Annual Report

Bedfordshire Pension Fund • 2018/19

Registration number: 00328861RF

Bedfordshire Pension Fund

BEDFORD BOROUGH COUNCIL

Contents

Foreword

I am pleased to present to you the Annual Report for Bedfordshire Pension Fund, for the year ending 31 March 2019.

The year has been exceptionally busy one with a number of changes in regulations and in particular our focus on the ongoing development of Border to Coast Pensions Partnership (BCPP), (our investment vehicle, as a result of the Government's redesign of the LGPS). BCPP gained Financial Conduct Authority (FCA) accreditation in May 2018 and the company has grown in size and stature, on boarding the investments and staff from those Fund's with direct investments. By the end of the year the Partner Funds had transitioned £8.7 billion assets under management to the Pool Company. We are incredibly pleased with the progress the Pool Company has made to date and we believe the commitment to collaboration between the Pool Company and the 12 Funds, which will hold us in good stead for the future.

Bedfordshire Pension Fund has yet to make its first investment to the Pool Company, but has committed funds to the Global Equity Alpha Fund when it becomes available. During the year the Fund restructured part of the portfolio in readiness for the launch in 2019/2020 in line with the Investment Strategy, which can be found on page 55 of this Annual Report.

It has been an interesting year for the economy with the challenges of the global political and economic uncertainty creating volatility in the markets. The Fund's assets are diversified to withstand economic shocks, and protect against significant fluctuations whether it be record highs in equity values or dips in the gilt market. The Fund has a 50% weighting to Equities held in passive mandates, which it considers to be cost effective. Despite the volatility the Fund ended the year at an all-time high of £2.299 billion.

In the year to 31 March 2019, we were invested with eight Investment Houses across ten types of asset class, and made our first investment in UK and overseas infrastructure.

During the year, the Fund retendered the Actuary Services Contract. After a comprehensive and robust competitive tendering process, Barnett Waddingham were awarded the contract effective from 1 September 2018. I would like to thank Hymans Robertson for all their work in assisting the Fund during their tenure.

I would like to convey my thanks on behalf of the Fund to our Investment Consultant, Independent Advisor and Custodian for their support throughout the year.

The Fund has also been reviewing the service it provides to our members, and has launched a self-service portal called "My Pension Online". The system will allow Members to view their pension, calculate their benefits and update their records on-line at time convenient to them. This is available on our website https://mypension.bedspensionfund.org/, and will be rolled out to all active and deferred members over the coming year, and subsequently pensioners.

The data records of our Members are of paramount importance, and it is essential that we maintain a high standard of accuracy. The Pensions Regulator annually reviews the data, and I am delighted to report our performance in this area is excellent which is essential for the upcoming actuarial valuation.

The Committee also regularly reviews the administration performance through a number of performance indicators, the Fund continues to provide an efficient service with 16 of the 17 key indicators being met.

As the Pension Committee Chairman I also represent the Fund on the Local Authority Pension Forum known as LAPFF and the Joint Committee of BCPP. I perform both of the additional responsibilities as the Chairman of both these bodies.

I would like to thank the members of the Pensions Committee for their support in another busy year. On behalf of the Committee, I would like to thank the Assistant Chief Executive (Enabling) and Fund Administrator and the staff in the Pensions Team for their continued hard work. I am only too aware that the Investment and Administration Teams work tirelessly to provide the best outcomes from our investments and an excellent service to our scheme members and employers alike.

Finally, I am happy to be contacted by Members and Employers of the Fund should you wish to discuss or understand details of the Funds' activities from a Committee Member perspective. My email address is doug.mcmurdo@bedford.gov.uk.

Councillor Doug McMurdo
Chairman of the Pension Fund Committee

SECTION 1
Management Report

- *Management and Advisers*
- *Legal Framework and Administration*
- *Contributions and Benefits*
- *Membership*
- *Participating Employers*

Management & Advisers as at 31 March 2019

Administering Authority	Bedford Borough Council	www.bedford.gov.uk
Administrator	Andy Watkins, Assistant Chief Executive (Enabling)	andy.watkins@bedford.gov.uk
Pension Fund Committee Members		
Bedford Borough Council	Doug McMurdo (Chair)	doug.mcmurdo@bedford.gov.uk
	Shan Hunt	*
	Jon Gambold	jonathan.gambold@btinternet.com
Central Bedfordshire Council	Richard Wenham (Deputy Chair)	richard.wenham@centralbedfordshire.gov.uk
	Kevin Collins	*
Luton Borough Council	Stephen Lewis	*
	John Young	john.young@luton.gov.uk
Scheme Member Representative (non-voting)	Will White	will.white@bedford.gov.uk
Independent Pension Board Chairman	Gerard Moore	gfm@gerardmoore.co.uk
Independent Advisor	Leslie Robb	leslie.robb@rocketmail.com
Investment Managers	Aberdeen Standard Investments	www.aberdeenstandard.com
	BlackRock Advisors	www.blackrock.com/uk
	CBRE Global Investors	www.cbre.co.uk
	Insight Investment Management	www.insightinvestment.com
	Invesco Perpetual	www.invesco.co.uk
	Legal & General Investment Management	www.lgim.com/uk/en
	Newton Investment Management	www.newtonim.com
	Pantheon Ventures	www.pantheon.com
Custodian	The Northern Trust Company	www.northerntrust.com
Investment Consultant	William Marshall	William.Marshall@hymans.co.uk
	Hymans Robertson	www.hymans.co.uk
Actuary	Melanie Durrant (w.e.f. 1.9.18)	Melanie.Durrant@Barnett-waddingham.co.uk
	Barnett Waddingham (w.e.f. 1.9.18)	www.barnett-waddingham.co.uk
External Auditor	Ernst & Young LLP	www.ey.com/uk/en/home
External Legal Advisors	Eversheds Sutherland	www.eversheds-sutherland.com
AVC Providers	Prudential	www.pru.co.uk
	Standard Life Assurance Company	www.standardlife.co.uk
Bankers	National Westminster Bank	81 High St, Bedford MK40 1YN
	Goldman Sachs Asset Management International	www.global-liquidity.gs.com
	Santander UK plc	www.santander.co.uk
Asset Pool	Border to Coast Pensions Partnership	www.bordertocoast.org.uk

*No longer an elected member of the committee

Legal Framework & Administration

The Scheme

The Local Government Pension Scheme (LGPS) is a statutory, funded pension scheme. It is governed by the Local Government Pension Scheme Regulations 2013 and subsequent amendments.

Administering Authority

Bedford Borough Council is the Administering Authority for Bedfordshire Pension Fund. The Fund Administrator is Bedford Borough Council's Assistant Chief Executive (Enabling).

Role of the Pension Fund Committee

Bedford Borough Council's responsibility as the Administering Authority is undertaken via the Pension Fund Committee. The Committee consists of nominated elected members of Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. A scheme member representative, nominated by the trade unions, is invited to sit on the Committee in an observer role. An independent investment adviser also sits on the Committee in an advisory role. The Committee takes advice from Bedford Borough Council officers, principally the Assistant Chief Executive (Enabling) and the Chief Officer for Corporate Finance and Pensions, and from external professional investment advisers, Hymans Robertson. The membership of the Pension Fund Committee at 31 March 2019 is shown on page 5.

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

Fund Administrator

The exercise of the Borough Council's functions as Administering Authority is delegated to the Pension Fund Committee. The Assistant Chief Executive (Enabling), as Fund Administrator, has delegated authority for the day-to-day management of the Fund. This delegation includes the power to seek advice and the authority to appoint external managers to handle the day-to-day investment of the Fund's assets.

Value for Money

Bedfordshire Pension Fund is committed to achieving value for money and has argued for better transparency of costs within the Local Government Pension Scheme. In advance of pooling the Fund has already achieved significant savings in fees from our investment managers. This shows the potential purchasing power of a joint Local Government Pension Scheme. Border to Coast Pensions Partnership provides a cost efficient solution as an FCA regulated investment vehicle that will deliver long term savings for all the Border to Coast Pensions Partnership Funds.

Changes in Legislation

The LGPS regulations changed in 2013, introducing a Career Average Revalued Earnings (CARE) scheme with effect from 1 April 2014. New investment regulations came into force on 1 November 2016, see page 16.

Administration of the Scheme

Bedford Borough Council is the Administering Authority with fund investment and administration being the responsibility of the Fund Administrator. The costs of administration and paying pensions and benefits are charged to the Pension Fund.

