

Welcome to the 2010/11 Pension Fund Annual Report

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

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

Management Structure

Administering Authority	London Borough of Bexley	
Pensions Committee	Councillor John Waters Councillor Colin Tandy Councillor Alan Deadman Councillor Steven Hall Councillor Howard Marriner Councillor Don Massey	Chairman Vice Chairman
Advisers	Mike Ellsmore Ian Bailey Bexley Legal Services	Director of Finance & Resources Aon Hewitt Limited
Observers	Susan Clark Jacqui Sedgwick Len Nicholson	Employee Representative Admitted Bodies' Representative Pensioners' Representative
Fund Managers	Newton Investment Management UBS Global Asset Management Newton Liquidity Fund – Bank of New York Mellon Partners Group Man Investments Blackrock UK Property Standard Life Investments Ltd Threadneedle Pensions Limited WELPUT - Schroders Property Management X-Leisure - AREA Property Partners (UK) Limited	
Custodians	JP Morgan Chase Bank Bank of New York Mellon	
Administrators	London Pensions Fund Authority	
Actuaries	Mercer Ltd	
Performance Measurement	The WM Company	
Auditors	The Audit Commission	
AVC Providers	Prudential plc	
Pension Scheme Tax References	PSTR 00329946RE LGPS England and Wales (Split Scheme) PSTR 00329108RA LGPS Bexley Council Fund (Sub Scheme)	

Employing Bodies

Major Employer

London Borough of Bexley

Scheduled Bodies

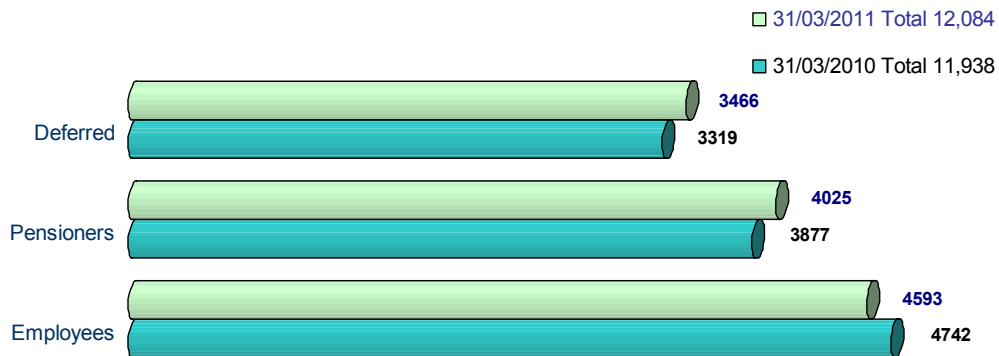
Bexley College
BETHS Grammar (Academy Status)
Bexley Grammar (Academy Status)
Erith School (Academy Status)
Harris Academy Falconwood

Admitted Bodies

ACOB Ltd (preserved benefits only)
Avante Partnership
Bexley Heritage Trust
Business Academy Bexley
Business Academy Bexley (Nursery)
(preserved benefits only)
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 Ltd
Thamesmead Family Service Unit
(preserved benefits only)
Wilson James Ltd

Review of the Fund 2010/11

Scheme Membership

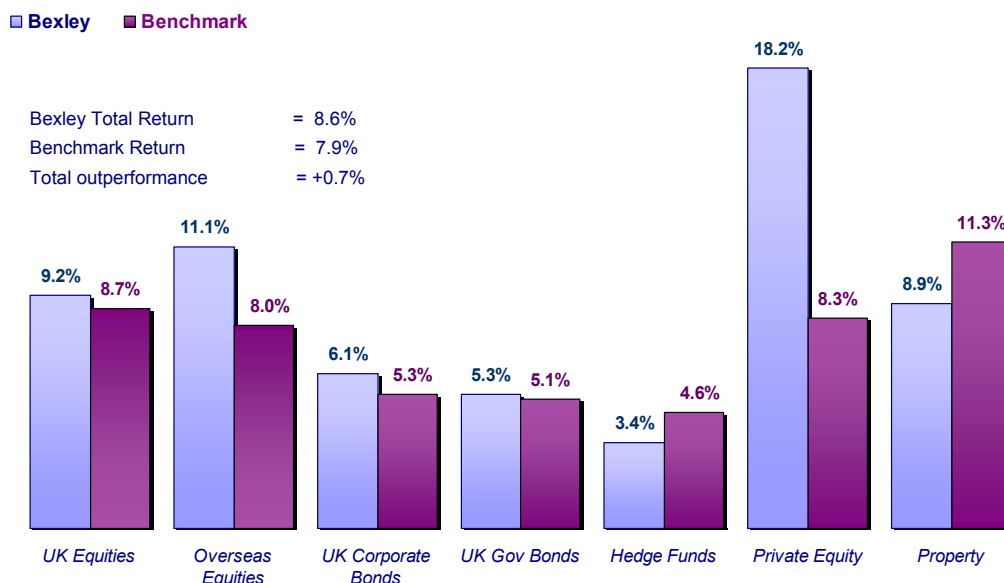


Bexley's Pension Fund has continued to grow over the past year with membership rising from 11,938 to 12,084.

Scheme Investments

This graph shows that, in the past year, all but two sectors have outperformed their benchmarks for Bexley's Fund. Private Equity performed exceptionally well this year but with limited impact since the sector represents just 3% of the total fund. This rebound partly compensates for the disappointing returns for this sector in 2009/10. The fund's recent investment in Property has had a disappointing first year with a relative return of -2.0% although the absolute return was good. All investments should be seen in a long term context and should not be judged entirely on the returns of one year.

