers in the fund are monitored on a monthly basis. During 2012/13 total contributions of £20.3m were due. Of this total amount 98% by value and 93% of payment transactions were received by the due date. This can be analysed as follows:-

	Contributions due £'000	% received on time
London Borough of Bexley	14,835	100
Scheduled Bodies	3,610	89
Admitted Bodies	1,903	95
Total	20,348	93

The overdue contributions were:-

	£'000	%
Up to 1 week overdue	123	0.6
1 to 2 weeks overdue	65	0.3
2 to 4 weeks overdue	44	0.2
More than 4 weeks overdue	205	1.0

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

Pension overpayments

During the year there were 82 cases of overpayments due to the death of a pensioner. Further details are shown in the table below:-

Number of cases	Amounts
45 cases where repayment was waived	£ 2,860
25 cases where recovery was made	£ 8,880
12 cases not yet completed	£ 3,974
82 cases in total	**£15,714**

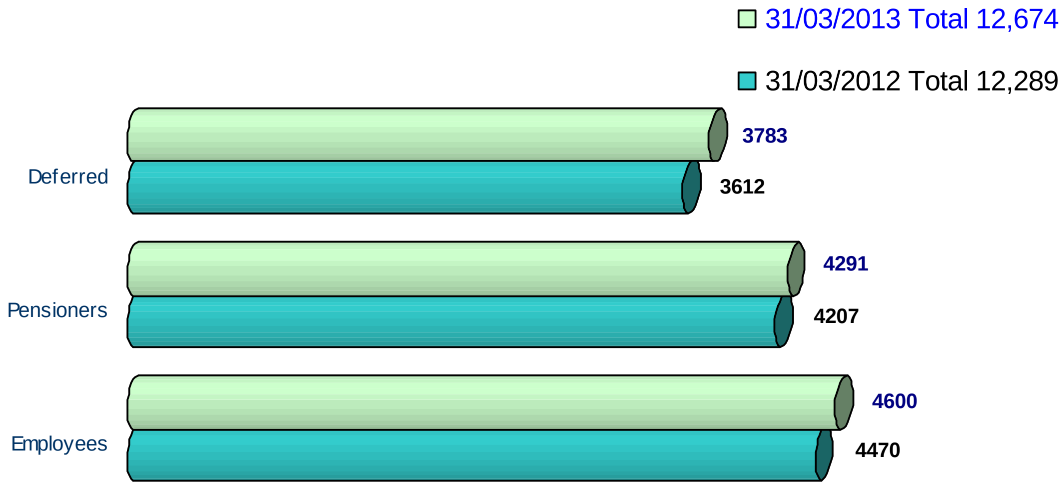
Note: overpayments are waived when there is no further money due to the estate or next of kin and the overpayment is less than £250.

Of the 82 cases 6 were identified as a result of information from the National Fraud Investigation. The total overpayments on these cases was £1,467.

There were also three cases of overpayments arising from an error. The total amount overpaid, £8,333, was recovered.

Administrative Management Performance

Scheme Membership



Bexley's Pension Fund has continued to grow over the past year with membership rising from 12,289 to 12,674.

Scheme Workload

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

Type of case	Cases 2011/12	Cases 2012/13	Target	% on time
Admissions	584	784	10 days	100
Transfers in	144	147	68 days	100
Transfers out	121	158	31 days	100
Estimates (employee)	156	203	15 days	99.5
Estimates (employer)	73	26	27 days	100
Retirements	387	305	43 days	100
Deferred benefits	516	539	47 days	100
Refunds	23	119	33 days	96.1
Deaths	143	135	7 days	100
Correspondence	524	178	8 days	100
Total	2671	2594		99.8

The LPFA send out satisfaction surveys (with prepaid envelopes) monthly to a sample of members who use each of the main case types listed above. In 2011/12 a total of 453 surveys were issued and a satisfaction level of 99% was achieved. Since the beginning of 2012/13 the number of surveys issued has been increased with a higher sample rate being implemented. In total 602 surveys were issued and a satisfaction level of 99.3% was obtained.

A complaints log is also maintained which indicates how matters have been resolved and whether any lessons can be learned from them. In 2011/12 just one complaint was received. This was not in relation to any maladministration but rather concerned payments of benefits which were denied by Bexley. In 2012/13 there were three complaints all of which concerned a delay in service provision:-

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

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

Scheme Indicator Data

Bexley and the LPFA seek to operate in the most efficient manner possible. The DCLG publish the Government's SF3 statistics covering aspects of pension fund administration. In the latest available statistics, those for 2011/12, the administrative costs per member in Bexley were £63.66 compared to the average of £50.01 in outer London. The main reason for the variation is the smaller membership in Bexley as the total amount spent was at the level of the outer London average. Investment management costs were £99.64 per member compared to the average of £114.19 in outer London.

Fund Membership

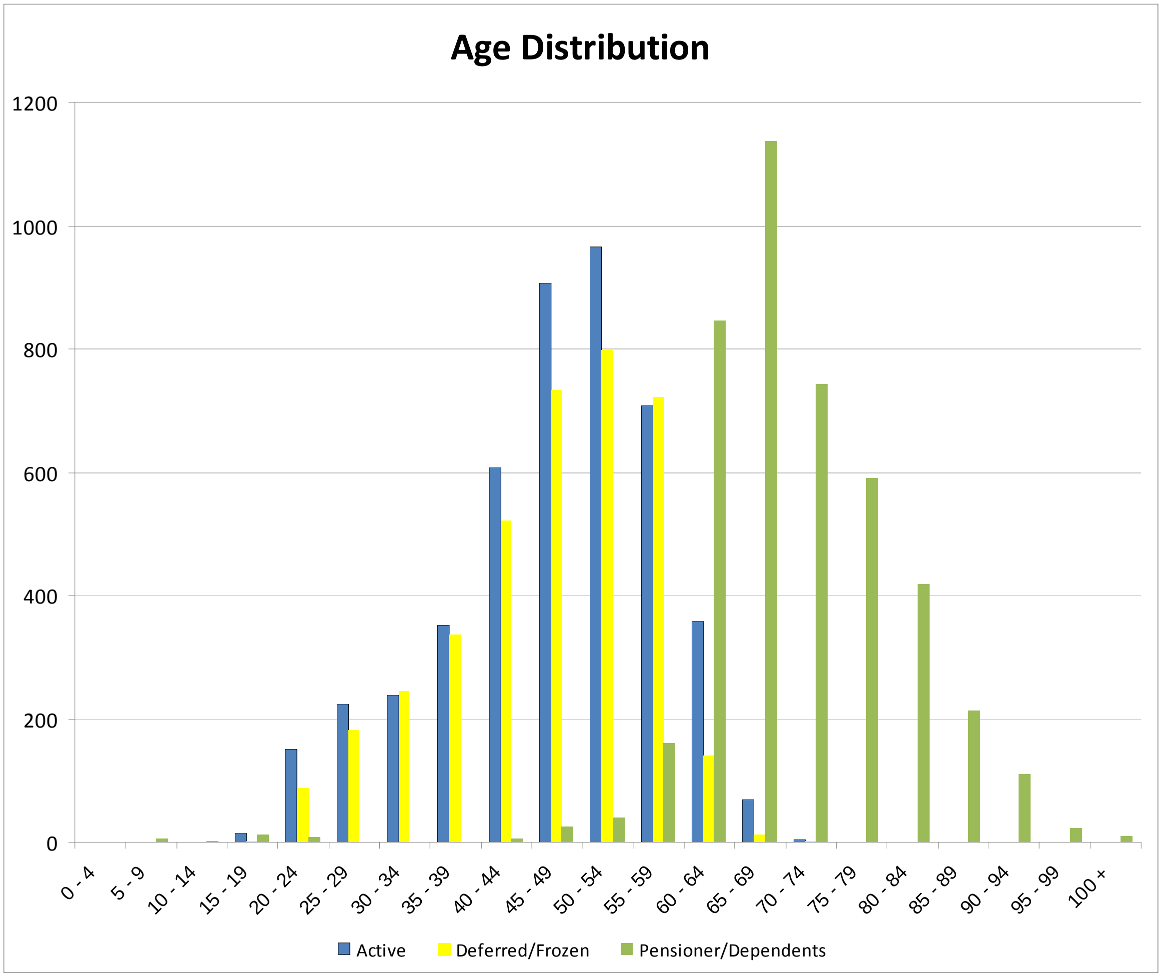
The membership of the Fund has steadily increased over the last five years.