The LGPS was established in 1974 to cover the future pension entitlements of all eligible employees of the Borough and Unitary Councils within Bedfordshire, (excluding teaching staff, police officers and firefighters who have their own pension schemes). A number of other bodies also participate in the pension scheme by right (scheduled bodies) or are admitted to the scheme following application for membership (admitted bodies). Employees are automatically entered into the pension scheme if they have a contract of more than three months. Employees can choose to opt out of the scheme and can make their own personal pension arrangements.

The LGPS is required to be 'funded', i.e. it must be sufficient to sustain the future pension entitlements of both past and present employees. The scheme is financed by contributions from employees and employers and by earnings from investments. Cash which is not immediately required to pay pensions and other benefits is invested in a selection of securities, equities, property and other assets. The level of employers' contributions is re-assessed every three years following a review, or valuation, of the fund by the fund's actuary.

Corporate Governance

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

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

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

In addition, the Pension Fund Committee has published a Governance Compliance statement in accordance with current regulations. This statement is reproduced in full on page 104.

The table below shows the attendance of Councillors at both the Investment Panel and Pension Committee Meetings:

Role of the Pension Board

A Pension Board was established in 2015/2016 in compliance with the requirements of the Public Service Pension Act 2013. The Pension Board is responsible for assisting the Administering Authority and Pensions Committee in relation to securing compliance with the scheme regulations and other legislation relating to the governance and administration of the Scheme. The Board is also responsible for securing compliance with requirements imposed by the Pensions Regulator. Bedfordshire Local Pension Board is made up of 4 employer representatives and 4 scheme member representatives. An Independent Chairman was appointed from July 2018.

Annual Report

CIPFA have created a checklist for preparing the annual report for Local Government Pension Scheme Funds. This document details disclosures that must, should or may be included in the annual report. Bedfordshire Pension Fund has disclosed all information that must be provided, and the majority of information that should or may be disclosed. The most significant items not complied with are not having a fully compliant Funding Strategy Statement and not having and Administration Strategy. Both of these should be compliant or available in 2019/2020.

	Investment Panel, 22 June	**Pensions Committee, 3 July**	**Investment Panel, 31 August**	**Pensions Committee, 17 September**	**Investment Panel, 2 November**	**Pensions Committee, 20 November**	**Investment Panel, 15 February**	**Pensions Committee, 4 March**
Councillor Doug McMurdo (Chair)	Y	Y	Y	Y	Y	Y	Y	Y
Councillor Richard Wenham (Vice Chair)	N	N	Y	Y	N	N	N	Y
Councillor Jon Gambold	Y	N	Y	Y	N	Y	Y	Y
Councillor Shan Hunt	Y	Y	N	N	Y	Y	Y	N
Councillor Kevin Collins	N	N	Y	N	Y	N	Y	N
Councillor Stephen Lewis	Y	Y	Y	Y	Y	Y	Y	Y
Councillor John Young	Y	Y	Y	N	Y	Y	N	N
Councillor James Saunders	*	*	*	*	Y	Y	N	N

* Not appointed to the Committee or Panel

Pensions Administration Performance

The Pension Administration performance is measured by an agreed set of performance indicators which are reported quarterly to the Pension Fund Committee. The table provides a summary of the performance for the year.

	Target days to complete	Total cases outstanding 31 March 2019	Cases ready to action 31 March 2019	2018/2019 Average days to complete	2018/2019 Number of cases	Cases completed within target 2018/2019	
						Number	%
Creation of member records	10	134	106	6.59	5,028	5,028	100.0%
Payment of refunds	10	22	8	2.08	794	794	100.0%
Process retirement							
Normal	10	33	6	1.07	291	291	100.0%
Ill Health	10	11	2	0.75	43	43	100.0%
Flexible	10	4	0	1.42	16	16	100.0%
Early Retirement (redundancy or Efficiency)	10	9	1	1.11	83	83	100.0%
Preserved Benefit into Payment	10	141	7	0.49	837	837	100.0%
Total Retirements		198	16	0.67	1,270	1,270	99.0%
Retirement Estimates							
Normal	10	47	22	2.49	662	652	98.5%
Long Term forecasts	20	19	8	3.00	304	303	99.7%
Ill Health	10	2	2	1.48	45	45	100.0%
Early Retirement (redundancy or Efficiency)	10	7	5	2.27	299	295	98.7%
Total Retirement Estimates		75	37	2.52	1,310	1,295	98.9%
Transfers In	35	47	5	1.75	253	253	100.0%
Transfers in LG	120	32	1	4.76	210	210	100.0%
Transfers Out	10	6	1	2.09	65	65	100.0%
Transfers Out LG	60	7	3	2.32	149	149	100.0%
Preserved Benefits	60	119	68	49.50	2,856	2497	87.4%
Death entitlement	10	85	13	2.07	516	510	98.8%

Financial Performance (Administrative)

A budget for the administrative cash flows of the Pension Fund is prepared prior to the beginning of each financial year. The key elements of the 2018/2019 budget approved by the Pension Fund Committee in March 2018 are shown below together with actual performance.

Administrative cash flows	Budget	Actual	Variance
	£000	£000	£000
Contributions Received	-124,600	-127,895	-3,295
Transfer Values Received	-6,000	-25,812	-19,812
Benefits Paid	97,800	100,954	3,154
Transfer Values Paid	6,500	9,448	2,948
Cost of Administering the fund	5,860	4,204	-1,656
Net additions from dealings with members	**-20,440**	**-39,101**	**-18,661**

Contributions are payable by participating employers on a monthly basis, due in arrears by the 7th working day of the following month. During 2018/2019, 92% of contributions were received by the due date. The cash flows shown above include the payment, and subsequent recovery, of compensatory added years benefits which are excluded from the statement of accounts.

During 2018/2019 the average employee contribution rate as a percentage of pensionable pay was 6.5%. The average employer contribution rate was 26.2%. The Fund has not exercised any interest levy on late contributions.

During the year historical overpayment schedules which were agreed with members have been paid and settled. One payment schedule remains outstanding for less than £2,000. There have been no new cases in 2018/2019.

On the rare occasion where a delay in notification of death results in an overpayment of less than £250, this can be written off. Any amount in excess of £250 the Fund seeks to recover the overpayment.

The Pension Fund Committee formally agreed a budget for 2018/2019 at its meeting on 8 March 2018. The Committee receives regular reports on progress against the budget during the year. The final position is shown in the following table.

National Fraud Initiative

The Cabinet Office is responsible for the National Fraud Initiative. Bedford Borough Council as the Administering Authority for Bedfordshire Pension Fund participates in the National Fraud Initiative (NFI) as the Council is required by law to protect the public funds it administers. Since April 2015 the NFI has been conducted using data matching powers bestowed on the Minister for the Cabinet Office by Part 6 of the Local Audit and Accountability Act 2014.

The NFI is a data matching exercise to assist in the prevention and detection of fraud which is undertaken every two years. NFI is primarily used by the Pension Fund to ensure a pension is not continued to be paid after a member has died.

The Pension Fund has access to several methods to eliminate the risk of a pension continuing to be paid after the death of the member. A family bereavement is a challenging time, so in addition to notification by friends and family, the Pension Fund checks mortality of all pensioners and dependents on a monthly basis via an external database and also uses the services of the "Tell Us Once Service" operated by DWP which automatically notifies the Fund when a death is registered.

Following the NFI 2018 data matching exercise, there were no cases where a pension had continued to be paid following the member's death.

Bedfordshire Pension Fund Budget Monitoring 2018/2019

	2018/2019 Current Budget	2018/2019 Outturn	2018/2019 Variance
	£000	£000	£000
Investment Management Fees			
Investment Management - Basic Fees	4,952	4,232	-720
Investment Management - Underlying Property Fees	2,067	1,734	-333
Investment Management - Performance	400	0	-400
Total Investment Management Fees	**7,419**	**5,966**	**-1,453**
Oversight & Governance			
Actuarial & Other professional fees	182	210	28
Audits - Internal & external	48	54	6
Other Expenses	596	679	83
Total Oversight & Governance	**826**	**943**	**117**
Administration			
Running Expenses	132	101	-31
Computer Costs	270	134	-136
Fund Administration - BBC Recharge	1,174	1021	-153
Total Administration	**1,576**	**1,256**	**-320**
Total Management Expenses	**9,821**	**8,165**	**-1,656**

Benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Office of National Statistics. The most recent data is that for the financial year 2017/2018 and is summarised in the following table:

Cost per Scheme Member (£)	2017/2018		2016/2017	
	Bed PF	All LGPS	Bed PF	All LGPS
Investment management: base fee	83.26		85.08	
Performance fee	3.93		5.96	
Investment advice/ support:	9.54		10.74	
Total Investment Costs	96.73	184.40	101.77	164.57
Administration	23.81	20.85	17.21	20.73

In 2017/2018 Bedfordshire Pension Fund employed ITM to carry out the Guaranteed Minimum Pension review as required by HMRC. There were also additional one off ICT costs associated with cloud hosting of the Pensions Administration System. If these costs were excluded, the cost per member would reduce to £20.33.