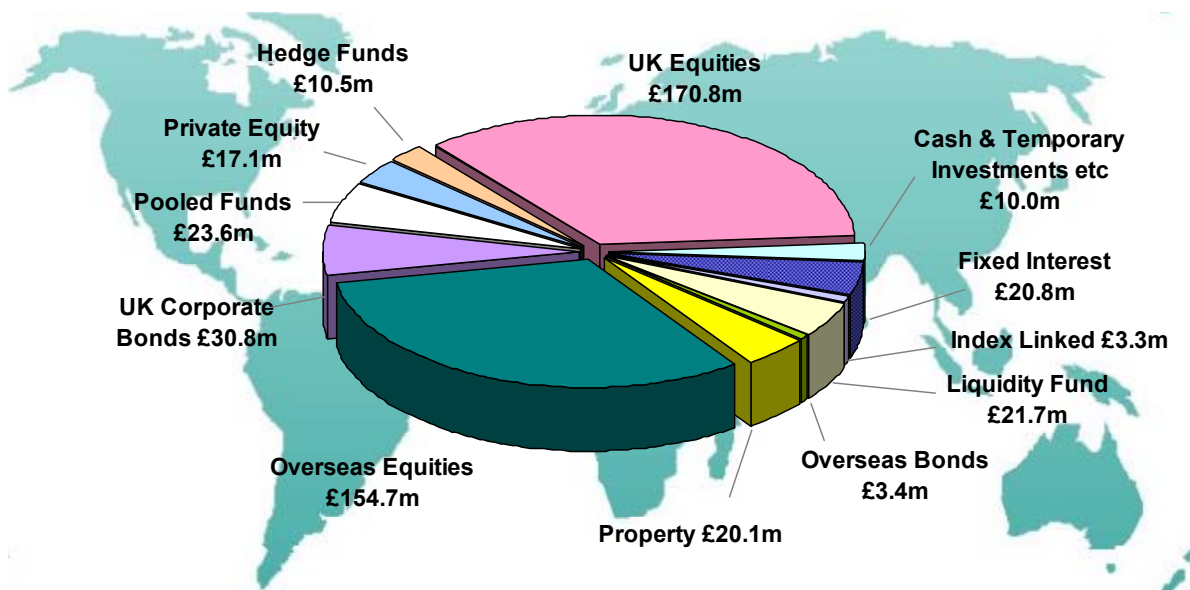
Sector Returns



The benchmark return reflects the return that would be achieved by the market indices invested in the asset allocation recommended by the asset liability study. The pension fund managers may deviate from the set asset allocation by a predetermined range. This deviation and also stock selection is where the managers can add value and beat the benchmark return. This year the combined fund, which is under the management of Newton, UBS, Partners, Man, and five property fund managers returned 8.6% against the benchmark return of 7.9%. Although the absolute fund return this year was much lower than 2009/10 the fund has slightly outperformed the benchmark return reflecting a good return in a challenging market. Bexley's Pension Fund did better than many other Local Authority funds, achieving a ranking of 36th.

[Where the money is invested](#)

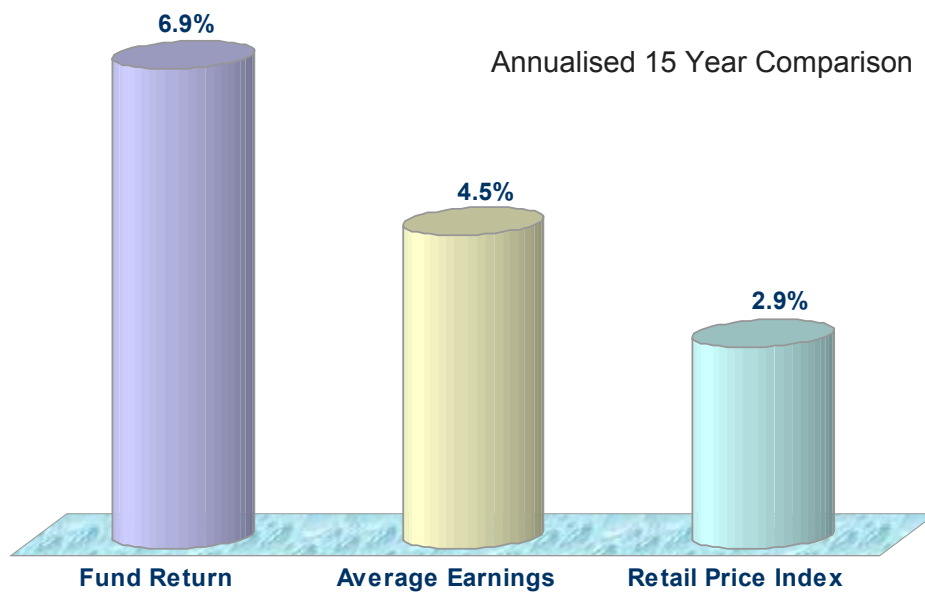
The chart shows the types of assets in which the total of £486.8m was invested at 31 March 2011.



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

This past year Bexley returned 8.6% which was an out performance of the benchmark by 0.7%. 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 6.9%. This compares favourably with both the average earnings index and the retail price index.



