

London Borough of Bexley Pension Fund

# Annual Report 2009/10



# Welcome to the 2009/10 Pension Fund Annual Report

This is the third annual report in a new format prescribed by changes to the Local Government Pension Scheme Regulations.

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

We welcome feedback on this annual report. Please contact Nigel Bate at Room 205, Civic Offices, Bexleyheath DA6 7LB or [nigel.bate@bexley.gov.uk](mailto:nigel.bate@bexley.gov.uk) or 020 8294 6647.

## Management Structure

|                                      |  |   |
|--------------------------------------|--|---|
| <b>Administering Authority</b>       | London Borough of Bexley   |   |
| <b>Pensions Committee</b>            | Councillor John Waters<br>Councillor Colin Tandy<br>Councillor Alan Deadman<br>Councillor Don Massey<br>Councillor Howard Marriner<br>Councillor Steven Hall | Chairman<br>Vice Chairman   |
| <b>Advisers</b>                      | Mike Ellsmore<br>David Crum / Ian Bailey<br>Bexley Legal Services  | Director of Finance<br>Hewitt Associates Ltd  |
| <b>Observers</b>                     | Carl Millin<br><br>Jacqui Sedgwick<br><br>Len Nicholson  | Employee<br>Representative<br>Admitted Bodies'<br>Representative<br>Pensioners'<br>Representative |
| <b>Fund Managers</b>                 | Newton Investment Management<br>Partners Group<br>RMF Investment Management<br>Threadneedle Pensions Limited<br>UBS Global Asset Management                  |   |
| <b>Custodians</b>                    | JP Morgan Chase Bank<br>Bank of New York Mellon  |   |
| <b>Administrators</b>                | London Pensions Fund Authority   |   |
| <b>Actuaries</b>                     | Mercer Ltd   |   |
| <b>Performance Measurement</b>       | The WM Company   |   |
| <b>Auditors</b>                      | The Audit Commission   |   |
| <b>AVC Providers</b>                 | Prudential plc   |   |
| <b>Pension Scheme Tax References</b> | PSTR 00329946RE LGPS England and Wales (Split Scheme)<br>PSTR 00329108RA LGPS Bexley Council Fund (Sub Scheme)   |   |

## Employing Bodies

### Major Employer

London Borough of Bexley

### Scheduled Bodies

Bexley College

Harris Academy Falconwood

### Admitted Bodies

ACOB Ltd (preserved benefits only)

Avante Partnership

Bexley Heritage Trust

Business Academy Bexley

Business Academy Bexley (Nursery)  
(preserved benefits)

Care Partners Trust

Danson Youth Trust

Kier Street Services Ltd

Inspire Community Trust

London & Quadrant Housing Trust

MCCH Society

My Time Active

Orbit Housing Association

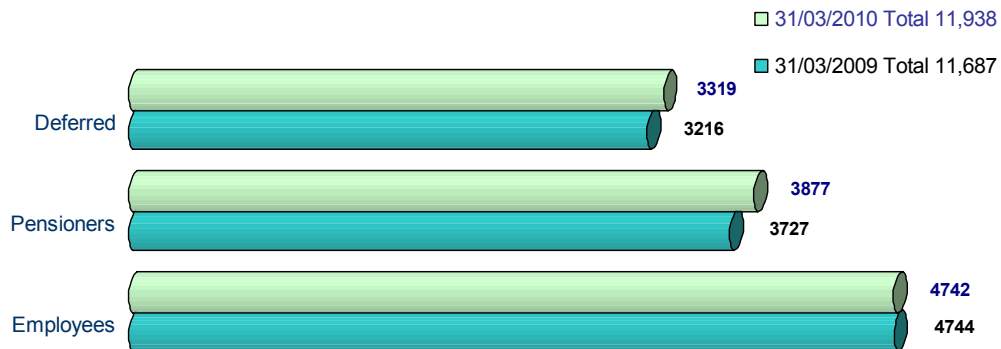
Rose Bruford College

Serco

Thamesmead Family Service Unit  
(preserved benefits only)

# Review of the Fund 2009/10

## Scheme Membership

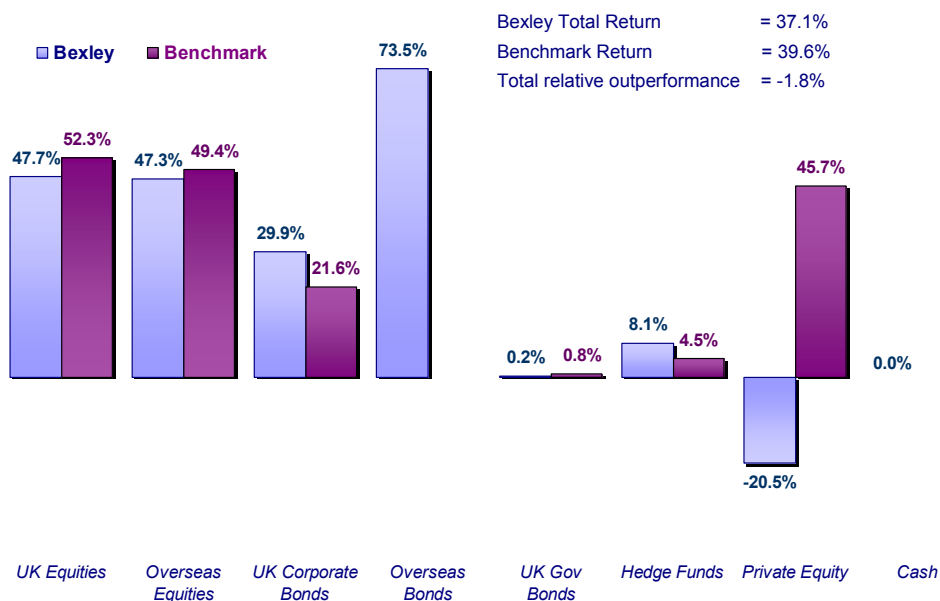


Bexley's Pension Fund has continued to grow over the past year with membership rising from 11,687 to 11,938.