Staffing Levels

Administration staff as reported in the SF3 data for 2017/2018 was 27 Full Time Equivalents (FTE's) with 25 FTE's being reported for 2018/2019 when the data collection exercise is available. The table below show the number of members to FTE equivalent for the last three years.

Year	2016/2017	2017/2018	2018/2019
Total Membership	66,134	68,871	70,729
FTE's	27	27	25
Membership to FTE's	2,449	2,551	2,829

Communications

The Pension Fund is committed to establishing and maintaining effective communications with its members and other interested parties. The Fund has a Communications Policy statement formalising the processes by which this will be achieved. This policy statement is available on the Fund's website at www.bedspensionfund.org and is reproduced in full on page 113.

Information Technology

The Pension Fund's records and administration system are computerised, using hardware provided by the Borough Council and *altair* software provided under licence by Aquila Heywood. This licence provides for regular updates to keep up to date with changes in regulations and developments in best practice.

The Fund's financial data is collected on the Borough Council's Agresso system. This system is maintained in-house by the Council's IT team. The Council also provides comprehensive contingency and business continuity provisions.

The payment of pensions is managed in-house by the Pension Fund, using *altair* pensions payroll software.

All Borough Council staff involved in Pension Fund administration and investment activities have access to the internet and the Council's intranet.

The Fund also maintains its own website for members managed by its own officers and supported by Bedford Borough Council. The web address is www.bedspensionfund.org

The Fund is launching a self-service portal referred to as "My Pension Online". A soft roll out has started to be undertaken in 2018/2019. It is currently anticipated all active members will have access by November 2019 and deferred members by February 2020.

The Fund does not operate a Helpdesk function.

Equality and Diversity

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

Training – CIPFA Pensions Finance Knowledge & Skills Framework

All public sector organisations charged with the financial management of pension schemes will be aware of the schemes' growing complexity.

Public sector pension scheme financial management demands appropriate skills, including knowledge of:

- financial markets and products;
- financial services procurement;
- pensions accounting and auditing;
- actuarial practices;
- investment performance and risk management and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role. They should also ensure that those charged with pension scheme governance have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has published its Pensions Finance Knowledge and Skills Framework as a basis for the training and development of those involved in pension scheme finances. The six areas within the Knowledge and Skills framework are:

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

The Pension Fund has adopted the CIPFA framework in formulating and implementing its own training plan and, as recommended by CIPFA, makes the following compliance statement:

As the administering authority of the Bedfordshire Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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

The Fund has appointed the Fund Administrator to be responsible for ensuring that policies and strategies are implemented. The Fund has conducted a training needs assessment and, based on the outcome, has formulated a training plan.

The following training against the plan has been provided during the year. The table reviews the training received by the Fund in 2018/2019.

Bedfordshire Pension Fund – 2018/2019 training plan review

The table shows the key training received by the Fund in 2018/2019. Suggested optional events are shown shaded whilst others are suggested to be essential whilst Members in the first two years in the committee.

Event	Length & timing of Training	Legislative & Governance	Accounting & Audit	Procurement & Relationships	Investment & Risk	Financial Markets	Actuarial	Attended
Local Event led by Investment Consultant/ investment managers	½ day Tied into Panel Training 22 June 2018, 15 Feb 2019	X	X	X	X	X		22 June 2018 5 members/ 5 officers 15 Feb 2019 5 members/ 4 officers
Local Government Association (LGA) Trustee training	3 days	X	X	X	X	X	X	4 Board Total to date 7 Members/ 4 officers 1 Observer/ 8 Board
Training Day Skills and knowledge	2 days 31 Aug 2018 02 Nov 2018	X	X	X	X	X		12 Mar 2018 4 Members/ 7 officers 2 Board
PLSA Local Authority Conference	2 days 21/22 May 2018	X	X		X	X		1 Board/ 2 officers
BCPP Annual Conference	1.5 days 8/9 Nov 2018	X		X	X	X		3 Members/ 3 Officers/ 1 Board
LGC – Investment Seminar	2 days 28 Feb/1 Mar 2019	X		X	X	X		2 Members/ 1 officer/ 1 Board
15th Annual LGPS Governance Conference	2 days 17 Jan 2019	X	X		X		X	1 Member/ 1 Board
Local Government Pension Investment Forum	2 days 2 Oct 2018	X			X	X		1 Member
CIPFA – Pensions Network Conference	22 Nov 2018	X		X	X	X		2 Members/ 1 officer/ 2 Board
LAPF Strategic Investment Forum	3 days 16 July 2018 7 Feb 2019				X	X		2 Members/ 1 officer
LAPFF Annual Conference	5/6 Dec 2018				X			1 Member
LGC – Investment Summit	2 days 6/7 Sept 2018	X		X	X	X	X	1 Member/ 1 officer

Officers also attended CIPFA Pension network events on 15 June 2018 and 31 Jan 2019; Pensions Administration Managers Conference 19-21 November 2018; Pensions Audit and Accounting Technical Update 8 Feb 2019; various other events hosted by Fund Managers and Advisors relating to, Risk & Affordability, Data Quality, Administration, Funding Challenge, Investment Governance, Employer Covenant and other client conferences; and Pension Board members also attended a number of seminars organised by CIPFA & Barnett Waddingham, Northern Trust and AON. Additionally, the Pensions Regulator Public Sector toolkit is available.

Risk

The main types of risks to the Pension Fund are identified as follows:

- The value of liabilities rises too quickly;
- The value of the investments does not rise quickly enough;
- Individual Employer Circumstances make paying liabilities challenging;
- The Governance capability.

There are a number of ways in which these risks may be mitigated and these are detailed in the formal risk register which can be found on the Pension Fund website at www.bedspensionfund.org. In general there is reliance on the governance requirements such as the Funding Strategy Statement (page 96), see Appendix C – Key risks and controls. and the Investment Strategy Statement (page 55), see section 2.5, the approach to risk, including the ways in which risks are measured and managed. The formal risk register is considered by the Pension Fund Committee and Local Pension Board at least annually.

The Pension Fund receives assurance from an internal audit programme that covers areas such as pensioner payroll, administration, contributions receivable and governance to ensure that internal controls are working correctly. In 2018/19 the Fund received full assurance in all areas. Investment Managers and the Fund's custodian also make available a report detailing their internal control system being subject to audit. These reports can be of different formats including the AAF01/06 (Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales release 01/06), SAS (Statement on Auditing Standards) 70, International Standard on Assurance Engagement no. 3402 and SSAE 16 (U.S. Statement on Standards for Attestation Engagements No. 16). Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated as described during the period under review.

Contributions and Benefits

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

Contributions

Under the LGPS regulations, triennial actuarial valuations of the Pension Fund must be undertaken to establish the annual contributions to be made by the employing bodies. The valuation which determined the employer contribution rates for 2018/2019 was carried out as at 31 March 2016. The employer contribution rates resulting from this valuation were implemented from 1 April 2017 (see also Actuarial Statement on page 68).

Employers make a contribution to the fund at a common (or primary) contribution rate, calculated as a percentage of employees' pensionable pay. The actuary determines the common rate of contribution at the time of valuation, having regard to any statutory requirements in force at the time. A secondary employer's contribution rate is calculated for each employing body to reflect their particular individual circumstances.

Employees' contributions are a percentage of their pay. The LGPS regulations set out nine contribution rates ranging from 5.5% to 12.5%. The rate that an employee pays is determined by the employee's actual annual pensionable pay.

Employees are also able to pay Additional Voluntary Contributions (AVCs) to increase their pension benefits. The Standard Life Assurance Company (now closed to new members) and Prudential PLC have been appointed to provide this facility. Employees can also choose to pay Additional Pension Contributions (APCs) in order to purchase an additional amount of annual pension.

Pension Benefits

The LGPS is a "defined benefit" scheme, with employees' pensions and benefits determined in accordance with statute and regulation. The annual pension is based on the pensionable pay that the employee receives in each year. For each year that an employee contributes to the scheme, 1/49th of their actual pensionable pay is added to their pension account. For employees who joined before 1 April 2014, part of their benefits will be based on membership built up before 1 April 2014 and their final salary. There is no automatic lump sum included in benefits built up after 31 March 2008 but, on retirement, members can choose to exchange some of their annual pension (commutation) for a lump sum payment.