	31.3.09	**31.3.10**	**31.3.11**	**31.3.12**	**31.3.13**
Employees in the Fund	4,744	4,742	4,593	4,470	4,600
Deferred Pensioners	3,216	3,319	3,466	3,612	3,783
Pensioners in the Fund	3,727	3,877	4,025	4,207	4,291
Total	11,687	11,938	12,084	12,289	12,674

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

Reason for enhancement	31 March 2012	31 March 2013
Efficiency	87	87
Employer's consent	35	35
Ill Health	499	494
Redundancy	422	425
Total	1043	1041

The membership at 31 March 2013 may also be analysed by age bandings, and these are shown graphically below:-



Contributions into the Scheme

The table in Appendix 1 provides an analysis of the contributions due in 2012/13 from each employer in the Fund. The employee contributions are split by employee contribution band.

SCHEME ADMINISTRATION

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

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

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

The Fund and the LPFA operate to a customer charter which is displayed on the website. If complaints cannot be settled by correspondence there is an Internal Disputes Resolution Procedure. The full procedure is on the website, but essentially it is a two stage complaint process. Written complaints are first considered by a person nominated by the organisation that took the decision. If this does not solve the problem a second stage review can be carried out by a person not involved in the first stage decision. Should this again not satisfy the complainant then the case can be taken to the Pensions Ombudsman. In 2012/13 no cases in Bexley were dealt with by the Internal Disputes Resolution Procedure.

HM Revenue and Customs have granted the scheme 'exempt approval' for the purposes of the Income & Corporation Taxes Act 1988.

Scheme details

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

Contributions

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

The employee contribution rates are tiered over full-time equivalent salary bands and range between 5.25% and 7.5% of gross pay.

Annual Pension

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

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

Final pensionable pay x 1/60 x Membership Period

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

Lump Sum

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

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

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

Her annual pension is:

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

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

Her reduced annual pension is:

£2,500 less £500 = **£2,000**

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

£500 X 12 = **£6,000**

Ill-Health

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

Retirement and Redundancy

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

You have the right to voluntarily retire from age 60, even though the Scheme's normal pension age is 65. You can retire from as early as age 55, provided your employer agrees.

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

If you choose to voluntarily retire before 65, or take flexible retirement before then, your benefits would normally be reduced to account for them being paid for longer.

You can stay in the Scheme if you carry on working beyond age 65, although you have to draw your benefits by 75. Benefits drawn after age 65 will be increased.

Family Cover

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

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

Scheme Changes

The Scheme will be changed for service occurring after 1 April 2014. Full details of the Scheme are currently being clarified through consultation on the exact wording of the regulations. Members are being kept informed of these changes and the progress being made (for up to date information please visit the Bexley pensions website). The key change is that benefits for service after April 2014 will be assessed on a Career Average Revalued Earnings (CARE) basis rather than final pay.

ACTUARIAL POSITION

The Fund actuary's statement on the level of funding at the last triennial valuation is included in the statement of accounts, which is included later in this report in Appendix 2. The summary from the actuary's triennial valuation report is reproduced below:-

"An actuarial valuation of the Bexley London Borough Pension Fund has been carried out as at 31 March 2010.

The key conclusions from the valuation are:

- The Fund showed a deficit of £69m at the valuation date based on the assumptions made for calculating its funding target. This measure compares the Fund's assets with the value of the past service benefits at 31 March 2010. It represents a funding level of 87% relative to the Fund's funding target.
- Based on the assumptions made for assessing the cost of future accrual, the Common Contribution Rate (i.e. the average employer contribution rate in respect of future service only) was 12.9% of Pensionable Pay.
- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to approximately £257m.
- If the deficit is recovered through additional employer contributions over a 14 year period then the employer contribution rate required to meet the deficit emerging from the valuation is 6.8% of Pensionable Pay per annum.
- The required overall average employer contribution rate is 19.7% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Contributions for each separate employer will be levied generally as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. These contributions will commence from 1 April 2011.
- The recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in this report. Employee contributions are payable in addition to the employer contributions. These contributions are adequate to meet the funding objective based on the actuarial assumptions detailed in this report. No additional contributions are required from employers to meet scheme expenses since allowance for these are included in the recommended contributions.
- A partial allowance has been made in the employer contributions for certain employers in relation to the anticipated costs of non-ill health early retirements over the 3 years from 1 April 2011. Additional capital contributions will be paid on top of the rates shown in respect of non-ill health early retirements in excess of the allowances."

The actuary's full valuation report may be found on the Fund's website.

Since then the Fund has not had a formal interim valuation, but it does receive a quarterly estimate of its updated funding level from its investment advisor.

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

Contributions due to the Scheme in 2012/13 (£'000)

Appendix 1

Employer	Employee Contribution Rate							Total Employees £'000s	Total Employers £'000s
	5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%		
London Borough of Bexley	10	401	587	1241	838	417	122	3,616	11,211
Beths Grammar School		4	17	23	8	4		56	164
Bexley College	2	7	35	33	13	6		96	249
Bexley Grammar School	1	1	26	20	3			51	181
Bexleyheath Academy		7	29	36	7			79	255
Blackfen School	1	6	22	25				54	176
Chislehurst and Sidcup Grammar School		7	15	4	5			31	102
Cleeve Park School		6	11	10				27	90
East Wickham Infant School	1	9	3	3				16	48
Erith School		3	41	47	5	6		102	340
Harris Academy Falconwood	4	10	9	15				38	109
Hurstmere School	1	3	12	18	6			40	132
St Catherine's Catholic School	1	8	11	16		4		40	133
St Columba's Catholic School for Boys	1	2	4	12	3			22	68
Townley Grammar School	1	12	13	24	2			52	163
Trinity Church of England School, Belvedere		6	11	23	3	5		48	155
Welling School			8	39	7	3		57	190
Woodland Academy Trust		12	25	21	3	2		63	186

Avante Partnership		8	12	10	2			32	193
Blenheim CDP			1	7				8	17
Bexley Heritage Trust		1	4	8	2	5		20	35
Business Academy Bexley	11	7	18	38	13	7		94	161
Capita Business Services Ltd			2					2	5
Danson Youth Trust		1						1	3
Kier Street Services Ltd		1	10	19				30	83
Inspire Community Trust			9	27	8			44	104
London & Quadrant Housing Trust				4		4		8	61
MCCH Society		1	1	28				30	30
Mytime Active			1					1	3
Orbit South Housing Association				1				1	69
Rose Bruford College		1	4	30	8	10		53	146
Serco Ltd		1		198				198	454
Wilson James Ltd	1	1	1	1				4	11

GOVERNANCE COMPLIANCE

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

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

Pensions Committee		Attendance
Councillor John Waters	Chairman	4/4
Councillor Colin Tandy	Vice Chairman	3/4
Councillor Brian Bishop		4/4
Councillor Alan Deadman		3/4
Councillor Ray Sams		4/4
Councillor Don Massey		4/4

Observers		
Susan Clark	Employee Representative	3/4
Jacqui Sedgwick	Admitted Bodies' Representative	1/4
Len Nicholson	Pensioners' Representative	2/4

In addition to the main Committee meetings there was one meeting of the Pensions Investment Sub-Committee held to select a manager for the property portfolio. This was attended by Councillors John Waters, Colin Tandy, Don Massey, and Munir Malik (substituting for Alan Deadman).