## Scheme Investments

This graph shows that, in the past year, overseas bonds have performed well for Bexley's Fund. The fund does not require the managers to invest in overseas bonds however they have used their permitted flexibility and taken advantage of this high performing asset class. UK corporate bond returns outperformed the benchmark return as did the hedge fund of funds. The returns from most other sectors were positive and were a vast improvement on last year's returns. Overall the fund slightly underperformed the benchmark.

## Sector Returns

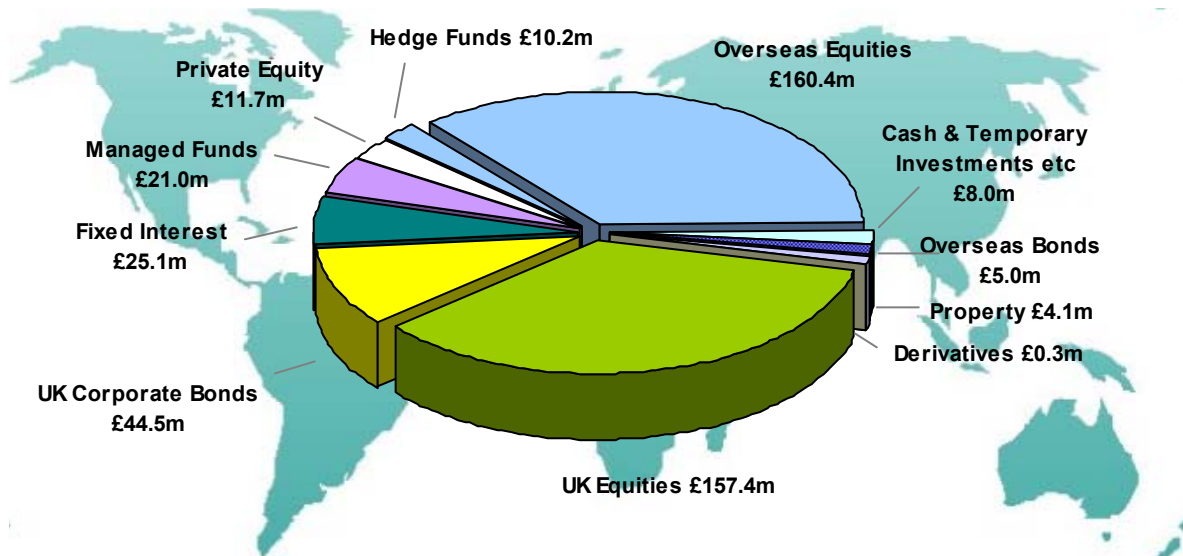


Note: The benchmark asset allocation is zero for overseas bonds and cash.

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, RMF and Threadneedle (from February) returned 37.1% against the benchmark return of 39.6%. Bexley's fund has slightly underperformed the benchmark return but the absolute return is a marked improvement on last year. Bexley's Pension Fund did better than many other Local Authority funds, achieving a ranking of 39.

[Where the money is invested](#)

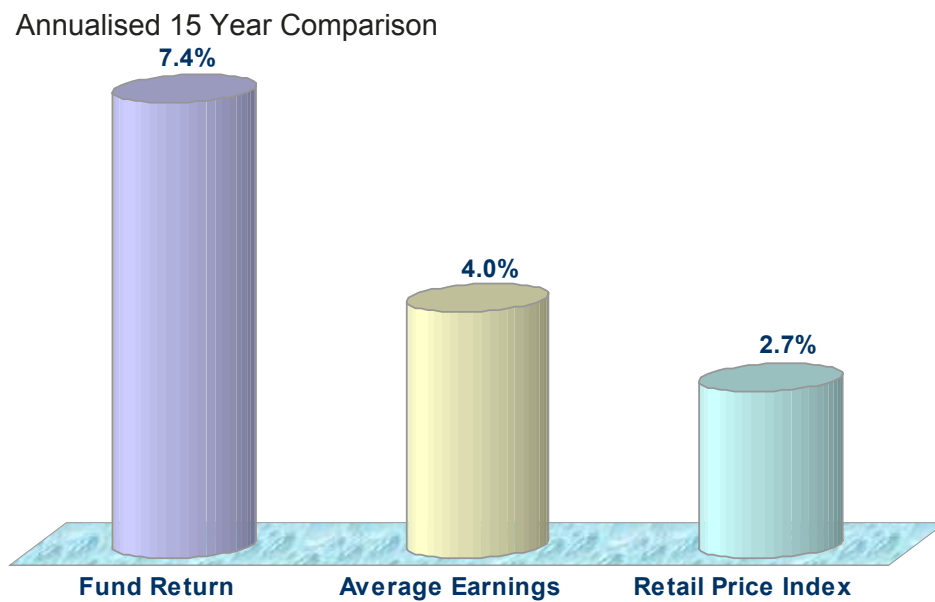
The chart shows the types of assets in which the total of £447.7m was invested at 31 March 2010.



[A long term look at investment returns](#)

This past year Bexley returned 37.1% which was a relative underperformance of the benchmark by 1.8%. Investments will invariably suffer some lows and benefit from some highs but over the long-term we hope to see these fluctuations average out to a healthy positive return.

Over the last 15 years the fund return is equivalent to an annual return of 7.4%. This compares favourably with both the average earnings index and the retail price index.



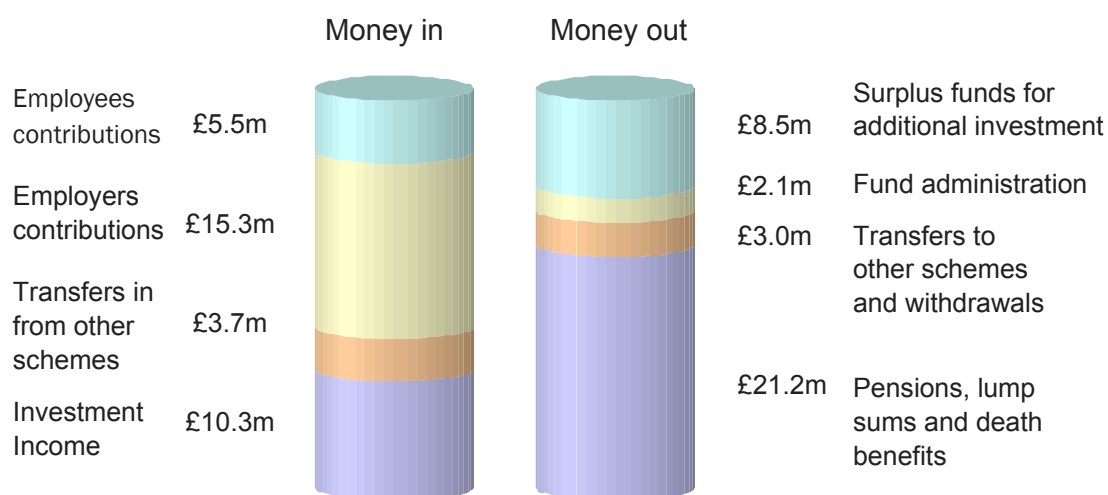
The pension fund has outperformed the target over the 10 year period and has slightly underperformed over the 5 and 15 year periods.