Pension scheme members can transfer pension rights benefits between pension funds, where regulations allow.

When an employee leaves the scheme having met the 2 years' vesting period (i.e. they have paid into the scheme for more than 2 years or are deemed to have met the vesting period due to previous pension membership) and does not transfer their benefits to another pension scheme, the value of the employee's pension (and lump sum if they have membership built up before 1 April 2008), is calculated and the payment of the pension is deferred until the individual's earliest retirement age. This is known as a deferred benefit.

Pension Increases

Deferred benefits and pensions in payment are increased each year in line with cost of living increases. The increases are made in accordance with annual Statutory Pensions Increase (Review) Orders. The pension increase is effective from April each year and is determined by the rise in the Consumer Price Index (CPI). The rate is measured by the Office for National Statistics (ONS) in the twelve months to September of each year. The pension accounts of employees contributing to the scheme are revalued at the end of each scheme year. The rate of revaluation is also determined by CPI.

LGPS 2014 reforms

The table below summaries the LGPS 2014 reforms

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

Membership

During 2018/2019 the number of pensioners increased from 16,436 at 31 March 2017 to 17,435 at 31 March 2018; the number of contributors within the fund increased from 22,275 to 22,404.

The majority of contributors are employed in local authorities but the higher education sector and civilian employment in the emergency services also account for a significant proportion of the membership. Schools which are awarded academy status become employers in their own right (scheduled bodies) within the LGPS and an increasing share of the Pension Fund membership is made up of academy employees.

2018	Active Membership by Employer as at 31 March	2019
5,437	Luton Borough Council	5,361
4,671	Central Bedfordshire Council	4,818
3,069	Bedford Borough Council	3,072
5,098	Academies	5,374
991	Chief Constable and Police and Crime Commisioner for Bedfordshire	1,046
717	University of Bedfordshire	688
390	Cranfield University	404
1,902	Other Bodies	1,641
22,275	**Total**	**22,404**

Participating Employers

Five Year Membership Summary as at 31 March					
	2015	2016	2017	2018	2019
Active members	19,931	20,428	21,140	22,275	22,404
Pensioners	14,281	14,889	15,538	16,436	17,435
Deferred Pensioners	24,910	27,409	29,456	30,160	30,890
Total	**59,122**	**62,726**	**66,134**	**68,871**	**70,729**

The following are the employers participating in the Bedfordshire Pension Fund as at 31 March 2019. The contribution rates shown are the percentage of its employees' pensionable pay that each employer paid into the fund during 2018/2019. Common contribution rate is set at a level so as to bring the fund to 100% funding over a period of twenty years. However, some employers have opted to fund the deficit by making additional annual monetary payments and consequently have a lower contribution rate. The additional payments in 2018/2019 are included in the table below.

Scheduled Bodies:	Contribution Rate %	Additional payments £000
Academy Of Central Bedfordshire	22.90	
Active Education Academy Trust	19.00	
Advantage MAT - Bedford Free School	15.40	
Advantage MAT - Elstow	26.10	
Alameda Academy	20.40	
Aley Green Parish Council	22.80	
All Saints Academy (Dunstable)	19.30	
All Saints Lower (Post 01/10/2013) (Clifton)	25.90	
Ampthill Town Council	22.80	
Ardley Hill Academy	24.00	
Arlesey Town Council	22.80	
Arnold Academy	21.20	
B.C.A.T Wixams Academy	20.00	
B.C.A.T Wixams Tree Primary	20.00	
B.I.L.T.T - Grange (formerly Grange Academy)	19.70	
B.I.L.T.T – Greys	19.70	
B.I.L.T.T – St Johns	19.70	
Bedford Borough Council	16.90	5,677
Bedford College (including Tresham)	18.40	431
Bedfordshire & River Ivel Drainage Board	22.80	
Bedfordshire Fire And Rescue Service	17.30	143
Beecroft Academy	17.00	
Biddenham Parish Council	22.80	
Biggleswade Academy Trust	25.60	
Biggleswade Town Council	22.80	
Blunham Parish Council	22.80	
Bolnhurst Parish Council	22.80	
Brickhill Parish Council	22.80	
Bromham Parish Council	22.80	
Brooklands Middle School	19.20	
Caddington Parish Council	22.80	
Central Bedfordshire College	18.80	168
Central Bedfordshire Council	16.90	7,073
Chief Constable	16.70	793
Chiltern Learning - Cedars (formerly Cedars Academy)	22.50	
Chiltern Learning - Challney Girls	22.90	
Chiltern Learning - Chiltern Academy	21.90	
Chiltern Learning - Lark Rise (formerly Lark Rise Academy)	19.90	
Chiltern Learning - Linslade (formerly Linslade Academy Trust)	20.90	
Chiltern Learning - Marston Vale	23.40	
Chiltern Learning - Putteridge	21.90	
Chiltern Learning Trust	20.10	47
CMAT – Daubeney	25.10	
CMAT – Kempston Challenger Academy	25.90	
CMAT – Lancot	23.90	
CMAT - Springfield	26.10	

Scheduled Bodies:	Contribution Rate %	Additional payments £000
Cranfield Church of England Academy	19.40	
D.S.A.M.A.T - Caldecote	24.70	
D.S.A.M.A.T - Kensworth	24.70	
D.S.A.M.A.T - Manshead	24.70	
D.S.A.M.A.T - Roxton	26.10	
D.S.A.M.A.T - Thomas Whitehead	24.70	
D.S.A.M.A.T - Totternhoe	24.70	
Dunstable Town Council	22.80	
Dunton Parish Council	22.80	
Eastcotts Parish Council	22.80	
Eaton Bray Academy	18.90	
Etonbury Academy	23.80	
Eversholt Lower	22.60	
Everton Heath Primary	24.70	
Ferrars Academy	19.60	
Flitwick Town Council	22.80	
Fullbrook Academy	22.90	
Gilbert Inglefield Academy	24.10	
Goldington Academy	21.90	
Goldington Green Academy	24.90	
Gothic Mede Lower Academy	23.80	
Gravenhurst Academy	23.80	
Great Barford Parish Council	22.80	
Greenfield & Pulloxhill Academy	22.20	
Hadrian Academy	22.40	
Harlington Academy	20.60	
Harlington And Sundon Academy Trust	25.90	
Harlington Area Schools Trust	25.00	
Harlington Parish Council	22.80	
Haynes Parish Council	22.80	
HEART Acadamies - Cauldwell	26.10	
HEART Acadamies - Shackleton	26.10	
HEART Acadamies - Shortstown	26.10	
Heart Academies Trust (formerly Bedford Academy)	18.10	
Henlow Church Of England Academy	22.00	
Henlow Parish Council	22.80	
Holywell Academy	21.80	
Houghton Conquest Parish Council	22.80	
Houghton Regis Academy	23.10	
Houghton Regis Town Council	22.80	
Icknield Academy	23.60	
Kempston Burial Joint Board	22.80	
Kempston Rural Parish Council	22.80	
Kempston Town Council	22.80	
Kensworth Parish Council	22.80	
Langford Lower Academy	23.80	
Lawnside Academy	25.10	
Leighton Linslade Town Council	22.80	
Luton Borough Council	17.30	7,019
Luton Sixth Form College	19.40	113
Mark Rutherford School Trust	18.90	
Marston Moretaine Parish Council	22.80	
Maulden Parish Council	22.80	
Meppershall Lower Academy School	23.90	
Northill Parish Council	22.80	
Oak Bank Special School Academy	19.00	