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

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

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

Knowledge and Skills

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

Knowledge and Skills Policy Statement

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

The Committee has, therefore, agreed that:-

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

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

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

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

Activity in the Year

Over the course of 2012/13, Members of the Pensions Committee attended the following courses and seminars:-

- LGC Investment Summit – September 2012
- Newton Investment Conference – November 2012

Briefing sessions for Members have been conducted on:-

- Proposals for the LGPS 2014 (by LPFA)
- Infrastructure investments (by Aon Hewitt)
- Actuarial valuations and understanding liabilities (by Mercer)
- Gilt market outlook (by Aon Hewitt)

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

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

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

London Borough of Bexley Pension Fund

Governance Compliance Statement

Background

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require administering authorities to prepare and maintain a written statement of governance policy on pension fund matters. The statement is required to indicate the extent to which it complies with guidance given by the Secretary of State and to provide reasons for not complying.

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

Delegation of Pension Fund Management and Administration

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

Pensions Committee Meetings

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

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

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

Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are:

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

The Delegated Powers of the Pensions Committee are as follows:

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

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

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

Committee Membership

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

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

although these observers do not have voting rights.

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

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

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

Pensions Investment Sub-Committee

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

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

- The appointment of Investment Advisor(s).

and Delegated Powers:-

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

Advice and Monitoring

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

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

Compliance

The Pension Fund complies with all the best practice principles issued under section 73A(1)(c) of the LGPS Regulations 1997 with the exception of:-

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

This statement updated in September 2011.

STATEMENT OF ACCOUNTS

Statement of Responsibilities for the Pension Fund Accounts

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

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

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

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

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

(3) complied with the Code of Practice.

Also, the Director of Finance and Resources has:-

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

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

The Statements of the Director of Finance and Resources

The required financial statements for the pension fund appear on pages 35 to 57 and have been prepared in accordance with the accounting policies set out on page 38.

The Pension Fund Accounts present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2013.

Michael Ellsmore
Director of Finance and Resources
September 2013

Independent auditor's report to the Members of London Borough of Bexley

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of the London Borough of Bexley 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. 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 the London Borough of Bexley in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Resources and auditor

As explained more fully in the Statement of the Director of Finance and Resources Responsibilities, the Director of Finance and Resources is responsible for the preparation of the pension fund's financial statements 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 pension fund 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 Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the pension fund annual report 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 other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion, the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on pension fund 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.

Susan M Exton

Director

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

Grant Thornton House

Melton Street

Euston Square

London

NW1 2EP

27 September 2013

Pension Fund Account

2011/12 £'000		Note	2012/13 £'000
	Dealings with members, employers and others directly involved in the scheme		
-20,375	Contributions	6	-20,348
-1,847	Transfers in from other pension funds	7	-1,160
-22,222	**Total contributions**		**-21,508**
26,154	Benefits	8	24,286
1,996	Payments to and on account of leavers	9	1,563
782	Administrative expenses borne by the scheme	10	727
28,932	**Total benefits and administration expenses**		**26,576**
6,710	**Sub-total: Net additions (-) / withdrawals from dealings with members**		**5,068**
	Returns on investments		
-12,781	Investment income	11	-12,070
338	Taxes on income		452
5,560	Profit (-) and losses on disposal of investments and changes in value of investments	12	-68,780
1,223	Investment management expenses	15	1,216
-5,660	**Sub-total: Net returns on investments**		**-79,182**
1,050	**Net increase (-) / decrease in the net assets available for benefits during the year**		**-74,114**

Pension Fund Net Assets Statement

31.3.2012 £'000		Note	31.3.2013 £'000
484,671	Investment Assets	12	559,051
-374	Investment Liabilities	14	0
0	Borrowings		0
2,057	Current Assets	16	1,884
-593	Current Liabilities	17	-1,060
485,761	**Net assets of the scheme available to fund benefits at the period end**		**559,875**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme accounting year. The actuarial position of the scheme, which does take into account such obligations, is detailed in note 25 below.

Notes to the Financial Statements

1 Introduction to the Fund

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

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

(a) General
The fund is governed by the Superannuation Act 1972. It is administered in accordance with the detailed regulations of:
~ the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
~ the LGPS (Administration) Regulations 2008 (as amended)
~ the LGPS (Management and Investment of Funds) Regulations 2009
It is a contributory defined benefit pension scheme, and operates to provide pension benefits for employees of the London Borough of Bexley and its scheduled and admitted bodies. Teachers are not included as they come within another national pension scheme.
The fund is overseen by the Pensions Committee of the London Borough of Bexley.

(b) Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme, or to make their own personal arrangements outside the scheme.

The Scheduled Bodies (bodies whose staff are automatically entitled to be members of the fund) are:-
London Borough of Bexley (Administering Authority)
Beths Grammar School
Bexley College
Bexley Grammar School
Bexleyheath Academy
Blackfen School for Girls
Chislehurst and Sidcup Grammar School
Cleeve Park School
East Wickham Infant School
Erith School
Harris Academy Falconwood
Hurstmere School
St Catherine's Catholic School
St Columba's Catholic Boys School
Townley Grammar School
Trinity Church of England School, Belvedere
Welling School
Woodland Academy Trust

The Admitted Bodies (bodies whose staff are entitled to be members of the fund because of an agreement between that body and the Fund) are:-
Rose Bruford College
MCCH Society
Orbit South Housing Association
London and Quadrant Housing Trust

Avante Partnership
Bexley Heritage Trust
Danson Youth Trust
Business Academy Bexley
Inspire Community Trust
Kier Street Services Ltd
Serco Ltd
Mytime Active
Wilson James Ltd
Capita Business Services Ltd
Blenheim CDP

Numbers for employers and employees in the fund are:

31 March 2012		31 March 2013
30	Number of employers with active members	33
	Number of employees in the fund	
3,279	London Borough of Bexley	3,280
1,191	Other employers	1,320
4,470	*Total*	*4,600*
	Number of pensioners in the fund	
3,805	London Borough of Bexley	3,860
402	Other employers	431
4,207	*Total*	*4,291*
	Number of deferred pensioners in the fund	
3,246	London Borough of Bexley	3,338
366	Other employers	445
3,612	*Total*	*3,783*

Over the last five years membership numbers have increased:

Membership Analysis 31 March 2009- 31 March 2013

	31.3.09	**31.3.10**	**31.3.11**	**31.3.12**	**31.3.13**
Employees in the Fund	4,744	4,742	4,593	4,470	4,600
Deferred Pensioners	3,216	3,319	3,466	3,612	3,783
Pensioners in the Fund	3,727	3,877	4,025	4,207	4,291

(c) Funding

In 2012/13, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.25% to 7.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2010 and shows a funding level of 87% (2007 was 86%). The deficit on the fund will be recovered over a period of 14 years (the balance remaining of the 20 year recovery plan set in 2004). The Council's contribution in 2012/13 was 20.6% of payroll (20.0% in 2011/12). Other bodies employer's future service contributions in 2012/13 varied between 11.7% and 21.6% but they also pay a separate lump sum deficit funding contribution. Further details on the funding and actuarial positions are shown in notes 24 and 25.

Financial Analysis 2008/09 – 2012/13

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Contributions to the Scheme	-21,422	-24,570	-26,323	-22,222	-21,508
Benefits Paid and Admin Expenses	23,341	24,949	24,585	28,932	26,576
Net Return on Investments	65,689	-121,735	-37,405	-5,660	-79,182
Net Increase (-) / Decrease in Year	**67,608**	**-121,356**	**-39,143**	**1,050**	**-74,114**
Value of Fund Brought Forward	393,920	326,312	447,668	486,811	485,761
Value of Fund Carried Forward	326,312	447,668	486,811	485,761	559,875

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

2 Basis of Preparation

These financial statements summarise the fund's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. They have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2012/13, and with the guidelines set out in Section 2 of the Statement of Recommended Practice for Financial Reports of Pension Schemes 2007. The CIPFA Code is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3 Accounting Policies

Accrual Basis

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

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

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

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

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

Basis of Financial Assets

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

Basis of Valuation of Investments

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

Market-quoted investments

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

Unquoted investments

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

Pooled investment vehicles

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

Foreign currency transactions

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

Derivatives

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the fund's actuary in accordance with IAS19 and relevant actuarial standards. As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the net assets statement (see note 25).