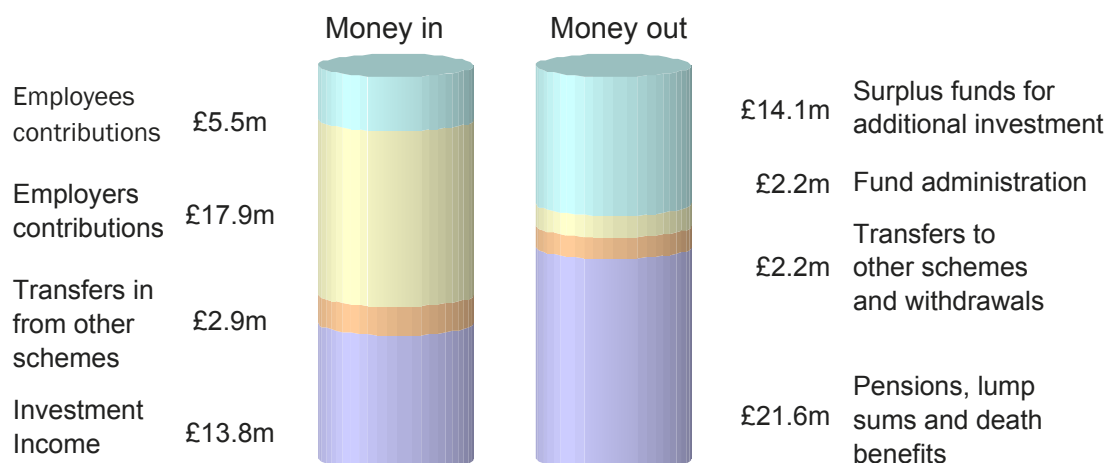
The pension fund has slightly outperformed the target over the 15 and 10 year periods and has underperformed over the 5 year period.

	Annualised Return (%)		
	15 yrs	10 yrs	5 yrs
Fund Return	6.9	5.7	5.1
Benchmark	6.8	5.6	5.4
Outperformance	0.1	0.1	-0.3

How the Fund was used in 2010/11

During the year the fund received £40.1m in income. The main sources of which were the income from assets and contributions from both employees and employers.

From this income, £21.6m 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	87	170.8
Overseas Equities	87	154.7
Fixed Interest	5	20.8
Overseas Bonds	1	3.4
Corporate Bonds	33	30.8
Index Linked	2	3.3
Property	6	20.1
Hedge Fund	1	10.5
Private Equity Fund	1	17.1
Managed Funds	4	23.6
Liquidity Fund	2	21.7
Cash/Other/Temporary Investments		10.0
TOTAL INVESTMENTS	229	486.8

The ten largest equity investments

Company	Market Value (£m)	Percentage of Fund (%)
Vodafone	16.4	3.4
Royal Dutch Shell	15.2	3.1
Glaxosmithkline	14.0	2.9
BP	12.6	2.6
Rio Tinto	7.3	1.5
Anglo American	7.0	1.5
HSBC	6.1	1.3
Barclays	5.3	1.1
BHP Billiton	5.2	1.1
British American Tobacco	4.7	1.0

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.

[Knowledge and Skills](#)

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

[Knowledge and Skills Policy Statement](#)

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

The Committee has, therefore, agreed that:-

- The continual enhancement of knowledge about matters relating to their role on the pensions committee is fully accepted by Members.

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

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

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

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

Activity in the Year

Over the course of 2010/11, Members of the Pensions Committee attended several courses and seminars:-

- LGC Investment Seminar – September 2010
- LGC Investment Seminar – March 2011
- Newton Investment Conference – November 2010
- Aon Hewitt have conducted briefing sessions for Members on:-
- Diversified Growth Funds
- Investment Terminology

and officers provided a briefing and led a discussion on asset allocation strategy.

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

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

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

A few words from our Investment Managers

NEWTON

Equity markets around the world posted generally positive returns over the 12 months under review, with only Japan, beset by the challenges associated with its natural disaster towards the end of the period, losing ground among the major regions. Investors faced significant challenges, but continued to take comfort from the highly accommodative measures of governments and central banks throughout the developed world, and from encouraging economic news and strong corporate earnings growth.

The list of challenges that investors overcame has been formidable. Fears about sovereign indebtedness in the periphery of Europe persisted throughout the period, broadening from Greece to Ireland and Portugal, and entailing sharp rises in those countries' government borrowing costs and a series of government bail-outs.

Further concerns centred on the unrest and conflict which spread rapidly throughout the Middle East and North Africa ('MENA'), from Algeria and Tunisia to a host of other countries, including Egypt, Bahrain, Yemen and, most violently, Libya. While gauging the implications of such disturbances, particularly in relation to the fast-rising price of oil, investors were jolted further by the threats associated with Japan's 9.0-magnitude earthquake, and the devastating tsunami and nuclear accident which followed.

Meanwhile, the spectre of inflation grew larger, and attention on the measures required to see it off greater. In several emerging economies, where food accounts for a large proportion of inflation indices, authorities sought to control pricing pressures via a range of measures, from stockpiling food staples to raising interest rates, most notably in China. Developed-world authorities, by comparison, were conspicuous in their focus upon (more subdued) domestic pricing trends, and therefore in their maintenance, by and large, of ultra-loose monetary policy.

Investors had therefore a myriad of reasons to bring about a less favourable outcome than that which they experienced, but rested instead on familiar pillars of support: robust economic data in most regions, with global manufacturing activity reported to be growing at a record rate at the beginning of the year, strong growth in corporate earnings, and the still highly accommodative policies of the leading central banks, notably the US Federal Reserve.