Scheduled Bodies:	Contribution Rate %	Additional payments £000
Oakley Parish Council	22.80	
Pioneer Ltrust - Chantry (formerly Chantry Academy)	22.00	
Pioneer Ltrust - Southfield	23.00	
Pioneer Ltrust - Whitefield	24.80	
Police and Crime Commissioner	16.70	
Potton Town Council	22.80	
Priory Academy	22.60	
Putnoe Academy	21.30	
Queens Park Academy	19.80	
Queensbury Academy	26.00	
Raynsford Church Of England Academy	23.60	
Redborne Academy	19.60	
Robert Bloomfield Academy	23.80	
S.A.C.A.T – Cardinal Newman	23.60	
S.A.C.A.T – St Margaret Of Scotland	23.60	
S.A.C.A.T – St Martin De Porres	23.60	
S.A.C.A.T - St Marys Caddington	23.60	
S.A.C.A.T - St Vincents	23.60	
Samuel Whitbread Academy	23.80	
Sandy Town Council	22.80	
Sandye Place Academy	17.30	
Shared Learning Trust	17.10	40
Sharnbrook Academy Federation	20.60	
Sharnbrook Parish Council	22.80	
Sharnbrook Primary (formerly John Gibbard Academy)	22.50	
Shefford Town Council	22.80	
St Augustine's Academy	23.90	
St Christopher's Academy	16.60	
St Francis Of Assisi Academies Trust	23.60	
St Mary's School (Stotfold)	22.30	
Stanbridge Parish Council	22.80	
Staploe Parish Council	22.80	
Stotfold Town Council	22.80	
Stratton Education Trust	23.10	
The Firs Academy	20.10	
The Hills Academy	23.90	
The Rushmere Park Academy	17.10	
Tilsworth Parish Council	22.80	
Toddington Parish Council	22.80	
Toddington St George Church Of England School	25.00	
Turvey Parish Council	22.80	
UNITY CofE MAT - Great Barford	26.10	
University of Bedfordshire	18.00	1,214
Ursula Taylor Academy	22.90	
Vandyke Upper School	21.90	
Weathefield Academy	21.60	
Whipperley Infant Academy	21.20	
Woodland Middle	19.10	
Wootton Academy Trust	21.00	
Wootton Parish Council	22.80	

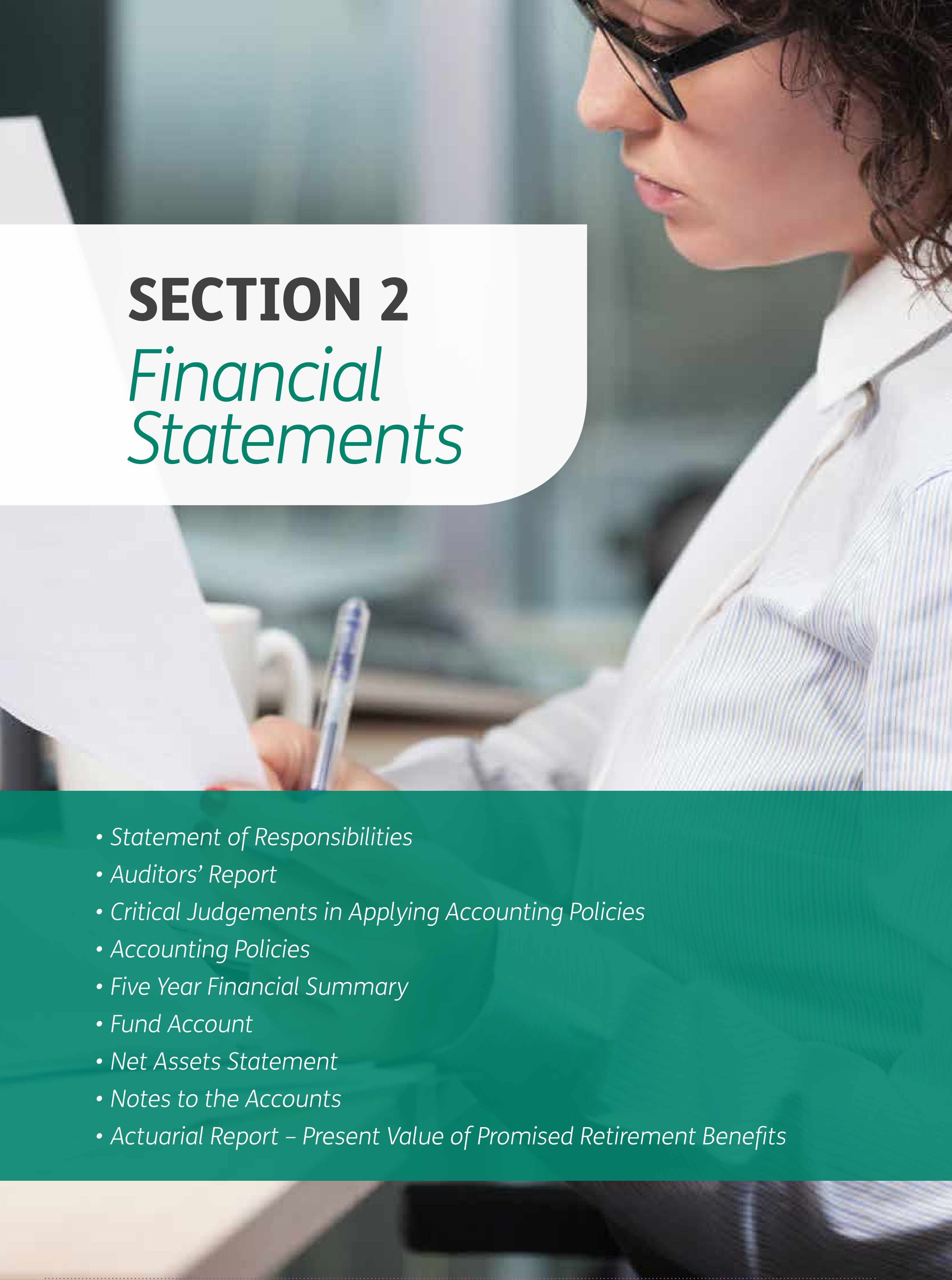
Admitted Bodies:	Contribution Rate %	Additional payments £000
ABM Catering Ltd	30.80	
Active Luton Trust	19.50	36
Aragon Housing Association	21.10	548
BPHA	21.10	1,154
Churchill (Chalk Hill)	28.80	
Civica UK Limited	26.50	
Cranfield University	19.20	2,475
Creative Support	24.20	
Edwards and Blake (SACAT)	16.50	
ELFT Bedfordshire - East London NHS Foundation Trust Bedfordshire	27.90	130
ELFT Luton - East London NHS Foundation Trust Luton	27.20	
Enterprise Support Services UK	26.80	
Fusion Lifestyle	23.70	46
Grand Union Housing	21.10	
LGSS Law Ltd	16.60	
Luton Cultural Services Trust	21.30	97
Mitie	27.00	
Mountain Healthcare	21.40	
Multi Active Holiday Courses	15.80	
Ridge Crest Cleaning (SAF)	24.30	
Ringway Jacobs	29.10	
St. Francis Children's Society	32.30	
Stevenage Leisure Limited	26.90	

Further to this the following is a summary of the number of employers in the fund analysed by Scheduled bodies and Admitted bodies, showing active and ceased where there are still outstanding liabilities.

	Active	Ceased
Scheduled Body	152	3
Admitted Body	23	4
Admitted Authority	1	0
Total	**175**	**7**

Below is a table showing the number of active employers, detailed by Scheduled body and Admitted body over a five year period.

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Scheduled Body	119	126	127	147	152
Admitted Body	18	19	22	24	23
Total	**137**	**145**	**149**	**171**	**175**



SECTION 2
Financial Statements

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

EY
Building a better working world

Independent auditor's statement to the members of Bedford Borough Council on the pension fund financial statements

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Bedford Borough Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Assistant Chief Executive (Enabling) & Chief Financial Officer's and the auditor

As explained more fully in the Statement of the Assistant Chief Executive (Enabling) & Chief Financial Officer's Responsibilities, the Assistant Chief Executive (Enabling) & Chief Financial Officer's is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Bedford Borough Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only the:

- Foreword
- Management Report
- Financial Statements
- Investment Report
- Pooling

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Debbie Hanson
Ernst + Young LLP

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
31 July 2019

Bedfordshire Pension Fund 2018/2019

Fund Account for the Year Ended 31 March 2019

2017/2018		2018/2019	See
£000		£000	Note
	Contributions and Benefits		
117,314	Contributions	126,934	6
40,883	Transfers in from other pension funds	9,812	7
67	Other Income	47	
158,264		**136,793**	
-90,278	Benefits	-97,734	8
-7,980	Payments to and on account of leavers	-30,497	9
60,006	**Net additions/(withdrawals) from dealings with members**	**8,562**	
-8,302	Management Expenses	-8,165	10
51,704	**Net additions/(withdrawals) including Management Expenses Returns on Investments**	**397**	
10,138	Investment income	9,317	11
-80	Taxes on income	-36	
39,157	Profit and losses on disposal of investments and changes in value of investments	114,733	12a
49,215	**Net return on investments**	**124,014**	
100,919	Net increase/(decrease) in the fund during the year	124,411	
2,073,710	Opening Net Assets of the Fund	2,174,629	
2,174,629	**Closing Net Assets of the Fund**	**2,299,040**	

Net Assets Statement for the Year Ended 31 March 2019

31 March 2018		31 March 2019	See
£000		£000	Note
0	Long Term Investment Assets	833	12.1
0	**Total Long Term Investment Assets**	**833**	
2,065,556	Investment Assets	2,245,055	12.2
0	Investment Liabilities	0	12.3
2,065,556	**Total Net Current Investments**	**2,245,055**	
2,065,556	**Total Net Investments**	**2,245,888**	
1,194	Long Term Assets	608	18
109,007	Current Assets	75,165	19
-1,128	Current Liabilities	-22,621	20
2,174,629	**Net assets of the fund available to fund benefits at the end of the Reporting Period**	**2,299,040**	

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Pension Note 17.