Cash and cash equivalents

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

Contingent liabilities

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

Events after the Net Assets Statement date
The Pension Fund accounts were issued as part of the Statement of Accounts by the Director of Finance and Resources on 16 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. Note 19 details any such specific events.

4 Critical judgements in applying accounting policies

Pension fund liability
The pension fund liability is calculated every three years by the fund's actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Major sources of estimation uncertainty

These accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2013 for which there is a significant risk of material adjustment in the following financial year are:

Actuarial present value of promised retirement benefits
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The fund employs a professional actuary to provide expert advice about the assumptions to be used. The effects on the net pension liability of changes in individual assumptions can be measured. For example a 0.5% increase in the discount rate assumption would reduce the pension liability by £42m. A 0.25% reduction in assumed earnings inflation would reduce liabilities by £25m and a one year increase in assumed life expectancy would increase the liability by around £13m.

Private equity

Private equity investments are valued by their individual fund managers. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. By the time these valuations are all received by the fund of funds manager and he has reviewed them and adjusted as necessary to fair value standards they are likely to be a quarter out of date. The total private equity investments in the accounts are valued at £32.0m. There is a risk that this investment may be under- or overstated in the accounts.

6 Contributions

2011/12		2012/13
£'000		**£'000**
	From Employers	
7,466	London Borough of Bexley – normal	7,064
1,240	Scheduled bodies – normal	1,821
1,147	Admitted bodies – normal	1,084
4,384	London Borough of Bexley – deficit funding	4,148
692	Scheduled bodies – deficit funding	919
313	Admitted bodies – deficit funding	292
6	London Borough of Bexley – augmentation	7
0	Scheduled bodies – augmentation	0
0	Admitted bodies – augmentation	0
	From Members	
3,856	London Borough of Bexley – normal	3,524
596	Scheduled bodies – normal	863
541	Admitted bodies – normal	510
120	London Borough of Bexley – additional voluntary	92
7	Scheduled bodies – additional voluntary	7
7	Admitted bodies – additional voluntary	17
20,375	**Total contributions**	**20,348**

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

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

The movement in investments during the year were:-

2011/12		2012/13
£'000		**£'000**
551	Value of funds at start of year	581
191	Employees contributions	249
48	Investment income	7
23	Transfers in	0
7	Change in market value	7
-239	Benefits paid and transfers out	-64
581	**Value of funds at end of year**	**780**

7 Transfers in from other pension funds

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

2011/12		2012/13
£'000		**£'000**
1,725	London Borough of Bexley	675
22	Scheduled bodies	470
100	Admitted bodies	15
1,847	**Total**	**1,160**

8 Benefits

2011/12		2012/13
£'000		**£'000**
19,156	Pensions	20,645
6	Augmented service	7
6,263	Commutation of pensions and lump sum retirement benefits	3,225
729	Lump sum death benefits	409
26,154	**Total**	**24,286**

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

23,786	London Borough of Bexley	22,081
707	Scheduled bodies	747
1,661	Admitted bodies	1,458
26,154	**Total**	**24,286**

9 Payments to and on account of leavers

2011/12		2012/13
£'000		**£'000**
2	Refunds of contributions	25
1,994	Individual transfers out to other schemes	1,538
1,996	**Total**	**1,563**

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

1,961	London Borough of Bexley	1,489
35	Scheduled bodies	68
0	Admitted bodies	6
1,996	**Total**	**1,563**

At the year end there were liabilities of £0.24m where further transfers out had been agreed but not paid. There are also potential liabilities which cannot easily be quantified in respect of individuals transferring out of the fund where a final decision has yet to be taken.

10 Administrative expenses

2011/12 £'000		2012/13 £'000
226	Administrative services	228
434	Payroll, personnel and finance services	434
24	Actuarial services	31
32	Audit fee	21
0	Tax advisory services	0
66	Miscellaneous expenses	13
782	**Total**	**727**

11 Investment income

2011/12 £'000		2012/13 £'000
932	Income from fixed interest securities	0
9,592	Dividends from equities	9,352
11	Income from index-linked securities	0
2,185	Income from pooled investment vehicles	2,663
48	Interest on cash deposits	32
13	Other investment income	23
12,781		**12,070**
-338	Irrecoverable withholding tax (equities)	-452
12,443	**Total investment income**	**11,618**

12 Investment Assets

12a Changes in investments during the year

In February 2011, following a review of investment strategy, a new long term asset allocation target was set for the fund. This envisaged 10% invested in bonds, 60% in equities and 30% in alternatives. The alternatives allocation would be split equally between property, private equity and a diversified growth fund. Considerable progress was made during 2011/12 towards implementing that allocation and this was maintained in 2012/13.

Aviva Investors were appointed as the Fund's new property fund manager. The IMA was finalised in March 2013 and they immediately began to make changes to the Bexley Pension Fund portfolio with the sale of the investment in X-Leisure at the year end.

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

31.3.2012		31.3.2013
10.6%	Bonds	10.3%
61.0%	Equities	63.5%
3.9%	Private Equity	5.6%
6.5%	Property	5.6%
16.2%	Diversified Growth	13.9%
1.8%	Cash	1.1%

The Fund's investment return for the year was a gain of 16.5%, with total assets increasing from £485.761m to £559.875m. This was better than the return on the Fund's specific benchmark of 13.2%. Stock markets were still volatile during the year but made steady progress by year end. Over a five year period the Fund's annual return was 7.9% pa compared to the average return of 7.9% pa that the benchmark would have achieved.

12b Reconciliation of movements in investments

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

Equivalent figures for 2011/12 were:

	Value at 31.3.2011	Purchases at cost	Sales proceeds	Transfers	Change in Market value	Value at 31.3.2012
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fixed interest securities	54,998	5,304	-42,959	-20,147	2,804	0
Index linked securities	3,323	0	-1,970		-1,353	0
Equities	325,477	149,538	-177,364		-14,042	283,609
Pooled investment vehicles (non bond)	92,992	97,672	-55,969		5,169	139,864
Pooled investment vehicles (bond)	0	47,129	-18,808	20,147	2,673	51,141
Derivatives	0	294,535	-294,535		-273	-273
	476,790	**594,178**	**-591,605**	**0**	**-5,022**	**474,341**
Cash/temporary investments	6,193				-1,974	4,034
Outstanding investment transactions debtors	4,894				1,023	6,296
	487,877					**484,671**
Current Net Assets/Liabilities (-)	-278				-1	1,464
Outstanding investment transactions creditors	-788				414	-374
Net assets	**486,811**				**-5,560**	**485,761**

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

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund such as fees, commissions, and stamp duty. The total direct transaction costs incurred in 2012/13 were £244,000 (£341,000 in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

12c Analysis of investments

31.3.2012 £'000		31.3.2013 £'000
0	**Fixed interest securities**	**0**
0	**Index linked securities**	**0**
	Equities	
101,533	UK quoted	106,007
182,076	Overseas quoted	234,952
283,609		**340,959**
	Pooled investment vehicles	
31,243	Managed funds – UK property unquoted	31,291
13,957	Managed funds – UK fixed interest unquoted	15,631
23,268	Managed funds – Overseas fixed interest unquoted	25,524
13,916	Managed funds – UK index linked unquoted	15,599
19,704	Managed funds – Overseas limited liability partnership unquoted	31,962
78,018	Unitised insurance policy - Overseas unquoted	77,370
1,006	Unit trusts – UK unquoted	3
9,893	Unit trusts – Overseas unquoted	11,649
191,005		**209,029**
-273	Derivatives	988
4,034	Cash/temporary investments	5,297
	Other investment balances	
6,296	Debtors	2,778

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

The managed funds overseas unquoted limited liability partnerships are investments in funds of private equity funds. The net valuation was €37.795m which equates to £31.962m, using the exchange rate of €1.1825 to £1 applicable at 31 March 2013.