|                | Annualised Return (%) |        |       |
|----------------|-----------------------|--------|-------|
|                | 15 yrs                | 10 yrs | 5 yrs |
| Fund Return    | 7.4                   | 4.9    | 7.5   |
| Benchmark      | 7.7                   | 4.1    | 8.0   |
| Outperformance | -0.3                  | 0.8    | -0.5  |

## How the Fund was used in 2009/10

During the year the fund received £34.8m in income. The main sources of which were the income from assets and contributions from both employees and employers.

From this income, £21.2m was needed to cover the payment of pensions, lump sums and death benefits. After other costs were met the balance was held for investment.



## How did we invest the money?

|                          | No. of Holdings | Market Value (£m) |
|--------------------------|-----------------|-------------------|
| UK Equities              | 89              | 157.4             |
| Overseas Equities        | 92              | 160.4             |
| Fixed Interest           | 3               | 25.1              |
| Overseas Bonds           | 1               | 5.0               |
| Corporate Bonds          | 48              | 44.5              |
| Property                 | 1               | 4.1               |
| Hedge Fund               | 1               | 10.2              |
| Private Equity Fund      | 1               | 11.7              |
| Managed Funds            | 6               | 21.0              |
| Derivatives              | 1               | 0.3               |
| Cash/Other               |                 | 8.5               |
| Investment Debtors       |                 | 1.1               |
| Investment Creditors     |                 | -0.8              |
| Net Current Assets       |                 | -0.8              |
| <b>TOTAL INVESTMENTS</b> | <b>243</b>      | <b>447.7</b>      |

## The ten largest equity investments

| Company           | Market Value (£m) | Percentage of Fund (%) |
|-------------------|-------------------|------------------------|
| BP                | 14.8              | 3.3                    |
| Vodafone          | 14.5              | 3.2                    |
| Glaxosmithkline   | 14.0              | 3.1                    |
| Royal Dutch Shell | 12.8              | 2.8                    |
| HSBC              | 6.3               | 1.4                    |
| Anglo American    | 6.0               | 1.3                    |
| Unilever          | 5.8               | 1.3                    |
| Rio Tinto         | 5.4               | 1.2                    |
| Prudential        | 4.3               | 1.0                    |
| BHP Billiton      | 4.1               | 0.9                    |

## Scheme details

The London Borough of Bexley administers the Pension Fund on behalf of its own employees and for scheduled and admitted bodies. The Fund does not include teachers, fire-fighters and police officers who have separate pension arrangements.

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

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 were 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. The bands are increased each April in line with the cost of living.

## 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.

$$\text{Final pensionable pay} \times 1/60 \times \text{Membership Period}$$

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:**

$$(20 \text{ years} \times \frac{1}{2}) \times 1/60 \times £15,000 = \mathbf{£2,500}$$

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

**Her reduced annual pension is:**

$$£2,500 \text{ less } £500 = \mathbf{£2,000}$$

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

$$£500 \times 12 = \mathbf{£6,000}$$

## 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.

## A few words from our Investment Managers

### **NEWTON**

Stock markets posted very strong gains over the 12-month period under review. Investors were supported by the highly accommodative policies of governments and central banks, reassured by signs of recovery in the major economies, and encouraged also to put their cash to work by the derisory returns available on deposits. They received further cheer from improving corporate earnings news (particularly in the US) and from heightened merger and acquisition activity.

Economic activity improved widely during the period (albeit tentatively in many areas), with the operations of governments and central banks being especially supportive in averting outright depression in much of the developed world. Export markets, particularly in the Asia-Pacific region and in a number of emerging economies, recovered strongly over the year. Despite signs of recovery in northern European economies, concerns mounted about the wellbeing of their southern European counterparts. Greece was a particular source of anxiety given uncertainty about the ability of the Greek government to reduce its gaping budget deficit, and the country's woes caused unease about the fate of other fiscally stretched nations in Europe's 'olive belt' (such as Portugal and Spain). However, a proposed rescue package for Greece, which involves support from eurozone member states and the International Monetary Fund, eased some anxiety in financial markets at the end of March.

Over the last 12 months, while in absolute terms the returns were strong, compared with fast-rising indices they fell short. Our relative caution towards some of the more cyclically orientated areas of the market has proved unfavourable. Examples of this being our preference for gold over other mining stocks. Such areas of disappointment we offset by positioning in bonds as the portfolio benefited from favouring corporates over increasingly indebted government and its diversification into overseas bonds.

Notwithstanding the concerns about the outlook generally, there continue to be attractive prospects in a range of asset classes. Although markets in aggregate today do not look especially 'cheap', particularly versus rather stretched expectations, there remains attractive investments within both the equity and bond universes.

## **Economic Background**

In the year to 31 March 2010 equity markets recovered to 18-month highs and the period ended with the economic recovery being clear in the first quarter of the new year. Green shoots materialised early in the year as leading indicators across most major economies turned upwards from their troughs. Since those lows, markets have improved tremendously with risk assets, in particular, rallying significantly alongside investor confidence. Unemployment rates seem to have peaked in Q1 2010 and economic surveys continue to improve.

## **Investment Activity**

Although valuations across risk assets remain attractive, we believe that markets are now back to levels much closer to fair value and so non-valuation drivers, such as investor sentiment, have become increasingly important and have started to play a greater role in our investment decision making.