Notes to the Accounts

1. Description of the Pension Fund

The Bedfordshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Bedford Borough Council. The Borough Council is the reporting entity for the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Bedfordshire Pension Fund Annual Report & Accounts 2018/2019 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The Fund is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The LGPS (Administration) Regulations 2013 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2016 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

Local Government Pension Funds are required to be funded, being financed by contributions from employees, employers and by earnings from investments. Triennial actuarial valuations are undertaken and employers' contributions are reviewed to ensure that the Fund's assets are sufficient to meet its funding targets.

Membership of the Fund

The Fund is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Bedford Borough, Central Bedfordshire and Luton Borough Councils and a range of other scheduled and admitted bodies within the Bedfordshire area. Teachers, Police Officers and Firefighters are not included as they come within other national pension schemes.

Organisations participating in the Fund include:-

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

As at 31 March 2019, the total number of employees (i.e. from Councils within Bedfordshire and the other scheduled and admitted bodies) contributing to the Fund was 22,404 (22,275 at 31 March 2018), the number of pensioners was 17,435 (16,436) and the number of deferred pensioners was 30,890 (30,160).

A full list of participating bodies as at 31 March 2019 is shown at the end of this section.

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

Core Benefits of the Scheme

From 1 April 2014 the scheme became a Career Average Scheme (CARE). Benefits earned in the Scheme before 1 April 2014 are protected so benefits up to that date will be based on the scheme member's final year's pay.

The benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary are:-

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- An optional tax free lump sum by commuting part of the pension.
- Life assurance of three times the members' yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children on the death of the member.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employers consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

NB scheme members must have a minimum of two years' membership to qualify for a pension

Full details of the contributions payable by employees and benefits receivable can be found in the Fund's scheme handbook "Guides to the Local Government Pension Scheme", available from Borough Hall and available in full or in summary on the Fund's website.

www.bedspensionfund.org/active_members/guides_to_the_lgps.aspx

2. Basis of Preparation

The accounts are compliant with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019 (the Code), which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts of the Pension Fund have also been prepared to meet the requirements of the Local Government Pension Scheme (Administration) Regulations 2013 and in accordance with the Statement of Recommended Practice on Financial Reports of Pension Schemes.

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

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

The accounts have been prepared on a going concern basis unless otherwise stated.

New Accounting Standards

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

There were no new accounting standards introduced in 2018/2019 affecting the Pension Fund.

3. Significant Accounting Policies

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date. Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

Benefits Payable

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

Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

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

Refunds of Contributions

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

Transfer Values

Transfer values to and from other schemes have been included on a cash basis. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Management Expenses
The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA Guidance on Accounting for LGPS management expenses.

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

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

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

- Insight Investment – Absolute Return Bonds
- Aberdeen Standard Investments - Private Equity
- Pantheon Ventures – Real Assets

Where an investment manager's fee note has not been received by 31 March 2019, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.

Following guidance from CIPFA, Accounting for Local Government Pension Scheme Management Expenses, the Fund extracts transactional costs from Funds where the information is available to make an estimate or where this is readily available from the Custodian. This is included within the investment management costs. For the Property Manager management costs have been extracted reflecting the unit management costs based on the NAV (Net Asset Value) of each separate fund.

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

i) Quoted securities are valued by reference to market bid price at the close of business on 31 March 2019.

ii) Traded futures are valued by reference to their exchange prices as at 31 March 2019.

iii) Other unquoted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.

iv) Unit trust and managed fund investments are valued by reference to the latest bid prices quoted by their respective managers prior to 31 March 2019. If bid prices are unavailable, mid prices or net asset value will be used.

v) Assets, including investments, denominated in foreign currencies are valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2019. Exchange gains and losses arising from movements in current assets and liabilities are included in the Fund account for the year.

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

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

ii) Dividend Income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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

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

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

Taxation
The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004, and as such is exempt from tax on capital gains and from UK income tax on interest receipts. As the Council is the administering authority for the Fund, VAT is recoverable on all expenditure where appropriate, and all of the Fund's income is outside the scope of VAT.

The Fund is liable to tax at a rate of 20% on small pensions that have been compounded into a lump sum.

The Fund is exempt from United States withholding tax.

Where the Fund is subject to other foreign tax, income is shown as the grossed up figure and the tax withheld as an item of expenditure.

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

There were no new accounting standards introduced in 2018/2019 affecting the Pension Fund.

Accounting Standards that have been issued but have not yet been adopted
The Pension Fund is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that been issued, but is not yet required to be adopted by the Pension Fund.

There are no such disclosures.

Events after the reporting date
These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a. those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b. those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

4. Critical Judgements in Applying Accounting Policies

Pension Fund Liability
The pension fund liability is calculated every three years by the Fund's actuary in line with the regulations, with annual updates in the intervening years. The methodology used is in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuations are agreed between the Fund and the Actuary and are summarised in the Actuarial Report on page 69. This estimate is subject to significant variances based on changes to the underlying assumptions.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

5. Assumptions made About the Future and Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net asset statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are as follows:-

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice on the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings would increase the value of liabilities and an increase assumed life expectancy would increase the liability
Private Equity	Private equity investments are valued at fair value in accordance with the British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation	There is a risk that these may be over or understated in the accounts

6. Contributions Receivable

2017/2018	Contributions	2018/2019
£000		£000
24,047	Employees' normal contributions	25,340
314	Employees' additional voluntary contributions	380
65,249	Employers' normal contributions	69,453
25,342	Employers' deficit funding	29,481
2,363	Employers' augmentation contributions	2,280
117,314		126,934
19,210	Administering authority	19,977
86,185	Scheduled bodies	95,150
11,919	Admitted and other bodies	11,807
117,314		**126,934**

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

7. Transfers In From Other Pension Funds

2017/2018		2018/2019
£000	Transfers in from other pension funds	£000
25,000	Transfers in from other pension funds - bulk	0
15,883	Individual transfers from other pension funds	9,812
40,883		**9,812**

There were no bulk transfers into the Fund in 2018/2019. In 2017/2018 the Tresham College bulk transfer to Bedford College was £25 million.

8. Benefits Payable

2017/2018		2018/2019
£000	Benefits	£000
72,432	Pensions	77,339
15,889	Commutations of pensions and lump sum retirement benefits	17,270
1,957	Lump sum death benefits	3,125
90,278		97,734
	Further analysed as:	
12,715	Administering authority	12,303
68,064	Scheduled bodies	75,912
9,499	Admitted and other bodies	9,519
90,278		**97,734**

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

9. Payments To and On Account of Leavers

2017/2018		2018/2019
£000	**Payments to and on account of leavers**	**£000**
831	Refunds of contributions	574
0	Transfers to other schemes – bulk	21,000
6,995	Transfers to other schemes – individuals	8,437
107	Annual Allowance - Tax Charge	486
47	Lifetime Allowance - Tax Charge	0
7,980		**30,497**

There were no bulk transfers out in 2017/2018. Barnfield College transferred to Hertfordshire Pension Fund from 1 February 2019. No payment has been made, however in line with the accounting policies an accrual of the estimated value of £21 million, as advised by the actuary, has been made.

The Annual Allowance Tax Charge is on behalf of individual scheme members who exceeded the annual allowance and used the Scheme Pays facility which permits members to opt for the LGPS to pay the tax charge, which is then recovered from the member’s pension benefits.

The Lifetime Allowance Tax Charge is on behalf of individual members who exceeded the lifetime allowance and used the Scheme Pays facility which permits members to opt for the LGPS to pay the tax charge, which is then recovered from the member’s pension benefits.

10. Management Expenses

2017/2018		2018/2019
£000	**Management Expenses**	**£000**
1,640	Administrative Costs	1,256
6,054	Investment Management Expenses	5,966
608	Oversight and Governance Costs	943
8,302		**8,165**

The external audit fees paid in 2018/2019 was £0.031 million and £0.024 million in 2017/2018.