The unit trusts UK unquoted are mainly investments in the Newton UK Smaller Companies Fund. The unit trusts overseas unquoted are investments in the Newton Emerging Markets Fund (formerly Newton South East Asia Fund). However, all the securities held within the two Newton Funds are quoted.

Investments exceeding 5% within each class of security are as follows:

Asset Class / Security Name	Manager	31.3.2013 £'000	31.3.2013 % within asset class
UK Equities			
GlaxoSmithKline PLC	Newton and UBS	11,028	10.4
BP PLC	UBS	8,567	8.1
Royal Dutch Shell PLC	UBS	7,275	6.9

Centrica PLC	Newton and UBS	5,534	5.2
Pooled Investment Vehicles - Unit Trusts			
Newton Emerging Markets Exempt Fund (formerly South East Asia Fund)	Newton	11,649	100
Pooled Investment Vehicles - Managed Funds			
BlackRock Bond Fund	BlackRock	31,230	26.0
Newton Global Dynamic Bond Fund	Newton	25,524	21.3
Partners Group Global Value 2006	Partners	12,916	10.8
Partners Group Global Value 2011	Partners	10,503	8.8
WELPUT Property Fund	WELPUT	10,296	8.6
Partners Group Global Value 2008	Partners	8,543	7.1
Standard Life Shopping Centres Fund	Standard Life	7,029	5.9
Pooled Investment Vehicles – Unitised Insurance Policy			
Standard Life Global Absolute Return Strategy	Standard Life	77,370	100

Equivalent figures as at 31st March 2012 were as follows:

Asset Class / Security Name	Manager	31.03.12 £'000	31.03.12 % within asset class
UK Equities			
GlaxoSmithKline PLC	Newton and UBS	11,507	11.3
BP PLC	UBS	9,296	9.2
Vodafone Group PLC	UBS	7,514	7.4
Royal Dutch Shell PLC	UBS	6,195	6.1
Pooled Investment Vehicles - Unit Trusts			
Newton South East Asia Fund	Newton	9,893	90.8
Newton UK Smaller Companies	Newton	1,002	9.2
Pooled Investment Vehicles - Managed Funds			
BlackRock Bond Fund	BlackRock	27,873	27.3
Newton Global Dynamic Bond Fund	Newton	23,268	22.8
Partners Group Global Value 2006	Partners	12,165	11.9
WELPUT Property Fund	WELPUT	9,234	9.0
Partners Group Global Value 2008	Partners	7,539	7.4
Standard Life Shopping Centres Fund	Standard Life	7,053	6.9
Standard Life Retail Parks Fund	Standard Life	5,595	5.5
Pooled Investment Vehicles – Unitised Insurance Policy			
Standard Life Global Absolute Return Strategy	Standard Life	78,018	100

12d Analysis of derivatives

A significant proportion of the fund's quoted equity portfolio is in overseas stock markets. In order to reduce the volatility associated with fluctuating currency rates, the fund's global equity manager (Newton) enters into forward foreign currency contracts. The only contract that was open at 31 March 2013 was a £16.244m forward purchase of US dollars in December 2012 for June 2013 valued at £17.232m as at 31 March 2013.

12e Investments analysed by fund manager

31.3.2012 £'000	%		31.3.2013 £'000	%
246,157	50.8	Newton Investment Management Ltd	298,102	53.3
80,781	16.7	UBS Global Asset Management Ltd	87,571	15.7
78,018	16.1	Standard Life (GARS)	77,370	13.8
28,104	5.8	BlackRock Bond Fund	31,779	5.7
19,704	4.1	Partners Group	31,962	5.7
12,791	2.7	Standard Life	12,590	2.3
9,346	1.9	WELPUT	10,296	1.9
4,627	1.0	Threadneedle	4,686	0.8
4,065	0.8	BlackRock Property	3,972	0.7
704	0.1	X-Leisure/Aviva custody account	723	0.1
484,297			**559,051**	
1,464		Current Net Assets/Liabilities (-)	824	
485,761			**559,875**	

The figures above include the managers' cash allocation.

12f Investment Risk

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

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

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

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

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

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

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

13 Financial instruments

13a. Classification of financial instruments

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

31.3.2012 £'000	Financial Assets	31.3.2013 £'000
12,387	Loans and receivables	9,959
474,614	Financial assets at fair value through profit or loss	550,976
487,001	**Total**	**560,935**

31.3.2012 £'000	Financial Liabilities	31.3.2013 £'000
-967	Financial liabilities at amortised cost	-1,060
-273	Financial liabilities at fair value through profit or loss	0
-1,240	**Total**	**-1,060**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same. All assets and liabilities may be classified as current as they arise primarily from trading.

13b Net gains and losses on financial instruments

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

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

2011/12	Financial Assets: Loans and receivables	Financial assets at fair value through profit or loss	Financial Liabilities: Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense		-338			-338
Losses on derecognition		-13,721		-111	-13,832
Total expense in Fund Account	**0**	**-14,059**	**0**	**-111**	**-14,170**
Interest income		1,916			1,916
Dividend income		10,865			10,865
Gains on derecognition		29,984			29,984
Total income in Fund Account	**0**	**42,765**	**0**	**0**	**42,765**
Gains on revaluation	7,839	10,942	509		19,290
Losses on revaluation	-8,707	-31,954	-179	-162	-41,002
Surplus/deficit arising on financial assets in the Fund Account	**-868**	**-21,012**	**330**	**-162**	**-21,712**
Net gain / loss(-) for the year	**-868**	**7,694**	**330**	**-273**	**6,883**

13c Nature and extent of risks arising from financial instruments

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

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Pension Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making investments on behalf of the Pension Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. In essence, therefore, the Fund's entire investment portfolio is exposed to some form of credit risk, except the derivatives position where the risk equates to the net market value of a positive derivative position. There is a higher credit risk involved in the Fund's allocation to private equity (5.7% at 31 March 2013 and 4.1% at 31 March 2012) but this risk is accepted as a trade-off for potentially higher returns.

The Fund's custodians are tasked with ensuring that dividends are paid when due. If 5% of equity dividends had not been collected in 2012/13 then a loss of income of £468,000 would have occurred (£480,000 in 2011/12). The fund sets an annual treasury management policy for its investment of cash flow balances and deposits are not made unless they meet the credit criteria set. The fund's cash holding under its treasury management arrangements at 31 March 2013 was £217,000. This was held with NatWest Bank plc which has a Fitch long term rating of A. In overall terms the Fund's exposure to credit risk is the carrying amount of the financial assets at 31 March 2013.

Liquidity risk is the risk that the Pension Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2012/13 accounts show that the benefits and administrative expenses paid out exceeded the contributions to the Fund. The majority of the Fund's investments were sufficiently liquid as to be sold to provide the additional cash required. The Fund operates its own separate bank account and the liquidity position is monitored on a day to day basis. The fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

The fund defines liquid assets as those that can be easily converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert to cash. As at 31 March 2013 the value of illiquid assets was £64m, which represented 11% of total fund assets (31 March 2012: £51m which represented 11% of total fund assets).