For UK Equities, our overall strategy over the past year has been to hold approximately half of the portfolio in some very large, soundly financed companies with high, sustainable dividend yields at one end of the spectrum, together with a wider range of more cyclical investments with strong valuation support in mid cap companies at the other.

## **Outlook**

The near future holds a great deal of uncertainty. Whilst the 'double-dip' recession is no longer as imminent, inflation fears and speculation of rate hikes have taken the immediate stage. Whilst it is recognised that economies take longer to recover and sustain lower growth rates coming out of financial crises than they do after typical cyclical recessions, authorities have indicated a willingness to keep a supportive environment in place for an extended period of time. It is considered more likely that the authorities will keep this loose policy for too long rather than risk removing the stimulus too soon. The timing of exit strategies remains key to asset class performance in the year ahead. The inflationary outlook too will play an important role in the coming quarters. It is likely that inventory growth, with restocking yet to take place, will provide a boost to the economy in the near term.

## 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 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 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 (the SORP).

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

- (1) selected suitable accounting policies and applied them consistently,
- (2) made judgements and estimates that were reasonable and prudent,
- (3) complied with the SORP.

Also, the Director of Finance 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

The required financial statements for the pension fund appear on pages 17 to 31 and have been prepared in accordance with the accounting policies set out on page 18.

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 2010.

Michael Ellsmore  
Director of Finance  
29 September 2010

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

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

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### Respective responsibilities of the Director of Finance and auditor

The Director of Finance is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Director of Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and

regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises: Pension Fund Accounts 2009/10

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report other than: Pension Fund Accounts 2009/10. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement,

whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

## Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

### **Susan M. Exton**

Officer of the Audit Commission

Audit Commission

1st Floor, Millbank Tower

Millbank

London

SW1P 4HQ

30 September 2010

## London Borough of Bexley Pension Fund Accounts 2009/10

### Pension Fund Account

|  | Note | 2009/10<br>£'000s     | 2008/09<br>£000s      |
|--|------|-----------------------|-----------------------|
| <b>Dealings with members, employers and others directly involved in the scheme</b> |      |                       |                       |
| Contributions  | 3    | 20,822                | 18,441                |
| Transfers in   | 4    | 3,748                 | 2,981                 |
| Other income   |      | 0                     | 0                     |
| Total contributions  |      | <u>24,570</u>         | <u>21,422</u>         |
| Benefits   | 5    | 21,238                | 19,051                |
| Payments to and on account of leavers  | 6    | 2,983                 | 3,644                 |
| Other payments   |      | 0                     | 0                     |
| Administrative expenses borne by the scheme  | 7    | 728                   | 646                   |
| Total benefits and administration expenses   |      | <u>24,949</u>         | <u>23,341</u>         |
| Sub-total: Net additions / withdrawals (-) from dealings with members              |      | <u>-379</u>           | <u>-1,919</u>         |
| <b>Returns on investments</b>  |      |                       |                       |
| Investment income  | 8    | 10,638                | 12,268                |
| Taxation   |      | -372                  | -307                  |
| Change in market value of investments  | 9    | 112,851               | -76,765               |
| Investment management expenses   | 11   | -1,382                | -885                  |
| Sub-total: Net returns on investments  |      | <u>121,735</u>        | <u>-65,689</u>        |
| Net increase / decrease (-) in the fund during the year                            |      | 121,356               | -67,608               |
| Add: Opening net assets of the scheme  |      | 326,312               | 393,920               |
| <b>Closing net assets of the scheme</b>  |      | <b><u>447,668</u></b> | <b><u>326,312</u></b> |

## Pension Fund Net Assets Statement

|   | Note | 31/03/10       | 31/03/09       |
|---|------|----------------|----------------|
|   |      | £000s          | £000s          |
| Investment Assets                           | 9    | 449,281        | 341,090        |
| Investment Liabilities                      | 10   | -845           | -14,935        |
| Fixed Assets                                |      | 0              | 0              |
| Liabilities                                 |      | 0              | 0              |
| Borrowings                                  |      | 0              | 0              |
| Current Assets                              | 12   | 221            | 786            |
| Current Liabilities                         | 13   | -989           | -629           |
| <b>Net assets of the scheme at 31 March</b> |      | <b>447,668</b> | <b>326,312</b> |

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 noted on page 30.

## Notes to the Financial Statements

### 1. Basis of Preparation

The financial statements have been prepared in accordance with the guidelines set out in Section 2 of the Statement of Recommended Practice for Financial Reports of Pension Schemes 2007, and with the requirements of the CIPFA Statement of Recommended Practice 2009.

### 2. 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.

#### *Basis of Valuation of Investments*

UK and overseas quoted securities 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. Pooled investment vehicles are valued at closing bid price, or closing single price where appropriate. Investments with extended settlement periods reflect the latest available Net Asset Value. Unlisted securities or investments are valued by the investment managers at a price

which, in their reasonable opinion, is the most recent and reliable valuation available. Private equity investments are valued at fair value by the investment managers. Foreign currency transactions are made using the WM/Reuters exchange rate. Purchase 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.

#### *Administrative Expenses and Management Fees*

The cost of administration, fund managers' fees, performance measurement fees, and valuation fees are charged directly to the Fund.

### 3. Contributions Receivable

|   | 2009/10       | 2008/09       |
|---|---------------|---------------|
| <b>From Employers</b>                           | £000s         | £000s         |
| London Borough of Bexley – normal               | 9,892         | 9,131         |
| Scheduled bodies – normal                       | 328           | 275           |
| Admitted bodies – normal                        | 1,139         | 1,172         |
| London Borough of Bexley – deficit funding      | 3,562         | 2,286         |
| Scheduled bodies – deficit funding              | 28            | -10           |
| Admitted bodies – deficit funding               | 326           | 409           |
| London Borough of Bexley – augmentation         | 7             | 7             |
| <b>From Members</b>                             |               |               |
| London Borough of Bexley – normal               | 4,690         | 4,356         |
| Scheduled bodies – normal                       | 152           | 128           |
| Admitted bodies – normal                        | 503           | 514           |
| London Borough of Bexley – additional voluntary | 183           | 163           |
| Scheduled bodies – additional voluntary         | 3             | 2             |
| Admitted bodies - additional voluntary          | 9             | 8             |
| <b>Total contributions</b>                      | <b>20,822</b> | <b>18,441</b> |