The 2010 portfolio is still right for 2011

A year ago we said we had created a portfolio able to withstand a challenging macro economic environment. However the defensive attributes of many of our favoured holdings went unrewarded in 2010 in a market which, in our opinion, was encouraged to take more risk by a Federal Reserve bent on stimulating growth and asset price inflation. With deflation no longer appearing to pose a real threat (in our view), the financial stimulus is set to be withdrawn after which markets will have to find their natural level. This suggests that our caution will ultimately be rewarded so we made relatively few changes to the portfolio during 2010.

Favour companies exposed to the UK consumer

The obituaries have been written, but we believe the UK consumer is in better shape than that. We acknowledge the pressures posed by unemployment and tax rises, but low mortgage costs and a relatively buoyant private sector will, in our view, help confound the more bearish forecasts. The valuations of our preferred consumer stocks and domestic banks will prove far too conservative if our prognosis is correct.

Our prime consideration remains the starting valuation, which we believe is the ultimate determinant of future returns. Value investing has had a tough few years but we remain convinced that as markets are finally allowed to find their own level, fundamental factors such as valuation will reassert and value investing will resume its upward path of long-term outperformance.

Outlook

Economic growth in developed market economies is expected to remain positive but subdued in the year ahead, with progress likely to be tempered by three potential headwinds. Firstly, the timing and magnitude of any monetary tightening (interest rate rises) as inflationary concerns continue to grow. Secondly, continuing political unrest in the Middle East and North Africa which would exert additional upward pressure on oil prices and have a knock on effect to growth and inflation. And finally, the cutbacks in government spending and fiscal tightening required by some countries to address their budget deficits. Although we maintain our view that a double dip recession is an unlikely outcome, domestic demand in western economies is relatively low at present and so demand from Asian and developing markets will be key to driving economic growth forwards. Asian and developing market economies on the other hand continue to grow, although these markets are likely to remain volatile as central banks do what they can to minimise the risk of bubbles forming in their respective economies.

Statement of Responsibilities for the Pension Fund Accounts

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

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

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

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

Also, the Director of Finance and Resources has:-

- (1) kept proper accounting records which were up to date,
- (2) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statements of the Director of Finance and Resources

The required financial statements for the pension fund appear on pages 18 to 38 and have been prepared in accordance with the accounting policies set out on page 19.

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 2011.

Michael Ellsmore
Director of Finance and Resources
September 2011

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 London Borough of Bexley in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Resources and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance and Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall

presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

SIGNED BY

Susan M Exton
District Auditor

1st Floor,
Millbank Tower,
Millbank,
London
SW1P 4HQ

30 September 2011

London Borough of Bexley Pension Fund Accounts 2010/11

Pension Fund Account

	Note	2010/11 £'000	2009/10 £'000
Dealings with members, employers and others directly involved in the scheme			
Contributions	3	23,423	20,822
Transfers in from other pension funds	4	2,900	3,748
Total contributions		<u>26,323</u>	<u>24,570</u>
Benefits	5	21,639	21,238
Payments to and on account of leavers	6	2,177	2,983
Administrative expenses	7	769	728
Total benefits and administration expenses		<u>24,585</u>	<u>24,949</u>
Sub-total: Net additions / withdrawals (-) from dealings with members		1,738	-379
Returns on investments			
Investment income	8	14,225	10,638
Taxes on income		-382	-372
Profit and losses on disposal of investments and changes in value of investments	9	24,980	112,851
Investment management expenses	11	-1,418	-1,382
Sub-total: Net returns on investments		<u>37,405</u>	<u>121,735</u>
Net increase / decrease(-) in the net assets available for benefits during the year		39,143	121,356

Pension Fund Net Assets Statement

	Note	31/03/11	31/03/10	01/04/09
		£'000	£'000	£'000
Investment Assets	9	487,877	449,281	341,090
Investment Liabilities	10	-788	-845	-14,935
Borrowings		0	0	0
Current Assets	12	314	221	786
Current Liabilities	13	-592	-989	-629
Net assets of the scheme available to fund benefits at the period end		486,811	447,668	326,312

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

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 Code of Practice on Local Authority Accounting 2010/11.

There is no requirement to reclassify or restate any investment values in the 2010/11 accounts under the International Financial Reporting Standards (IFRS) as the use of financial instruments under IFRS has already been adopted and so existing 2009/10 statements are compliant in this area.

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. Purchases and sales use the foreign exchange rate applicable on the day prior to the trade date. Stock holdings use the converted foreign exchange rate as at stock valuation date. Dividend receipts use the rate applicable on the day prior to the date the dividend is received.

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

	2010/11	2009/10
From Employers	£'000	£'000
London Borough of Bexley – normal	9,449	9,892
Scheduled bodies – normal	493	328
Admitted bodies – normal	1,225	1,139
London Borough of Bexley – deficit funding	6,361	3,562
Scheduled bodies – deficit funding	145	28
Admitted bodies – deficit funding	266	326
London Borough of Bexley – augmentation	6	7
From Members		
London Borough of Bexley – normal	4,465	4,690
Scheduled bodies – normal	229	152
Admitted bodies – normal	625	503
London Borough of Bexley – additional voluntary	149	183
Scheduled bodies – additional voluntary	4	3
Admitted bodies - additional voluntary	6	9
Total contributions	23,423	20,822

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:-

	2010/11	2009/10
	£'000	£'000
Value of funds at start of year	546	530
Employees contributions	95	59
Investment income	28	16
Transfers in	8	17
Change in market value	11	20
Benefits paid and transfers out	-137	-96
Value of funds at end of year	551	546

4. Transfers in from other pension funds

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

	2010/11	2009/10
	£'000	£'000
London Borough of Bexley	2,814	3,503
Scheduled bodies	65	69
Admitted bodies	21	176
Total	2,900	3,748