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

- Interest rates may vary which will impact on the valuation of fixed interest holdings. The coupon and the duration of such investments will be spread to minimise this risk. At 31 March 2013 the Fund had £56.8m invested in three bond funds (bond investments were £51.1m at 31 March 2012). If interest rates on these investments varied by 1% the impact on the fund would be £568,000 (£511,000 at 31 March 2012).
- Prices of equity and other investments will vary as the prices on the stock exchange respond to factors specific to particular stocks or factors affecting stock markets as a whole. This is mitigated by having a diverse portfolio of investments across different managers, asset classes, countries and industries. If equities, which are the largest asset class in which the Fund invests, had been priced 10% lower at 31 March 2013, the Fund valuation would have been £34.1m lower (£28.4m lower at 31 March 2012). However, in this scenario it is quite likely that bond funds would have been priced 10% higher offsetting the lower valuation by £5.7m at 31 March 2013 (£5.1m at 31 March 2012).
- Currency risk is the risk that the value of financial instruments will vary with the foreign exchange rate of pounds sterling. This particularly affects the Fund's holdings in overseas equities. This is mitigated by the spread of investments across different countries. The manager will also take this risk into account when making investments, and would hedge the risk where thought necessary. The Fund held £235.0m overseas equities at 31 March 2013 (£182.1m at 31 March 2012), so if the exchange rate of sterling against the local currencies in which the assets were invested had varied by 10%, the valuation would have varied by some £23.5m (£18.2m at 31 March 2012).

13d Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of investments in private equity are based on valuations provided by the general partners to the private equity funds which are part of the fund of funds in which Bexley's fund invests.

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

Values at 31 March 2013

Financial Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Loans and receivables	9,959			9,959
Financial assets at fair value through profit or loss	341,947	177,064	31,965	550,976
Total financial assets				**560,935**
Financial Liabilities				
Financial liabilities at amortised cost	-1,060			-1,060
Financial liabilities at fair value through profit or loss				
Total financial liabilities				**-1,060**
Net financial assets				**559,875**

Values at 31 March 2012

Financial Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Loans and receivables	12,387			12,387
Financial assets at fair value through profit or loss	283,609	171,297	19,708	474,614
Total financial assets				**487,001**
Financial Liabilities				
Financial liabilities at amortised cost	-967			-967
Financial liabilities at fair value through profit or loss	-273			-273
Total financial liabilities				**-1,240**
Net financial assets				**485,761**

14 Investment Liabilities

2011/12 £'000		2012/13 £'000
374	Creditors	0
374	**Total**	**0**

These amounts represent unsettled investment transactions as at year end.

15 Investment management expenses

2011/12 £'000		2012/13 £'000
917	Investment manager fees	1,095
0	Fee rebate	-117
10	Custodian fees	21
281	Advisory fees	200
15	Performance measurement services	17
1,223	**Total**	**1,216**

The fund management fees for the funds of private equity funds and property funds are not included above as they are not normally separately identified by the managers. The unit values of these funds are net of management fees. The estimated value of these management fees is £1,545,000 in 2012/13 (£833,000 in 2011/12). A one-off funds of private equity fund fee rebate is included above as it was identified separately by the manager.

The fund has negotiated a performance related fee element with its global equity manager, Newton. In 2012/13 this element of the fee amounted to £0.25m (2011/12 £0.0m).

16 Current assets

2011/12 £'000		2012/13 £'000
	Contributions due from employers	
1,251	- in respect of employer	1,180
404	- in respect of members	391
7	- in respect of previous employment	9
82	Sundry debtors	87
313	Cash at bank	217
2,057	**Total**	**1,884**

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

25	- in respect of central government bodies	50
1,300	- in respect of other local authorities	1,271
2	- in respect of NHS bodies	4
417	- in respect of other entities and individuals	342
1,744	**Total**	**1,667**

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

17 Current liabilities

2011/12 £'000		2012/13 £'000
-44	Unpaid benefits	-227
-223	Sundry creditors	-235
-326	Accrued expenses	-598
-593	**Total**	**-1,060**

These liabilities can also be analysed as follows:-

Restated		
-210	- in respect of central government bodies	-234
-37	- in respect of other local authorities	-37
-8	- in respect of public corporation and trading funds	0
-338	- in respect of other entities and individuals	-789
-593	**Total**	**-1,060**

18 Administration

The scheme is administered by the London Pensions Fund Authority on behalf of the London Borough of Bexley.

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

19 Subsequent Events

Aviva Investors made new property investments for the Pension Fund in May (£3.5m), June (£5.6m) and August (£4.0m) and these were funded from redemptions in the Standard Life Diversified Growth Fund and Newton equity portfolio. There were no other material subsequent events.

20 Contingent Liabilities

The Pension Fund has a commitment to contribute a further £29.5m (£7.1m as at 31 March 2012, a new £33.3m commitment was entered into in April 2012) to the fund of private equity funds (see also note 12). These contributions will be financed from sales of existing investments. The timing for paying over this commitment over the next few years is uncertain.

There were no other material contingent liabilities or contractual commitments at 31 March 2013, or material non-adjusting events subsequent to this.

21 Contingent Assets

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

22 Related Party Transactions

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

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. Of particular note is the £433,540 recharge in 2012/13 from the London Borough of Bexley to the Pension Fund included in administration costs.

The Director of Finance and Resources allocates 5% of his time to the Pension Fund. He is the only officer that is regarded as holding a key management post in respect of the Pension Fund. In 2012/13 he received salary, fees and allowances totalling £120,575 (£124,223 in 2011/12 including £8,823 in emergency planning standby payment) and benefits in kind of £1,262 (£1,994 in 2011/12), giving total remuneration of £121,837 (£126,217 in 2011/12). In 2011/12 he was also paid £232 for election duties at the May 2011 Referendum.

The Director of Finance and Resources contributes 7.5% of his gross salary to the LGPS. The Council also pays a flat rate percentage of employees' pay as employer's contribution. In 2012/13 this contribution was £26,159 (£24,166 in 2011/12) in respect of the Director of Finance and Resources.

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

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

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

23 Stock Lending

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

24 Funding Arrangements

The fund's actuary carries out a funding valuation every three years to set employer contribution rates for the following triennial period. The last such valuation took place as at 31 March 2010, and the next one is currently underway.

The key elements of the funding policy are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk.

At the 2010 actuarial valuation the fund was assessed as 87% funded (86% at the March 2007 valuation). This represented a deficit of £69m (£66m in 2007) at that time. Contribution increases were phased in over the three year period ending 31 March 2014 for scheme employers and admitted bodies. The common contribution rate (the rate which all employers in the fund pay) was set at 12.9% (13.6% in 2007).

Individual employers' rates vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report on the fund's website.

25 Actuarial Present Value of Promised Retirement Benefits

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

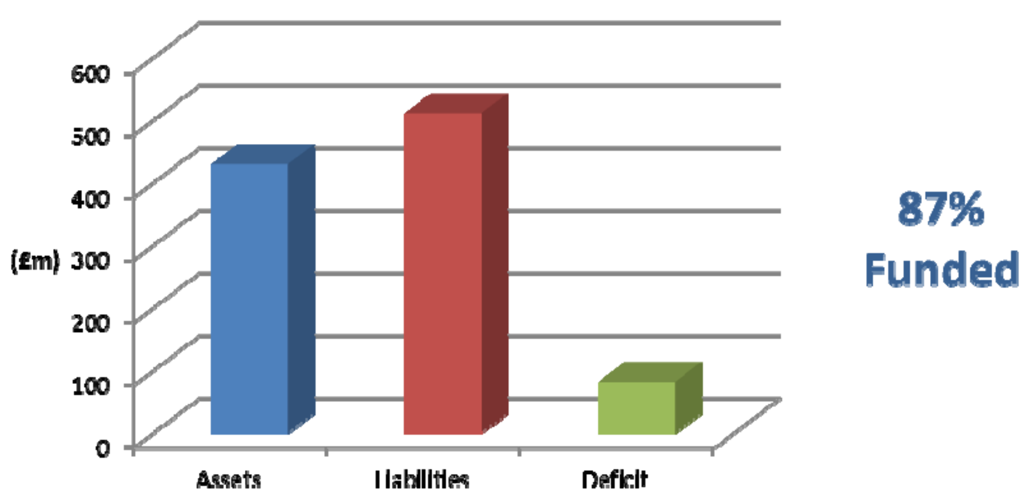
LONDON BOROUGH OF BEXLEY PENSION FUND

Accounts for the year ended 31 March 2013 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the London Borough of Bexley Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund’s assets of £448 million represented 87% of the Fund’s past service liabilities of £517 million (the “Funding Target”) at the valuation date.