A further breakdown of the investment management expenses is shown below:-

2017/2018		2017/2018
£000	**Investment Management Expenses**	**£000**
0	Transaction Costs	62
4,048	Management Fees	4,086
271	Performance Related Fees	0
1,686	Underlying Property Fees	1,751
49	Custody Fees	67
6,054		**5,966**

11. Investment Income

2017/2018		2018/2019
£000	**Investment Income**	**£000**
29	Dividends from equities	0
9,607	Income from pooled investment vehicles	7,917
502	Interest on cash deposits	1,400
10,138	**Total Investment Income**	**9,317**

12. Investments

2017/2018		2018/2019	
£000	**Investments**	**£000**	**Note**
	Long Term Investments		
0	Pool Share Capital	833	12.1
0	**Total Long Term Investments Equities**	**833**	
0	UK quoted equities	0	
0	Overseas quoted equities	0	
0	**Total Equities**	**0**	**12.2**
	Managed and Unitised Funds		
3	UK un-authorised unit trusts	0	
1,208,075	UK insurance managed funds	1,420,997	
189,951	UK property unit trusts	214,788	
623,890	Overseas unit trusts	537,456	
8,112	Private Equity	16,190	
0	Infrastructure	15,665	
2,030,031	**Total Managed and Unitised Funds**	**2,205,096**	**12.2**
	Cash Deposits & Other Investment Assets		
0	Amount receivable for sales of investments	0	
46	Investment income outstanding	116	
46	**Other Investment Assets**	**116**	
35,479	Cash deposits	39,843	
35,525	**Total Cash and Other Investment Assets**	**39,959**	**12.2**
	Investment Liabilities		
0	Other liabilities	0	
0	**Total Other Liabilities**	**0**	**12.3**
2,065,556	**Total**	**2,245,888**	

12a Value of Investments					
2018/2019	**Market Value at 31 March 2018**	**Purchases at cost & derivative payments**	**Sale proceeds & derivative receipts**	**Change in Market Value**	**Market Value at 31 March 2019**
	£0	**£0**	**£0**	**£0**	**£0**
Long Term Investments					
Pool Share Capital	0	833	0	0	833
Equities					
UK	0	0	0	0	0
Overseas	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Managed Funds	**1,208,075**	**6,989**	**0**	**205,933**	**1,420,997**
Unit Trusts					
Property	189,951	38,534	-17,497	3,800	214,788
Other	632,005	46,964	-12,921	-96,737	569,311
	821,956	**85,498**	**-30,418**	**-92,937**	**784,099**
Other Assets	**0**	**0**	**0**	**0**	**0**
Total	**2,030,031**	**93,320**	**-30,418**	**112,996**	**2,205,929**
Cash	**35,525**				38,222
Currency Movements				1,737	1,737
	35,525				**39,959**
Total	**2,065,556**				**2,245,888**

12.b Value of Investments					
2017/2018	**Market Value at 31 March 2017**	**Purchases at cost & derivative payments**	**Sale proceeds & derivative receipts**	**Change in Market Value**	**Market Value at 31 March 2018**
	£000	**£000**	**£000**	**£000**	**£000**
Equities					
UK	0	0	0	0	0
Overseas	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Managed Funds	**1,207,384**	**12,000**	**-28,200**	**16,891**	**1,208,075**
Unit Trusts					
Property	185,816	15,213	-25,319	14,241	189,951
Other	600,697	32,309	-9,026	8,025	632,005
	786,513	**47,522**	**-34,345**	**22,266**	**821,956**
Other Assets	**0**	**0**	**0**	**0**	**0**
Total	**1,993,897**	**59,522**	**-62,546**	**39,157**	**2,030,031**
Cash & other	**16,222**				**35,525**
Total	**2,010,119**				**2,065,556**

12.c Investments Analysed by Fund Manager				
2017/2018	**Fund Manager**	**2018/2019**		
£ million	**%**		**£ million**	**%**
376,627	17.32%	Legal & General - Global Equities	537,898	23.40%
308,794	14.20%	Blackrock - Equities	344,686	14.99%
217,544	10.00%	CBRE - Indirect Property	227,643	9.90%
190,503	8.76%	Legal & General - UK Equities	199,482	8.68%
174,876	8.04%	Insight - Absolute Return Bonds	193,245	8.41%
176,903	8.13%	Blackrock -Gilts inc. Index Linked	185,709	8.08%
148,415	6.82%	Pyrford-Absolute Return Multi-Asset	153,618	6.68%
155,249	7.14%	Invesco - Absolute Return Multi Asset	153,220	6.66%
114,493	5.26%	Newton - Absolute Return Multi Asset	122,546	5.33%
67,560	3.11%	Blackrock - Emerging Markets	68,046	2.96%
9,267	0.43%	SI Capital - Private Equity	17,309	0.75%
0	0.00%	Pantheon - Infrastructure	15,665	0.68%
0	0.00%	Pool Share Capital - Equities	833	0.04%
118,547	5.45%	Trilogy - Global Equities	0	0.00%
2,058,778	94.67%	Net Assets Managed by External Bodies	2,219,900	96.56%
115,851	5.33%	Net Assets Managed by the Administering Authority	79,139	3.44%
2,174,629	**100.00%**	**Total Assets**	**2,299,040**	**100.00%**

It is required to disclose where there is a concentration of investment (other than in the UK Government Securities) which exceeds a 5% of the total value of the net assets of the scheme. The investments that fall into this category are as follows:-

2017/2018	% of Total	Managed and Unitised Investment	2018/2019	% of Total
£000	Market Value		£000	Market Value
567,130	26.08%	Legal & General	737,380	32.07%
485,697	22.43%	Blackrock Advisers	530,395	23.07%
174,876	8.04%	Insight	193,245	8.41%
148,415	6.82%	Pyrford	153,618	6.68%
155,249	7.14%	Invesco	153,220	6.66%
114,493	5.26%	Newton	122,546	5.33%
118,547	5.45%	Trilogy	0	0.00%

12.d Stock Lending

The Fund did not undertake any stock lending during 2018/2019.

13. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value.

Asset Type	Level	Valuation Basis	Observable and Unobservable Inputs	Key Sensitivities
Market quoted Investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments - overseas unit trusts	2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV - based principal set on a forward pricing basis	Not required
Pooled investments - property funds quoted	2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV - based principal set on a forward pricing basis	Not required
Pooled investments - property funds unquoted	3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV - based principal set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts
Private Equity	3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple revenue multiple discount for lack of marketability control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts

Sensitivity of Assets Valued at Level 3

Based on an analysis historical data, current market trends, information supplied by our Investment Managers and Bedfordshire Fund Policy Documents, the Fund has determined that the valuation methods described below are likely to be accurate to within the following range, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Level 3 Assets	Valuation Range +/-	Value at 31 March 2019 £000	Valuation Increase £000	Valuation Decrease £000
Property Unit Trust	14	145,082	165,394	124,771
Private Equity	29	16,190	20,885	11,495
Infrastructure	29	15,665	20,207	11,122
		176,938	206,486	147,388

Fair Value Hierarchy

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

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise of quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Loans and Receivables are included in Level 1 within which there are cash, debtors and creditors.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data

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

	31 March 2019			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through profit and loss	690,676	1,338,314	176,938	2,205,929
Loans and Receivables	111,877			111,877
Total Financial Assets	**802,554**	**1,338,314**	**176,938**	**2,317,806**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-11			-11
Financial liabilities at amortised cost	-22,610			-22,610
Total financial liabilities	**-22,621**	**0**	**0**	**-22,621**
Net financial assets	**779,933**	**1,338,314**	**176,938**	**2,295,185**
	31 March 2018			
	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through profit and loss	779,138	1,129,352	121,541	2,030,031
Loans and Receivables	138,156	0	0	138,156
Total Financial Assets	**917,294**	**1,129,352**	**121,541**	**2,168,187**
Financial Liabilities				
Financial Liabilities at Fair Value through profit and loss	0	0	0	0
Financial Liabilities at amortised cost	-1,128	0	0	-1,128
Total Financial Liabilities	**-1,128**	**0**	**0**	**-1,128**
Net Financial Assets	**916,166**	**1,129,352**	**121,541**	**2,167,059**

The following assets have been carried at cost (no investment assets were carried at cost in 2017/18):

Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£	£	£	£
Share Capital in Border to Coast Pool	0	0	833	833
Investments held at cost	0	0	833	833