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:-

|  | 2009/10    | 2008/09    |
|--|------------|------------|
|  | £000s      | £000s      |
| <b>Value of funds at start of year</b> | <b>530</b> | <b>471</b> |
| Employees contributions                | 59         | 87         |
| Investment income                      | 16         | 15         |
| Transfers in                           | 17         | 0          |
| Change in market value                 | 20         | -15        |
| Benefits paid and transfers out        | -96        | -28        |
| <b>Value of funds at end of year</b>   | <b>546</b> | <b>530</b> |

#### 4. Transfers in

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

|                          | 2009/10      | 2008/09      |
|--------------------------|--------------|--------------|
|                          | £000s        | £000s        |
| London Borough of Bexley | 3,503        | 2,934        |
| Scheduled bodies         | 69           | 37           |
| Admitted bodies          | 176          | 10           |
| <b>Total</b>             | <b>3,748</b> | <b>2,981</b> |

#### 5. Benefits payable

|  | 2009/10       | 2008/09       |
|--|---------------|---------------|
|  | £000s         | £000s         |
| Pensions   | 17,139        | 15,943        |
| Augmented service  | 7             | 7             |
| Commutation of pensions and lump sum retirement benefits | 3,903         | 3,011         |
| Lump sum death benefits                                  | 189           | 90            |
| <b>Total</b>   | <b>21,238</b> | <b>19,051</b> |

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

|                          |               |               |
|--------------------------|---------------|---------------|
| London Borough of Bexley | 18,896        | 17,165        |
| Scheduled bodies         | 495           | 396           |
| Admitted bodies          | 1,847         | 1,490         |
| <b>Total</b>             | <b>21,238</b> | <b>19,051</b> |

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

|   | 2009/10      | 2008/09      |
|---|--------------|--------------|
|   | £000s        | £000s        |
| Refunds of contributions                  | 5            | 7            |
| Individual transfers out to other schemes | 2,978        | 2,254        |
| Group transfers out to other schemes      | 0            | 1,383        |
| <b>Total</b>                              | <b>2,983</b> | <b>3,644</b> |

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

|                          |              |              |
|--------------------------|--------------|--------------|
| London Borough of Bexley | 2,574        | 2,201        |
| Scheduled bodies         | 175          | 1,403        |
| Admitted bodies          | 234          | 40           |
| <b>Total</b>             | <b>2,983</b> | <b>3,644</b> |

#### 7. Administrative expenses

|   | 2009/10    | 2008/09    |
|---|------------|------------|
|   | £000s      | £000s      |
| Administrative services                 | 236        | 229        |
| Payroll, personnel and finance services | 356        | 346        |
| Actuarial services                      | 4          | 19         |
| Audit fee                               | 49         | 38         |
| Tax advisory services                   | 61         | 0          |
| Miscellaneous expenses                  | 22         | 14         |
| <b>Total</b>                            | <b>728</b> | <b>646</b> |

## 8. Investment income

|  | 2009/10              | 2008/09              |
|--|----------------------|----------------------|
|  | £000s                | £000s                |
| Income from fixed interest securities  | 2,636                | 2,710                |
| Dividends from equities                | 8,554                | 8,791                |
| Income from index-linked securities    | 0                    | 351                  |
| Income from pooled investment vehicles | 55                   | 80                   |
| Interest on cash deposits              | 18                   | 254                  |
| Other investment income                | 56                   | 82                   |
| Private Equity adjustment              | -681                 | 0                    |
|  | <u>10,638</u>        | <u>12,268</u>        |
| Irrecoverable withholding tax          | -372                 | -307                 |
| <b>Total investment income</b>         | <b><u>10,266</u></b> | <b><u>11,961</u></b> |

## 9. Investments

|   | Value at<br>31/03/09 | Purchases<br>at cost | Sales<br>proceeds | Change in<br>market<br>value | Value at<br>31/03/10 |
|---|----------------------|----------------------|-------------------|------------------------------|----------------------|
|   | £000s                | £000s                | £000s             | £000s                        | £000s                |
| Fixed interest securities                       | 48,767               | 78,952               | -98,287           | 45,204                       | 74,636               |
| Equities  | 207,233              | 153,570              | -91,989           | 48,947                       | 317,761              |
| Pooled investment<br>vehicles                   | 59,592               | 15,238               | -47,054           | 19,178                       | 46,954               |
| Derivatives                                     | 731                  | 113,096              | -112,977          | -521                         | 329                  |
|   | <u>316,323</u>       | <u>360,856</u>       | <u>-350,307</u>   | <u>112,808</u>               | <u>439,680</u>       |
| Cash/temporary<br>investments                   | 8,436                |                      |                   | 959                          | 8,481                |
| Outstanding investment<br>transactions debtors  | 16,331               |                      |                   | -15,094                      | 1,120                |
|   | <u>341,090</u>       |                      |                   |                              | <u>449,281</u>       |
| Current Net Assets /<br>Liabilities (-)         | 157                  |                      |                   | 88                           | -768                 |
| Outstanding investment<br>transaction creditors | -14,935              |                      |                   | 14,090                       | -845                 |
|   | <u>326,312</u>       |                      |                   | <u>112,851</u>               | <u>447,668</u>       |

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.