The valuation also showed that a common rate of contribution of 12.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.8% of pensionable pay for 14 years. This would imply an average employer contribution rate of 19.7% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 4 February 2011.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.
The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.25% per annum	6.75% per annum
- post retirement	6.25% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.
The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £648 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by *c*£75 million. Adding interest over the year increases the liabilities by a further *c*£32 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by *c*£6 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £749 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013

FUNDING STRATEGY

The Funding Strategy Statement at the start of the financial year is shown below. However, this statement was reviewed and updated in March 2013 in advance of the triennial actuarial valuation. There were a considerable number of changes made, and these are also shown below for completeness.

London Borough of Bexley Pension Fund

Funding Strategy Statement (FSS)

This Statement has been prepared by London Borough of Bexley (the Administering Authority) to set out the funding strategy for the London Borough of Bexley Pension Fund (the Scheme), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 (updated in October 2012) by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Contents

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare this Funding Strategy Statement.

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

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

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

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

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). Updated regulations will be introduced shortly covering a new Local Government Pension Scheme (LGPS) effective from April 2014. The actuary will take this into account in determining employer contribution rates in the next actuarial valuation. The required levels of employee contributions are specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant a common contribution rate as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

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

4. Responsibilities of the key parties

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations

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

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

5. Solvency issues and target funding levels

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

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

Actuarial Valuation 2010

The key assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation were:

- Asset Outperformance Assumption (AOA) is a measure of how much extra return equity (and other) investments are expected to achieve above a minimum risk portfolio of gilt investments. The valuation assumed an AOA of 1.75% for pre-retirement liabilities and 1.75% for post-retirement liabilities.
- Salary Increases were assumed to exceed price increases by 1.50%. This includes an allowance for salary increments. The price increases are measured by the Consumer Price Index (CPI) following the use of this index for future pension increases.
- An Inflation Risk Premium (IRP) of 0.8% was introduced to compensate for the overstatement of likely inflation implied by the market pricing of inflation-linked gilts over CPI.
- The proportion of benefits paid to dependents was reduced following the outcome of further investigations of the Fund's experience against national averages.
- Life expectancy was increased after adopting new mortality assumptions derived from updated data tables.

Underlying these assumptions are the following two tenets:

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

The current actuarial valuation of the Scheme is effective as at 31 March 2010. The actual results of the valuation indicate that overall the assets of the Scheme represented 87% of projected accrued liabilities at the valuation date.

The Administering Authority, following consultation with the participating employers, generally adopted the following objectives to achieve the funding target for the 2010 valuation:

- The deficit recovery period should be 14 years
- Major changes in employer contributions should be phased in over a period of three years (one valuation period).
- The deficit contributions from admitted and scheduled employers should be expressed as annual financial amounts to ensure that the deficit reduction is maintained if the salary base reduces.

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

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

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

Actuarial Valuation 2013

The next actuarial valuation will be carried out as at 31 March 2013. For this valuation a default recovery period will be set for the Fund taking into account the other assumptions used and the results derived. This recovery period may be extended for those bodies with tax backed revenues subject to a maximum period set by the administering authority. Shorter recovery periods may be adopted by employers if they so wish, or applied in other circumstances at the discretion of the administering authority such as where the remaining contract period is lower.

Funding Principles

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

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

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

Contractor risks

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

Pension Fund risks

- Investment performance
- General demographic trends

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

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

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

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

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

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

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

The results of the 2010 valuation showed the liabilities to be 87% covered by the current assets, with the funding deficit of 13% being covered by future deficit contributions.

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

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

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

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2010 valuation would have been significantly higher, by approximately 30% and the declared funding level would be correspondingly reduced to approximately 66%.

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

The long term asset allocation set in June 2008 was:-

	Benchmark %	Control Range %
UK Equities	35	+/- 10
Overseas Equities	35	+/- 10
Total Equities	**70**	**+/- 10**
Fixed Interest Gilts	8.75	+/- 7.5
Index-Linked Gilts	0	Up to 5
Corporate Bonds	8.75	+/- 7.5
Property	5	+/- 5
Hedge Funds	5	+/- 5
Private Equity	2.5	Up to 5
Cash	0	Up to 10
Total Non-Equities	**30**	**+/- 10**
Total	**100**	

The funding strategy adopted for the 2010 valuation was based on an assumed asset out-performance of 1.75% in respect of all liabilities. The Administering Authority believes that this was a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out above and in the SIP.

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

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

This asset allocation was set following consideration of the results of an asset liability study, which in turn took the actuarial valuation into account. The actual impact of this new allocation will be taken into account in the actuarial valuation as at 31 March 2013.

7. Identification of risks and counter-measures

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

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

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

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

Financial

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

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Regulatory

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

Governance

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

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

Financial

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

Demographic

- Mortality assumptions have been amended in line with recent experience and projections

- Reports annually on early retirement policy and requires employers to meet the majority of costs directly

Regulatory

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

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

8. Monitoring and Review

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

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

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

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

This statement was approved in March 2013

London Borough of Bexley Pension Fund

Funding Strategy Statement (FSS) - Version showing changes

This Statement has been prepared by London Borough of Bexley (the Administering Authority) to set out the funding strategy for the London Borough of Bexley Pension Fund (the Scheme), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 (updated in ~~March 2004~~October 2012) by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Contents

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare this Funding Strategy Statement.

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

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

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

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

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). ~~Changes to the benefits under the Scheme took place from April 2008 and have been taken into account by~~Updated regulations will be introduced shortly covering a new Local Government Pension Scheme (LGPS) effective from April 2014. ~~t~~The actuary will take this into account in determining employer contribution rates in the next actuarial valuation. The required levels of employee contributions are ~~also~~ specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the ~~regulatory requirement to~~desirability of maintaining as nearly constant a common~~employer~~ contribution rate~~s~~ as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

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

~~4.~~4. Responsibilities of the key parties

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund actuary** should:

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

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

~~5.~~5. Solvency issues and target funding levels

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

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

Actuarial Valuation 2010

The key assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation were:

- Asset Outperformance Assumption (AOA) is a measure of how much extra return equity (and other) investments are expected to achieve above a minimum risk portfolio of gilt investments. The valuation assumed an AOA of 1.75% for pre-retirement liabilities and 1.75% for post-retirement liabilities.
- Salary Increases were assumed to exceed price increases by 1.50%. This includes an allowance for salary increments. The price increases are measured by the Consumer Price Index (CPI) following the use of this index for future pension increases.
- An Inflation Risk Premium (IRP) of 0.8% was introduced to compensate for the overstatement of likely inflation implied by the market pricing of inflation-linked gilts over CPI.
- The proportion of benefits paid to dependents was reduced following the outcome of further investigations of the Fund's experience against national averages.
- Life expectancy was increased after adopting new mortality assumptions derived from updated data tables.

Underlying these assumptions are the following two tenets:

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

The current actuarial valuation of the Scheme is effective as at 31 March 2010. The actual results of the valuation indicate that overall the assets of the Scheme represented 87% of projected accrued liabilities at the valuation date.

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

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

The Administering Authority, following consultation with the participating employers, generally adopted the following objectives to achieve the funding target for the 2010 valuation:

- The deficit recovery period should be 14 years
- Major changes in employer contributions should be phased in over a period of three years (one valuation period).
- The deficit contributions from admitted and scheduled employers should be expressed as annual financial amounts to ensure that the deficit reduction is maintained if the salary base reduces.