5. Benefits payable

	2010/11	2009/10
	£'000	£'000
Pensions	17,731	17,139
Augmented service	6	7
Commutation of pensions and lump sum retirement benefits	3,385	3,903
Lump sum death benefits	517	189
Total	21,639	21,238

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

London Borough of Bexley	18,949	18,896
--------------------------	--------	--------

Scheduled bodies	466	495
Admitted bodies	2,224	1,847
Total	21,639	21,238

6. Payments to and on account of leavers

	2010/11	2009/10
	£'000	£'000
Refunds of contributions	10	5
Individual transfers out to other schemes	2,167	2,978
Total	2,177	2,983

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

London Borough of Bexley	2,137	2,574
Scheduled bodies	39	175
Admitted bodies	1	234
Total	2,177	2,983

7. Administrative expenses

	2010/11	2009/10
	£'000	£'000
Administrative services	226	236
Payroll, personnel and finance services	430	356
Actuarial services	49	4
Audit fee	35	49
Tax advisory services	18	61
Miscellaneous expenses	11	22
Total	769	728

The audit fees paid in 2009/10 included an additional £10,000 in respect of the extra work carried out in auditing the 2008/09 Pension Fund accounts.

8. Investment income

	2010/11	2009/10
	£'000	£'000
Income from fixed interest securities	3,987	2,507
Dividends from equities	9,521	8,554
Income from index-linked securities	43	0
Income from pooled investment vehicles	645	184
Interest on cash deposits	26	18
Other investment income	3	56

Private Equity adjustment	0	-681
	14,225	10,638
Irrecoverable withholding tax	-382	-372
Total investment income	13,843	10,266

9. Investments

	Value at 31/03/10	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/11
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	74,636	57,221	-77,087	228	54,998
Index linked securities	0	8,445	-5,237	115	3,323
Equities	317,761	91,653	-102,652	18,715	325,477
Pooled investment vehicles	46,954	43,253	-3,340	6,125	92,992
Derivatives	329	106,972	-105,282	-2,019	0
	439,680	307,544	-293,598	23,164	476,790
Cash/temporary investments	8,481			-1,649	6,193
Outstanding investment transactions debtors	1,120			3,537	4,894
	449,281				487,877
Current Net Assets / Liabilities (-)	-768			-129	-278
Outstanding investment transaction creditors	-845			57	-788
	447,668			24,980	486,811

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 2010/11 were £335,000 (£821,000 in 2009/10).

	31/03/11	31/03/10
	£'000	£'000
Fixed interest securities		
UK Quoted – public sector	20,799	25,070
UK Quoted – other	30,789	44,500
Overseas Quoted – other	3,410	5,066
	54,998	74,636

Index linked securities UK quoted	3,323	0
Equities		
UK quoted	170,757	157,396
UK unquoted	0	0
Overseas quoted	154,720	160,365
	<u>325,477</u>	<u>317,761</u>
Pooled investment vehicles		
Managed funds – UK property unquoted	20,094	4,099
Managed funds – UK fixed interest unquoted (other)	0	185
Managed funds – Overseas unquoted	17,126	11,706
Managed funds – UK unitised insurance policy quoted	1,767	2,523
Managed funds – Liquidity Fund UK quoted	21,654	0
Unit trusts – UK unquoted	5,001	2,899
Unit trusts – Overseas quoted	0	381
Unit trusts – Overseas unquoted	27,350	25,161
	<u>92,992</u>	<u>46,954</u>
Derivatives	0	329
Cash/temporary investments	6,193	8,481
Other investment balances		
Debtors	4,894	1,120

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 €19.345m which equates to £17.126m, using the exchange rate of €1.1296 to £1 applicable at 31 March 2011.

The unit trusts UK unquoted are investments in the Newton UK Smaller Companies Fund. The unit trusts overseas unquoted are investments in funds of hedge funds and the Newton South East Asia Fund. However, all the securities held within the two Newton Funds are quoted.

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

Asset Class / Security Name	Manager	31/03/11 £'000	31/03/11 % within asset class
UK Equities			
BP PLC	Newton and UBS	12,577	7.4
GlaxoSmithKline PLC	Newton and UBS	14,039	8.2
Royal Dutch Shell PLC	Newton and UBS	15,149	8.9
Vodafone Group PLC	Newton and UBS	16,412	9.6
UK Fixed Interest			
UK Treasury Gilt 4.25%	Newton	3,179	6.2
UK Treasury Gilt 5%	Newton	3,508	6.8
UK Treasury Stock 4.75%	Newton	4,300	8.3
UK Treasury Gilt 4%	Newton	7,784	15.1
Overseas Fixed Interest			
Norway (Kingdom of) 4.25%	Newton	3,410	100.0
Index Linked			
UK Treasury Stock 2.5%	Newton	1,248	37.6
UK Treasury Gilt 0.625%	Newton	2,075	62.4
Pooled Investment Vehicles - Managed Funds			
Newton UK Smaller Companies	Newton	4,997	15.4
Newton South East Asia Fund	Newton	16,843	52.1
Pooled Investment Vehicles - Unit Trusts			
BlackRock Property Fund	BlackRock	4,009	6.6
Threadneedle Property Fund	Threadneedle	4,384	7.2
Partners Group Global Value 2008	Partners	6,090	10.0
Shopping Centre Property Fund	Standard Life	6,998	11.5
Partners Group Global Value 2006	Partners	11,036	18.2
Man Four Seasons Strategies GBP	Man Investments	10,507	32.5
BNY Mellon Liquidity Funds Sterling Adv	Newton Liquidity Fund	21,654	35.7

At 31 March 2011, the split of investments by manager was:

	£'000	%
Newton Investment Management Ltd	324,570	66.6
UBS Global Asset Management Ltd	89,661	18.4
Newton Liquidity Fund	25,001	5.1
Partners Group	17,126	3.5
Man Investments	10,507	2.2
Standard Life	8,766	1.8
Threadneedle	4,384	0.9
Blackrock	4,048	0.9
WELPUT	2,394	0.5
X-Leisure	632	0.1
	<hr/>	
	487,089	
Current Net Assets/Liabilities (-)	-278	
	<hr/>	
	486,811	

The figures above include the managers' cash allocation.