The total direct transaction costs incurred in 2009/10 were £821,000 (£371,000 in 2008/09).

|   | 31/03/10       | 31/03/09       |
|---|----------------|----------------|
|   | £000s          | £000s          |
| <b>Fixed interest securities</b>                    |                | restated       |
| UK Quoted – public sector                           | 25,070         | 31,661         |
| UK Quoted – other                                   | 44,500         | 17,002         |
| Overseas Quoted – other                             | 5,066          | 104            |
|   | <u>74,636</u>  | <u>48,767</u>  |
| <b>Equities</b>                                     |                |                |
| UK quoted   | 157,396        | 104,493        |
| UK unquoted   | 0              | 0              |
| Overseas quoted                                     | 160,365        | 102,740        |
|   | <u>317,761</u> | <u>207,233</u> |
| <b>Pooled investment vehicles</b>                   |                |                |
| Managed funds – UK property                         | 4,099          | 0              |
| Managed funds – UK fixed interest unquoted (other)  | 185            | 17,495         |
| Managed funds – Overseas OEIC                       | 0              | 7,042          |
| Managed funds – Overseas unquoted                   | 11,706         | 10,430         |
| Managed funds – UK unitised insurance policy quoted | 2,523          | 1,802          |
| Managed funds – GTAA                                | 0              | 4,749          |
| Managed funds – Gilt Exposure                       | 0              | 1,566          |
| Unit trusts – UK unquoted                           | 2,899          | 1,998          |
| Unit trusts – Overseas quoted                       | 381            | 257            |
| Unit trusts – Overseas unquoted                     | 25,161         | 14,253         |
|   | <u>46,954</u>  | <u>59,592</u>  |
| Derivatives   | 329            | 731            |
| Cash/temporary investments                          | 8,481          | 8,436          |
| <b>Other investment balances</b>                    |                |                |
| Debtors   | 1,120          | 16,331         |

The analysis of investments held at 31 March 2009 has been restated under certain sub headings.

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

The managed funds overseas unquoted are investments in funds of private equity funds. The net valuation was €13.124m which equates to £11.706m, using the exchange rate of €1.1211 to £1 applicable at 31 March 2010.

At 31 March 2010 the only derivative contracts held were two forward foreign exchange contracts entered into by Newton to hedge against the possibility of adverse price movements of investments held in the portfolio. There was no cost incurred on entering into these contracts and the market value shown above is the gain that will arise on the settlement date as the initial contract was closed out by an equal and opposite contract prior to 31 March 2010. The sterling value of the purchase contract was £4.094m and the sell contract was struck at £4.423m. These contracts were "over the counter" agreements.

At 31 March 2010, the split of investments by manager was:

|                                  | £000s          | %    |
|----------------------------------|----------------|------|
| Newton Investment Management Ltd | 338,568        | 75.3 |
| UBS Global Asset Management Ltd  | 84,747         | 18.9 |
| Partners Group                   | 11,706         | 2.6  |
| RMF Investment Strategies Ltd    | 10,161         | 2.3  |
| Threadneedle                     | 4,099          | 0.9  |
|                                  | <u>449,281</u> |      |

#### 10. Investment Liabilities

|           | 2009/10<br>£000s | 2008/09<br>£000s |
|-----------|------------------|------------------|
| Creditors | 845              | 14,935           |
| Total     | <u>845</u>       | <u>14,935</u>    |

These amounts represent unsettled investment transactions as at year end.

#### 11. Investment management expenses

|                                  | 2009/10<br>£000s | 2008/09<br>£000s |
|----------------------------------|------------------|------------------|
| Investment manager fees          | 1,161            | 780              |
| Custodian fees                   | 10               | 15               |
| Commission recaptured            | -2               | -1               |
| Advisory fees                    | 198              | 51               |
| Performance measurement services | 15               | 40               |
| Total                            | <u>1,382</u>     | <u>885</u>       |

The fund management fees for the fund of hedge funds and funds of private equity funds are not included above as they are not separately identified by the managers. The unit values of these funds are net of management fees.

## 12. Current assets

|  | 2009/10    | 2008/09    |
|--|------------|------------|
|  | £000s      | £000s      |
| Contributions due from employer          |            |            |
| - in respect of employer                 | 158        | 184        |
| - in respect of members                  | 57         | 74         |
| - in respect of previous employment      | 6          | 7          |
| Balances held by administering authority | 0          | 521        |
| <b>Total</b>                             | <b>221</b> | <b>786</b> |

## 13. Current liabilities

|   | 2009/10     | 2008/09     |
|---|-------------|-------------|
|   | £000s       | £000s       |
| Unpaid benefits                             | -111        | -307        |
| Balances due to the administering authority | -159        | 0           |
| Accrued expenses                            | -719        | -322        |
| <b>Total</b>                                | <b>-989</b> | <b>-629</b> |

At 31 March 2010 cheques to the value of £70,000 were unrepresented.

## 14. 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 London Borough of Bexley as the administrative authority for the Fund.

## 15. Subsequent Events

There were no material subsequent events.

## 16. Contingent Liabilities

The Pension Fund has a commitment to contribute a further £16.3m to the fund of private equity funds (see also note 9). These contributions will be financed from sales of existing investments.

Care Partners Trust (CPT) merged with Avante Partnership on 31 March 2010. Under the terms of the merger CPT ceased to exist at that date and CPT's pension deficit fell, under LGPS regulations, to the Council's part of the Pension Fund. The Council has taken steps to recover part of that deficit under an agreement with Avante, and it is hoped to restrict the net deficit to under £1m.

There were no other material contingent liabilities or contractual commitments at 31 March 2010, or material non-adjusting events subsequent to this.

## 17. Related Party Transactions

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. Of particular note is the £592,000 recharge in 2009/10 from the London Borough of Bexley to the Pension Fund included in administration costs. During the year, no Council Members or Designated Officers have undertaken any declarable transactions with the Pension Fund.

All pension fund transactions are recorded in the financial ledger system of the administering authority and pass through its bank accounts. Any short term balances of the pension fund are invested on its behalf by the administering authority, and pooled into other investments in order to spread risk. From 1 April 2010 a separate investment account for Pension Fund balances has been used.

## 18. Stock Lending

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

## **Explanatory Notes**

The London Borough of Bexley administers the London Borough of Bexley pension scheme 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. The Fund is a funded defined benefit scheme. An annual news sheet entitled "Bexley Pensions" is published, and a separate document "Bexley Pensioners" gives more information relevant to those in receipt of a pension. Further detailed information on the Fund is available on its website. Employees of other scheduled and admitted bodies participate in this scheme.

### **The Scheduled Bodies are:-**

London Borough of Bexley

Bexley College

Harris Academy Falconwood

### **The Admission Bodies are:-**

Rose Bruford College

Thamesmead Family Service Unit (preserved benefits only)

ACOB Limited (preserved benefits only)

MCCH Society

Orbit Housing Association

London and Quadrant Housing Trust

Avante Partnership

Care Partners Trust

Bexley Heritage Trust

Danson Youth Trust

Business Academy Bexley

Business Academy Bexley (Nursery) (preserved benefits only)

Inspire Community Trust

Kier Street Services Ltd

Serco

My Time Active

In 2009/10, 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 2007 but a further valuation as at 31 March 2010 is now underway. The Council's contribution in 2009/10 was 18.5% (17.0% in 2008/09). Other bodies employer's contributions in 2009/10 varied between 11.6% and 30.2%.