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

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

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

Actuarial Valuation 2013

The next actuarial valuation will be carried out as at 31 March 2013. For this valuation a default recovery period will be set for the Fund taking into account the other assumptions used and the results derived. This recovery period may be extended for those bodies with tax backed revenues subject to a maximum period set by the administering authority. Shorter recovery periods may be adopted by employers if they so wish, or applied in other circumstances at the discretion of the administering authority such as where the remaining contract period is lower.

Funding Principles

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

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

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

Contractor risks

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

Pension Fund risks

- Investment performance
- General demographic trends

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

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

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

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

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

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

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

The results of the 2010 valuation showed the liabilities to be 87% covered by the current assets, with the funding deficit of 13% being covered by future deficit contributions.

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

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

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

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2010 valuation would have been significantly higher, by approximately 30% and the declared funding level would be correspondingly reduced to approximately 66%.

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The funding strategy adopted for the 2010 valuation was based on an assumed asset out-performance of 1.75% in respect of all liabilities. The Administering Authority believes that this was a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out above and in the SIP.

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	Benchmark %
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This asset allocation was set following consideration of the results of an asset liability study, which in turn took the actuarial valuation into account. The actual impact of this new allocation will be taken into account in the actuarial valuation as at 31 March 2013.

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

This statement was approved in ~~September~~March ~~2012~~2013

INVESTMENT PRINCIPLES

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

London Borough of Bexley Pension Fund

Statement of Investment Principles

Background

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

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

Contents

This is the twelfth edition of the London Borough of Bexley's Statement of Investment Principles and is dated March 2013. Whilst the statement is intended to be a timeless document it does require minor adjustments from time to time. The statement has been updated and approved by the Pensions Committee to reflect their recent decisions.

Effective Decision Making

1.1 Delegation of Investment Management

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

1.2 Orders of Reference and Delegated Powers

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

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

The Delegated Powers of the Pensions Committee are as follows:

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

1.3 Committee Membership

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

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

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

The Governance Compliance Statement provides further details in this area.

1.4 Pensions Investment Sub-Committee

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

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

and Delegated Powers:-

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

1.5 Skills

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

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

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

1.6 Allowances

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

1.7 Advice and Support

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

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

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

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

1.8 Business Plan

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

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

Clear Objectives

2.1 Investment Objective

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

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

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

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

2.2 Funding Strategy Statement (FSS)

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

2.3 Awareness of Objectives

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

Risk and Liabilities

3.1 Strategy

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

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

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

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

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

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

3.2 Asset classes

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

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

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

3.3 Risk

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

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

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

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

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

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

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

3.4 Relative Risk and Statutory Requirements

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

3.5 Stock Lending

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

3.6 Monitoring

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

3.7 Audit

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

Performance Assessment

4.1 Appropriate Benchmarks

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

4.2 Performance Measurement Method

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

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

4.3 Performance against the Benchmark

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

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

4.4 Performance Reporting

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

4.5 Risk Control

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

4.6 Advisors

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

4.7 Decision Review

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

Responsible Ownership

5.1 Corporate Governance Policy

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

5.1.1 General Principles

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

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

5.1.2 Voting and Active Engagement

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

5.1.3 Company Policies

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

Board Structures

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

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

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

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

Remuneration

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

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

Audit

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

Pre-emption Rights

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

Dividend Policy

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

5.1.4 Policy on Socially Responsible Investment

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

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

Transparency and Reporting

6.1 Pension Fund Publications

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

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

6.2 Website

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

6.3 Amendments

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

6.4 Liaison with Stakeholders

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

6.5 Clear Coherent Mandates

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

6.6 Fee Structures

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

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

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

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

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

6.7 Hidden Costs

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

Appendix 1 - Asset Allocation

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

Note: This long term asset allocation was set in February 2011.

COMMUNICATIONS POLICY

The Fund's Communication Policy Statement is shown below.

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

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

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

London Borough of Bexley Pension Fund

Communications Policy Statement

Background

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

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

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

Principles

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

Method

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

Scheme Members and Representatives

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

Prospective Members

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

Scheme Employers

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

This statement updated September 2011

GLOSSARY OF PENSION TERMS

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

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

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

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

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

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

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

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

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

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

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

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

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

Benchmark

A "notional" fund or model portfolio which is developed to provide a standard against which a manager's performance is measured e.g. for a global equity fund the benchmark against which it will be measured could be made up 50%/50% by UK equities / overseas equities. A target return is generally expressed as some margin over the benchmark.

Bond

A certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

Budget

The statement of the Pension Fund's policy expressed in financial terms usually for the current or forthcoming year. Also known as Forecast.

Cash Equivalents

These are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment purposes.

Chartered Institute Of Public Finance And Accountancy (CIPFA)

CIPFA is the professional accountancy institute that sets the standards for the public sector. CIPFA publishes the Accounting Codes of Practice for local government.

Code Of Practice On Local Authority Accounting (The Code)

The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13: Based on International Financial Reporting Standards (the Code) aims to achieve consistent financial reporting between all English local authorities. It is based in generally accepted accounting standards and practices.

Collateral

An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions. Commonly referred to as margin, the collateral acts as a credit-risk mitigant. A collateral call is the demand by a derivatives counterparty for an investor to transfer cash or securities to collateralise movements in the value of a derivatives contract.

Contingent Liabilities

Potential costs that the Pension Fund may incur in the future because of something that happened in the past.

Creditors

Amounts owed by the Pension Fund for goods and services provided for which payment has not been made at the end of the financial year.

Currency Forward

An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.

Custody/Custodian

Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors

Sums of money due to the Pension Fund but not received at the end of the financial year.

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

A firm of professionals appointed by the Pensions Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.

Gilts

Bonds issued by the British government. They are the equivalent of U.S. Treasury securities

Hedging

A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.

IFRS

International Financial Reporting Standards. All local authorities are required to operate under IFRS.

Index

A benchmark for the performance of a group of shares or bonds.

Index Linked Securities

U.K. Government issue stocks on which the interest, and eventual repayment of the loan, is based on movements in the Retail Price Index.

Initial Margin

The upfront collateral requirement, set aside as a guarantee to an underlying futures contract, generally a percentage of the notional amount of the contract.

Investment Advisor

A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) assists CIPFA in setting the standards for the public sector. CIPFA publishes the Accounting Codes of Practice for local government.

LGPS

Local Government Pension Scheme

Liability

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Mandate

A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g. targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).

Market Price

This is the price at which another organisation is prepared to buy or sell an asset.

Market Value

The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

Outperformance / underperformance

The difference in returns gained by a particular fund against the “average” fund or an index over a specified time period i.e. a target for a fund may be outperformance of a given benchmark over a 3 year period.

Outturn

The actual amount spent in the financial year.

Pension Fund

A fund which makes pension payments on retirement of its participants**.**

Performance

A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the "average" fund of a particular benchmark.

Portfolio

Term used to describe all investments held.

Private Equity

Investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

Provision

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

Regulations

The Scheme is governed by Regulations approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.

Reserves

A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

Revenue Expenditure And Income

Revenue Expenditure includes day to day expenses, mainly salaries and wages, pensions and general running expenses. Revenue income includes charges made for services.

Risk

Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more "stable" investments before investors will buy them.

Scheduled Bodies

These are organisations as listed in the Local Government Pension Scheme Regulations, the employees of which may join the Scheme as of right.

Securities

Investment in company shares, fixed interest or index-linked stocks.

Statement of Investment Principles

Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g. risk, balance between real and monetary assets, realisability of assets etc).

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Transfer Values

Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.

Unit Trusts

A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.

Value Added Tax (VAT)

A tax on consumer expenditure, which is collected on business transactions at each stage in the supply, but which is ultimately borne by the final customer.

Variation

The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.

Variation Margin

A cash collateral requirement that moves up and down with the value of a futures contract.

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