Investment Risk

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

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

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

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

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

Alternative investments - historically the fund has invested the majority of its assets in bonds and equities. In recent years new allocations to hedge funds and private equity have been made, and the long term asset allocation agreed in February 2011 includes a new allocation to Diversified Growth Funds and increases in property and private equity.

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

10. Investment Liabilities

	2010/11	2009/10
	£'000	£'000
Creditors	788	845
Total	<u>788</u>	<u>845</u>

These amounts represent unsettled investment transactions as at year end.

11. Investment management expenses

	2010/11	2009/10
	£'000	£'000
Investment manager fees	1,086	1,161
Fee rebate	-68	0
Custodian fees	10	10
Commission recaptured	0	-2
Advisory fees	374	198
Performance measurement services	16	15
Total	<u>1,418</u>	<u>1,382</u>

The fund management fees for the fund of hedge funds, funds of private equity funds and property funds are not included above as they are not normally separately identified by the managers. The unit values of these funds are net of management fees. The estimated value of these management fees is £759,000 in 2010/11 (£486,000 in 2009/10). A one-off funds of private equity fund fee rebate is included above as it was identified separately by the manager.

12. Current assets

	2010/11	2009/10
	£'000	£'000
Contributions due from employer		
- in respect of employer	163	158
- in respect of members	145	57
- in respect of previous employment	6	6
Total	<u>314</u>	<u>221</u>

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

Contributions due from employer		
- in respect of other local authorities	4	4
- in respect of NHS bodies	2	2
- in respect of other bodies	308	215
Total	<u>314</u>	<u>221</u>

13. Current liabilities

	2010/11	2009/10
	£'000	£'000
Unpaid benefits	-178	-111
Balances due to the administering authority	-83	-159
Accrued expenses	-331	-719
Total	<u>-592</u>	<u>-989</u>

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

- in respect of central government bodies	-3	-4
- in respect of other local authorities	-1	-2
- in respect of public corporation and trading funds	-9	-11
- in respect of other bodies	-579	-972
Total	<u>-592</u>	<u>-989</u>

At 31 March 2011 cheques to the value of £74,000 were unrepresented.

14. Financial Instruments and their Risks

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

Financial Assets	31/03/11	31/03/10
	£'000	£'000
Loans and receivables	5,208	1,341
Available-for-sale financial assets	476,790	439,351
Financial assets at fair value through profit or loss	0	4,423
Cash	6,193	8,481
Total	488,191	453,596

Financial Liabilities	31/03/11	31/03/10
	£'000	£'000
Payables	1,380	1,834
Financial liabilities at fair value through profit or loss	0	4,094
Total	1,380	5,928

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

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

2010/11	Financial Assets			Financial Liabilities		Total
	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Cash	Total Liabilities	
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense		-383				-383
Losses on derecognition		-6,624				-6,624
Total expense in Fund Account		-7,007				-7,007
Interest income		4,059				4,059
Dividend income		10,167				10,167
Gains on derecognition		19,050	126			19,176

Total income in Fund Account	33,276	126	33,402
Gains on revaluation	23,630		23,630
Losses on revaluation	-9,057	-2,145	-11,202
Surplus/deficit arising on financial assets in the Fund Account	14,573	-2,145	12,428
Net gain / loss(-) for the year	40,842	-2,019	38,823

2009/10	Financial Assets			Cash	Financial Liabilities	
	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss		Total Liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense		-372				-372
Losses on derecognition		-18,591	-837			-19,428
Total expense in Fund Account		-18,963	-837			-19,800
Interest income		2,710				2,710
Dividend income		7,928				7,928
Gains on derecognition		36,052				36,052
Total income in Fund Account		46,690				46,690
Gains on revaluation		141,516	306			141,822
Losses on revaluation		-45,595				-45,595
Surplus/deficit arising on financial assets in the Fund Account		95,921	306			96,227
Net gain / loss(-) for the year		123,648	-531			123,117

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

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Pension Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making

investments on behalf of the Pension Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. There is a higher credit risk involved in the Fund's allocation to private equity (3.5% at 31 March 2011) but this risk is accepted as a trade off for potentially higher returns. The Fund's custodians are tasked with ensuring that dividends are paid when due. If 5% of equity dividends had not been collected in 2010/11 then a loss of income of £476,000 would have occurred (£428,000 in 2009/10). In overall terms the Fund's exposure to credit risk is the carrying amount of the financial assets at 31 March 2011.

Liquidity risk is the risk that the Pension Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2010/11 accounts clearly show that contributions to the Fund exceeded the benefits and administrative expenses paid out. If this was not the case, most of the Fund's investments would be sufficiently liquid as to be sold to provide any additional cash required. From 1 April the Fund operated its own separate bank account and the liquidity position is monitored on a day to day basis. The fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

Market risk is the risk that the fair value of a financial instrument will fluctuate because of movements in market prices. Market risk may be sub-divided into interest rate risk, price risk and currency risk, although these are to some extent inter-linked.