The Fund's asset allocation during 2009/10 moved to 72.2% (from 70%) in equities and 22.8% (from 25%) in bonds (invested by its balanced managers – UBS and Newton who invest in a variety of asset classes) with 5% in alternative assets – half in a fund of private equity funds and half in a fund of hedge funds. At the end of the year a first investment in property (c.1% of the fund) was financed from the bond allocation. The Fund's investment return for the year was 37.1%. This was slightly worse than the return on the Fund's specific benchmark of 39.6%. Over a five year period the Fund's annual return was 7.5% pa compared to the average return of 8.0% pa that the benchmark would have achieved.

During 2009/10, investment purchases made by the two balanced managers were £154.5m and sales were £170.1m. From January 1999, half the value of the investments was managed by UBS Global Asset Management Ltd and the other half by Newton Investment Management Ltd. An investment of £10m was made from 1 September 2006 with RMF Investment Strategies Ltd in a fund of hedge funds, and the Fund's fund of private equity funds manager, Partners Group, has to 31 March 2010 drawn down £14.9m of a £31.2m (€35m) commitment. In the last quarter BlackRock facilitated an asset restructuring exercise for the Fund. Fixed Interest and overseas equities were transferred from UBS to Newton. The property investment of £4m was made with Threadneedle Asset Management Ltd in February 2010. The Fund's total assets increased from £324.759m at 31 March 2009 to £448.161m a year later. This increase was due to the positive return on the Fund's investments caused by the rebound in stock markets over the year.

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 on the website at [yourpension.org.uk/agencies/bexley](http://yourpension.org.uk/agencies/bexley).

## Financial Analysis 2005/06 – 2009/10

|  | 2005/06       | 2006/07       | 2007/08       | 2008/09        | 2009/10        |
|--|---------------|---------------|---------------|----------------|----------------|
|  | £'000         | £'000         | £'000         | £'000          | £'000          |
| Contributions to the Scheme                | 17,997        | 16,974        | 18,146        | 21,422         | 24,570         |
| Benefits Paid and Admin Expenses           | 20,253        | 21,469        | 22,993        | 23,341         | 24,949         |
| Net Return on Investments                  | 68,113        | 15,752        | -4,403        | -65,689        | 121,735        |
| <b>Net Increase / Decrease (-) in Year</b> | <b>65,857</b> | <b>11,257</b> | <b>-9,250</b> | <b>-67,608</b> | <b>121,356</b> |
| Value of Fund Brought Forward              | 326,056       | 391,913       | 403,170       | 393,920        | 326,312        |
| Value of Fund Carried Forward              | 391,913       | 403,170       | 393,920       | 326,312        | 447,668        |

## Membership Analysis 31 March 2006 - 31 March 2010

|                        | 31.3.06 | 31.3.07 | 31.3.08 | 31.3.09 | 31.3.10 |
|------------------------|---------|---------|---------|---------|---------|
| Employees in the Fund  | 4,588   | 4,547   | 4,594   | 4,744   | 4,742   |
| Deferred Pensioners    | 2,672   | 2,891   | 3,067   | 3,216   | 3,319   |
| Pensioners in the Fund | 3,309   | 3,401   | 3,569   | 3,727   | 3,877   |

## Pension Fund Actuarial Valuation

### 1. The last Actuarial Valuation

The last actuarial valuation of the Pension Fund was carried out by Mercer Human Resource Consulting Ltd as at 31 March 2007 and its report states that the valuation has been carried out in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997 (as amended) and the guidance note GN9 issued by the Institute of Actuaries' Board for Actuarial Standards. It also takes account of the changes to the LGPS from 1 April 2008 and the Fund's Funding Strategy Statement.

### 2. Market Value of the last Valuation

The market value of the Fund's assets at 31 March 2007 was £403.170m.

### 3. Actuarial Method and Assumptions

The actuarial method used in the last valuation was the projected unit method which has been used in previous valuations. This method estimates the benefits relating to past and future services separately. The past service liabilities are derived from market conditions at the valuation date. The resulting past service liabilities are compared with the market value of the scheme's assets at the valuation date to determine the funding level. Liabilities relating to admitted and scheduled bodies are separately assessed.

The assumptions used in the valuation were:-

#### (a) Financial

|                   | 2004 Valuation           |                            | 2007 Valuation           |                            |
|-------------------|--------------------------|----------------------------|--------------------------|----------------------------|
|                   | Past Service Liabilities | Future Service Liabilities | Past Service Liabilities | Future Service Liabilities |
| Investment Return | 6.10%pa                  | 6.50%pa                    | 6.15%pa                  | 6.50%pa                    |
| Earnings Growth   | 4.55%pa                  | 4.25%pa                    | 4.85%pa                  | 4.50%pa                    |
| Price Inflation   | 2.80%pa                  | 2.50%pa                    | 3.10%pa                  | 2.75%pa                    |

#### (b) Non-Financial

Rates of withdrawals have been based on the experience of Mercer's local authority clients as in the previous valuation. Rates of ill-health retirements have been halved from the allowance used in 2004 following recent experience at Bexley. The allowance for non ill health early retirements takes account of the fact that half the cost of such retirements will be met through

the employer's contribution and half will be met directly by the relevant employer until the retired member's normal retiring age. On retiring it is assumed that 50% of members will commute pension to take the maximum lump sum, with 50% taking the 3/80 entitlement.

The revised benefits and discretionary policies set out in the 1997 Regulations have been taken into account.

Mortality rates have been adjusted again in the latest valuation. There is a trend for people to live longer, so lighter assumptions have been used. An extra three years life expectancy has been assumed compared to the 2004 valuation.

#### **4. Result of Valuation**

The 2007 valuation identified that the funding level of assets over liabilities was 86% (83% at 31 March 2004) which is below the long term target level of 100%. This deficit on the Fund will be recovered over a period of 17 years (that is the balance of the 20 year recovery plan set in 2004). This extended period is intended to meet the Government's desire that employer contributions remain as stable as possible over time.