- Interest rates may vary which will impact on the valuation of fixed interest holdings. The coupon and the duration of such investments will be spread to minimise this risk. At 31 March 2011 the Fund had £55.0m invested in fixed interest securities, £3.3m in index linked securities, £21.6m in a liquidity fund and £6.2m in cash/temporary investments. If interest rates on these investments varied by 1% the impact on the fund would be £861,000 (£831,000 at 31 March 2010).
- Prices of equity and other investments will vary as the prices on the stock exchange respond to factors specific to particular stocks or factors affecting stock markets as a whole. This is mitigated by having a diverse portfolio of investments across different managers, asset classes, countries and industries. If equities, which are the largest asset class in which the Fund invests, had been priced 10% lower at 31 March 2011, the Fund valuation would have been £32.5m lower (£31.7m lower at 31 March 2010). However, in this scenario it is quite likely that fixed interest securities would have been priced 10% higher offsetting the lower valuation by £5.8m at 31 March 2011 (£7.5m at 31 March 2010).
- Currency risk is the risk that the value of financial instruments will vary with the foreign exchange rate of pounds sterling. This particularly

affects the Fund's holdings in overseas equities. This is mitigated by the spread of investments across different countries. The manager will also take this risk into account when making investments, and would hedge the risk where thought necessary. The Fund held £160.4m overseas equities at 31 March 2011, so if the exchange rate of sterling against the local currencies in which the assets were invested had varied by 10%, the valuation would have varied by some £1.6m (£1.55m at 31 March 2010).

15. 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.

16. Subsequent Events

Since 31 March 2011 several steps have been taken towards implementing the new long term asset allocation. In April £25m of bond assets were transferred from Newton to new bond manager BlackRock. In July a further £10m was invested in property. Also in July Standard Life was appointed as Diversified Growth Fund manager and assets are due to be transferred at the end of September.

During August and early September the value of stock markets around the world was very volatile, with valuations falling by up to 15% at certain times. This level of reduction would have caused the market value of the Pension Fund's assets to fall by around £40m.

17. Contingent Liabilities

The Pension Fund has a commitment to contribute a further £11.6m to the fund of private equity funds (see also note 9). These contributions will be financed from sales of existing investments.

There were no other material contingent liabilities or contractual commitments at 31 March 2011, or material non-adjusting events subsequent to this.

18. 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 £655,540 recharge in 2010/11 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 in an investment account. From 1 April 2011 all pension transactions pass through a separate Pension Fund bank account and a separate financial ledger system.

19. 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. Employees of other scheduled and admitted bodies participate in this scheme.

The Scheduled Bodies are:-

London Borough of Bexley
Bexley College
Harris Academy Falconwood
Erith School (Academy status)
Bexley Grammar (Academy status)
BETHS Grammar (Academy status)

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
Bexley Heritage Trust
Danson Youth Trust
Business Academy Bexley
Business Academy Bexley (Nursery) (preserved benefits only)
Inspire Community Trust
Kier Street Services Ltd
Serco Ltd
My Time Active
Wilson James Ltd

In 2010/11, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.25% to 7.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2010 and shows a funding level of 87% (2007 was 86%). The deficit on the fund will be recovered over a period of 14 years (the balance remaining of the 20 year recovery plan set in 2004). The Council's contribution in 2010/11 was 20.0% (18.5% in 2009/10). Other bodies employer's contributions in 2010/11 varied between 12.0% and 32.3%.

The Fund's asset allocation during 2010/11 moved to 68.4% (from 72.2%) in equities and 21.6% (from 22.8%) in bonds (invested by its balanced manager Newton and UK equity manager UBS) with 5.0% in property and 5.0% in alternative assets – half in a fund of private equity funds and half in a fund of hedge funds. The Fund's investment return for the year was a profit of 8.6%. This was slightly better than the return on the Fund's specific benchmark of 7.9%. Over a five year period the Fund's annual return was 5.1% pa compared to the average return of 5.4% pa that the benchmark would have achieved.

During 2010/11, investment purchases made by Newton and UBS were £181.1m and sales were £187.3m. In March 2011, following a review of investment strategy, a new long term asset allocation target was set for the fund. This will see 10% invested in bonds, 60% in equities and 30% in alternatives. The alternatives allocation will be split equally between property, private equity and a diversified growth fund. This will be implemented in stages over the next year or two. Changes in investments also took place in 2010/11. Partners Group continued to draw down funds for investment in private equity and they had at 31 March 2011 drawn down £19.4m of a £31m (€35m) commitment. Further property investments of £15m were made in the year with various property funds/unit trusts following advice from Jones Lang LaSalle reaching 4.1% of the fund by 31 March 2011. Both these areas were funded from bond assets held by Newton. On 31 March 2011 £21.7m was transferred to a liquidity fund operated by Newton's parent company Bank of New York Mellon, and a further £3.3m followed in early April. This was one of the interim steps in implementing the new investment strategy. The Fund's total assets increased from £447.668m at 31 March 2010 to £486.811m 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 from the Pension Fund's website www.yourpension.org.uk/bexley.