#### **5. Next Valuation**

The latest valuation, that as at 31 March 2010, is currently underway. The results, due in the autumn 2010, will determine employer contribution rates from April 2011.

# 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 policy 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.

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This is the ninth edition of the London Borough of Bexley's Statement of Investment Principles and is dated September 2010. 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. 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.

#### **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, the Deputy Director (Legal Services), the Scheme's investment advisors, and the Scheme's investment managers.

The internal advice to the Fund is provided by the Director of Finance 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. 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. A medium term business plan reported to the Committee looks 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 outperformance of +1% pa over a rolling 3 year period, whilst maintaining an acceptable pattern of risk as defined below.

### **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 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 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.

### **3.2 Asset classes**

The Fund managers are permitted to invest in all assets specified in the Regulations; investments in specialised areas such as derivatives will be reviewed and authorised by the Director of Finance.

### **3.3 Control Ranges**

The Committee will set control ranges which will allow the managers to smooth allocation in potentially volatile markets, whilst allowing active management in a manner consistent with the main objective of the Fund. Control ranges are also included in Appendix 1.

In addition, the Director of Finance is allowed to authorise a change to the agreed control ranges between Committee meetings should the investment managers need to respond quickly to exceptional market conditions.

### **3.4 Relative Risk and Statutory Requirements**

The Pension Fund has an objective of maintaining a risk within 3.5% p.a. relative to 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 25% of the Fund's assets subject to the agreement of the Director of Finance.

### **3.6 Monitoring**

The investment managers report to the Committee at six monthly intervals on the implementation of the investment policy. In between Committee meetings the investment managers report to the Director of Finance 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 Appropriate Limits**

The asset allocation of the Fund is set by the Committee having regard to the findings of the asset liability study undertaken at regular intervals. The Committee also sets control ranges that allow the managers to actively manage the Fund within parameters consistent with the asset liability study.

### **4.3 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.

### **4.4 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. 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.

### **4.5 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 best value review process and the assessments carried out by internal and external audit.

#### **4.6 Risk Control**

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

#### **4.7 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.

#### **4.8 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 Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

#### **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 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

Bexley Council 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](http://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](http://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 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 a proportion may be added or deducted depending upon performance.

UBS Global Asset Management are paid a fixed fee for their UK equity portfolio. The specialist investment managers, RMF and 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.

Property managers 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, 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 and Control Ranges

|                           | Benchmark % | Control Range % |
|---------------------------|-------------|-----------------|
| UK Equities               | 35          | +/- 10          |
| Overseas Equities         | 35          | +/- 10          |
| <b>Total Equities</b>     | <b>70</b>   | <b>+/- 10</b>   |
| 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        |
| <b>Total Non-Equities</b> | <b>30</b>   | <b>+/- 10</b>   |
| <b>Total</b>              | <b>100</b>  |                 |

Note: This long term asset allocation was set in June 2008

# 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 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

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## 1. Introduction

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

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

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

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

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 the actuary in determining employer contribution rates. 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 maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

### 3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

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

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- 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.

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
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership, actual or proposed, which may affect future funding.

The **Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

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 key assumptions making up the funding strategy and as adopted for the 2007 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 1.75%. This includes an allowance for salary increments.
- Mortality rates were reduced following the outcome of further national investigations and a comparison of the Fund's experience against national averages.

These assumptions are currently under review as part of the 2010 valuation.

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 2007. The actual results of the valuation indicate that overall the assets of the Scheme represented 86% 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 2007 valuation:

- The deficit recovery period should be 17 years
- Increases in employer contributions should largely be phased in over a period of three years (one valuation period).

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.

In the case of admitted bodies with few active members remaining it is considered more appropriate to recover the deficit as a lump sum over a shorter period rather than showing very high percentage employer contribution rates on the remaining active members' salaries.

For those admitted bodies with closed schemes or not providing a direct service on behalf of the administering authority, increases in employer contributions should be phased in over one valuation period (three years) or over the remaining period of contract with the administering authority. This is considered a more prudent course of action for the Scheme as a whole.

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.

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

The results of the 2007 valuation showed the liabilities to be 86% covered by the current assets, with the funding deficit of 14% 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 2007 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:-

|                           | <b>Benchmark %</b> | <b>Control Range %</b> |
|---------------------------|--------------------|------------------------|
| UK Equities               | 35                 | +/- 10                 |
| Overseas Equities         | 35                 | +/- 10                 |
| <b>Total Equities</b>     | <b>70</b>          | <b>+/- 10</b>          |
| 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               |
| <b>Total Non-Equities</b> | <b>30</b>          | <b>+/- 10</b>          |
| <b>Total</b>              | <b>100</b>         |                        |

The funding strategy adopted for the 2007 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 in the SIP.

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

### Financial

- Investment markets fail to perform in line with expectations
- 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
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on 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, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

## **Governance**

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

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

## **Financial**

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

## **Demographic**

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

## **Regulatory**

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

## **Governance**

- Annual reports are made including membership numbers
- Specific budget provision has been made for training of the members of the Pensions Committee and attendance at seminars is encouraged
- 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, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme.

This statement was approved in September 2010

## 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 seven 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.

## Advice and Monitoring

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

The investment managers present to the Committee at six monthly intervals on the implementation of the investment policy. In between Committee meetings they report to the Director of Finance 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 issued in July 2008.

## London Borough of Bexley Pension Fund

### Communications Policy Statement

#### Background

The Local Government Pension Scheme 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](http://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 be sent to pensioners in April each year.

## Prospective Members

- A short scheme guide is available from employers or via the website [www.yourpension.org.uk/bexley](http://www.yourpension.org.uk/bexley) and is included in information packs for prospective employees.
- The website also contains information relating to joining the LGPS and the right to opt-out.
- In conjunction and with the agreement of employers reviews of non-joiners may be undertaken with a view to selective marketing of the scheme.

## 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](http://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 2009

If you would like to know more about the services the Council provides, or would like either a translation of this document or the information in a different format, please call our Customer Contact Centre on 020 8303 7777 and press 0, quoting reference: 603054/7.10