Financial Analysis 2006/07 – 2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000	£'000
Contributions to the Scheme	16,974	18,146	21,422	24,570	26,323
Benefits Paid and Admin Expenses	-21,469	-22,993	-23,341	-24,949	-24,585
Net Return on Investments	15,752	-4,403	-65,689	121,735	37,405
Net Increase / Decrease (-) in Year	11,257	-9,250	-67,608	121,356	39,143
Value of Fund Brought Forward	391,913	403,170	393,920	326,312	447,668
Value of Fund Carried Forward	403,170	393,920	326,312	447,668	486,811

Membership Analysis 31 March 2007 - 31 March 2011

	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
Employees in the Fund	4,547	4,594	4,744	4,742	4,593
Deferred Pensioners	2,891	3,067	3,216	3,319	3,466
Pensioners in the Fund	3,401	3,569	3,727	3,877	4,025

Pension Fund Actuarial Valuation

Statement by Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Bexley London Borough Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 4 February 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £448 million represented 87% of the Funding Target of £517 million at the valuation date. The valuation also showed that a common rate of contribution of 12.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.8% of pensionable pay for 14 years. This would imply an average employer contribution rate of 19.7% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 4 February 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches may be adopted in implementing contribution increases and deficit recovery periods as determined through the FSS consultation process.

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

	For past service liabilities	For future service liabilities
Rate of return on investments:	6.25% per annum	6.75% per annum
Rate of pay increases:	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

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

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

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a., rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 is £572 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a.. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £532 million.

Ian Kirk

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 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 principles 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 tenth edition of the London Borough of Bexley's Statement of Investment Principles and is dated September 2011. Whilst the statement is intended to be a timeless document it does require minor adjustments from time to time. The statement has been updated and approved by the Pensions Committee to reflect their recent decisions.

Effective Decision Making

1.1 Delegation of Investment Management

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

1.2 Orders of Reference and Delegated Powers

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

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

The Delegated Powers of the Pensions Committee are as follows:

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

1.3 Committee Membership

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

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

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

The Governance Compliance Statement provides further details in this area.

1.4 Pensions Investment Sub-Committee

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

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

and Delegated Powers:-

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

1.5 Skills

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

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

A knowledge and skills policy statement is included in the Fund's annual report.

1.6 Allowances

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

1.7 Advice and Support

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

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

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

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

1.8 Business Plan

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

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

Clear Objectives

2.1 Investment Objective

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

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

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

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

2.2 Funding Strategy Statement (FSS)

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

2.3 Awareness of Objectives

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

Risk and Liabilities

3.1 Strategy

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

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

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

The asset allocation decision will also have regard to the overall investment objective to maximise the funding level within an acceptable level of downside risk. The asset liability study will show projected investment returns for various allocations and these returns will be considered against their associated risks. It also examines different combinations of assets to determine which combination will best meet the Fund's objectives.

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. The Pensions Committee consider a full range of investment opportunities including:

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

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

3.3 Risk

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

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

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

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

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

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

3.4 Relative Risk and Statutory Requirements

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

3.5 Stock Lending

The investment managers are permitted to undertake stock lending of

up to 25% of the Fund's assets subject to the agreement of the Director of Finance and Resources.

3.6 Monitoring

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

3.7 Audit

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

Performance Assessment

4.1 Appropriate Benchmarks

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

4.2 Performance Measurement Method

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

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

4.3 Performance against the Benchmark

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

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

4.4 Performance Reporting

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

4.5 Risk Control

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

4.6 Advisors

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

4.7 Decision Review

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

Responsible Ownership

5.1 Corporate Governance Policy

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

5.1.1 General Principles

The London Borough of Bexley agrees with the principles set out by the Cadbury and Greenbury Committees following their examination of corporate governance issues, the Combined Code recommended by the Hampel Committee and the recommendations made by the US Department of Labor Interpretative Bulletin on Activism. Investment managers are expected to adopt the 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, governance and environmental matters which

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

Transparency and Reporting

6.1 Pension Fund Publications

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 together with further information for active members and pensioners. Agendas and reports to the Pensions Committee are also published on the Council's website www.bexley.gov.uk.

6.3 Amendments

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

6.4 Liaison with Stakeholders

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

6.5 Clear Coherent Mandates

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

6.6 Fee Structures

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

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

Bond managers Blackrock, the liquidity fund managers and the 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

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

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

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 (“the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare this Funding Strategy Statement.

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

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

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

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 2010 actuarial valuation were:

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

Underlying these assumptions are the following two tenets:

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

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

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

been considered with each employing body in preparing this FSS and have been confirmed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In February 2011 a new long term asset allocation was set by the Pensions Committee following an investment review.

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

The impact of this new allocation will be taken into account in the actuarial valuation as at 31 March 2013.

7. Identification of risks and counter-measures

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

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

The **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. changes to the 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 2011

London Borough of Bexley Pension Fund

Governance Compliance Statement

Background

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

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

Delegation of Pension Fund Management and Administration

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

Pensions Committee Meetings

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

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

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

Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are:

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

The Delegated Powers of the Pensions Committee are as follows:

- To agree the investment strategy having regard to the advice of the Fund's managers and the independent adviser.

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

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

Committee Membership

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

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

although these observers do not have voting rights.

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

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

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

Pensions Investment Sub-Committee

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

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

and Delegated Powers:-

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

Advice and Monitoring

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

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

Compliance

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

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

This statement was updated in September 2011.

London Borough of Bexley Pension Fund

Communications Policy Statement

Background

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

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

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

Principles

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

Method

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

Scheme Members and Representatives

- Access to the website www.yourpension.org.uk/bexley which contains scheme details, news items, annual reports and guides to the scheme with links to other relevant organisations and the option of viewing personal details via a secure logon.

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

Prospective Members

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

Scheme Employers

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

This statement was updated in September 2011