Reconciliation of Fair Value Measurement within Level 3

	2017/2018	Transfer Into of Level 3	Transfer Out of Level 3	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	2018/2019
	£000	£000	£000	£000	£000	£000	£000	£00
Equity	8,112	0	0	8,619	-5,455	4,730	186	16,190
Infrastructure	0	0	0	15,305	-251	571	40	15,665
Property	113,429	24,280	0	20,086	-17,496	4,783	1	145,083
	121,541	24,280	0	44,010	-23,203	10,084	227	176,938

14. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

2017/2018		2018/2019				
Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost		Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
0	0	0	Equities	833	0	0
2,030,031	0	0	Managed & unitised funds	2,205,096	0	0
0	118,937	0	Cash	0	107,672	0
0	46	0	Other investment assets	0	116	0
0	19,173	0	Debtors	0	4,089	0
2,030,031	**138,156**	**0**		**2,205,929**	**111,877**	**0**
			Financial Liabilities			
0	0	0	Other investment liabilities	0	0	0
0	0	-1,128	Creditors	-11	0	-22,610
0	**0**	**-1,128**		**-11**	**0**	**-22,610**
2,030,031	**138,156**	**-1,128**		**2,205,918**	**111,877**	**-22,610**

Net Gains and Losses on Financial Instruments

2017/2018		2018/2019
£000		£000
	Financial Assets	
39,157	Designated at fair value through profit and loss	114,733

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

15. Nature of Extent of Risks Arising from Financial Instruments

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

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

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

- Market risk
- Credit risk
- Liquidity risk

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

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

Market Risk

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

The Fund has used manager and adviser information to help it identify market risks.

Interest Rate Risk

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

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

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

Carrying value at 31/03/2018	Change in year in net assets available to pay benefits	Asset type	Carrying value at 31/03/2019	Change in year in net assets available to pay benefits		
	+100 bps	-100 bps			+100 bps	-100 bps
£000	£000	£000		£000	£000	£000
769,934	7,699	-7,699	Fixed interest securities	808,340	8,083	-8,083
148,874	1,489	-1,489	Cash & cash equivalents	97,732	977	-977
918,808	9,188	-9,188	Total	906,072	9,061	-9,061

NB. The Fund's direct exposure includes managed fund assets.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund manages currency risk by instructing Investment Managers to use hedging techniques with foreign currencies.

The following table summarises the Fund's currency exposure as at 31 March 2019 and also shows the increase/decrease in the value of net assets available to pay benefits arising.

Using information available from Investment Advisers, Investment Managers, the Fund's Custodian and Bedfordshire Pension Fund Policy Documents, the Fund believes the following is reasonable.

Currency Risk by Asset Class

	2018/2019			
Asset Type	**Value £000**	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
Overseas Equities	993,641	4.16%	1,034,976	952,306
Overseas Property	0	4.16%	0	0
Overseas Absolute Return	169,431	4.16%	176,479	162,383
Overseas Diversified Growth	96,570	4.16%	100,587	92,553
Overseas Alternatives	55,997	4.16%	58,326	53,668
Overseas Cash	0	4.16%	0	0
Total	1,315,638	4.16%	1,370,367	1,260,910

	2017/2018			
Asset Type	**Value £000**	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
Overseas Equities	923,023	12.18%	1,035,447	810,599
Overseas Property	0	12.18%	0	0
Overseas Absolute Return	83,171	12.18%	93,301	73,041
Overseas Diversified Growth	66,671	12.18%	74,792	58,550
Overseas Alternatives	13,035	12.18%	14,623	11,447
Overseas Cash	0	12.18%	0	0
Total	1,085,900	12.18%	1,218,163	953,637

Market Price Risk

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

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

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

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

Sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, and using information available from Investment Advisers, Investment Managers, the Fund's Custodian, and Bedfordshire Pension Fund Policy Documents, the Fund believes the following is reasonably possible for the 2018/2019 reporting period.

Asset Type	% Change
UK Equities	18.00%
Overseas Equities	18.00%
Property	14.00%
Absolute Return Bonds	10.00%
Diversified Growth Funds	12.00%
Gilts	10.00%
Private Equity	29.00%
Cash	1.00%
Total	14.65%

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

	2018/2019			
Asset Type	**Value £000**	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
UK Equities	247,365	18.00%	291,890	202,839
Overseas Equities	903,581	18.00%	1,066,227	740,937
Property	214,805	14.00%	244,878	184,732
Absolute Return Bonds	193,245	10.00%	212,570	173,921
Diversified Growth Funds	429,384	12.00%	480,911	377,859
Gilts	185,709	10.00%	204,280	167,138
Private Equity	16,190	29.00%	20,885	11,495
Infrastructure	15,665	29.00%	20,207	11,122
Cash	93,096	1.00%	94,027	92,165
Total	**2,299,040**	**14.65%**	**2,635,875**	**1,962,208**

	2017/2018			
Asset Type	**Value £000**	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
UK Equities	236,410	18.00%	278,964	193,856
Overseas Equities	821,332	18.00%	969,173	673,493
Property	189,968	14.00%	216,563	163,372
Absolute Return Bonds	174,875	10.00%	192,363	157,388
Diversified Growth Funds	418,156	12.00%	468,334	367,977
Gilts	176,903	10.00%	194,593	159,212
Private Equity	8,112	29.00%	10,464	5,760
Cash	148,873	1.00%	150,362	147,385
Total	**2,174,629**	**14.08%**	**2,480,816**	**1,868,443**

The % change for Total Assets includes the impact of correlation across asset classes.

Credit Risk

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

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

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

Liquidity Risk

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

The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.

a significant proportion of the Fund being held in highly liquid investments such as actively traded equities and unit trusts. The level 1 highly liquid funds total £691 million representing 30% of the Fund.

16. Funding Arrangements – Actuary Statement
Bedfordshire Pension Fund ("the Fund") Actuarial Statement for 2018/19

Introduction

The last full triennial valuation of the Bedfordshire Pension Fund (the Fund) was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 27 March 2017.

Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- The market value of the Fund's assets as at 31 March 2016 for valuation purposes was £1,733m.
- The Fund had a funding level of 71% i.e. the assets were 71% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £713m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 17.8% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017. This also includes an allowance of 0.5% of payroll p.a. for the Fund's expenses.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2016 are summarised below:

Assumption	31 March 2016
Discount rate	4.1% p.a.
Pension increases	2.1% p.a.
Salary increases	2.4% p.a.
Mortality	Based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.
Retirement	Retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008)

The discount rate assumption adopted for the Fund's 2016 valuation is set with reference to gilt yields, allowing for an Asset Outperformance Assumption of 1.9% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2016 valuation report prepared for the Fund by Hymans Robertson LLP (dated 27 March 2017).

Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a significant decrease in the gilt yields underlying the 2016 valuation funding model. Overall, on methods and assumptions consistent with those adopted for the Fund's 2016 valuation, we estimate that the funding position as at 31 March 2019 has worsened slightly compared with the position as at 31 March 2016 and the primary rate will have also increased due to changes in market conditions.

However, the next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020. As part of the 2019 valuation, the Fund and us as the Fund Actuary will work together in setting the assumptions for the valuation. In particular, we intend on moving away from a gilts plus approach to setting the discount rate for funding purposes, and instead will look at the Fund's long term investment strategy and the expected returns for each asset within that strategy.

MM Durrant

Melanie Durrant FIA CERA
Associate, Barnett Waddingham LLP

17. Actuarial Present Value of Promised Retirement Benefits
Pension Fund Accounts Reporting Requirement – From the Fund Actuary

Introduction

We have been instructed by Bedford Borough Council, the administering authority to the Bedfordshire Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2019. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The Fund has commissioned a materiality report from the actuary regarding the likely impact on Bedfordshire Pension Fund of the McCloud judgement (which relates to age discrimination in the New Judicial Pension Scheme from the changes in the 2014 Regulations).

The Supreme Court has denied the Government leave to appeal this case, and as a result the judgement may have an impact on the LGPS. The actuary has assessed the potential impact of the McCloud judgement on the total liabilities at 31 March 2019 would be 0.3% equivalent to an increase in liabilities of £9,867,000. The Fund considers this does not have a material impact on the overall presentation of the figures in the Statements of Accounts and therefore the impact of the McCloud case has not been included in these Statements.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Bedford Borough Council:

- The results of the 31 March 2018 IAS26 report which was prepared by Hymans Robertson LLP;
- The results of the 31 January 2019 FRS102 in respect of Barnfield College;
- Estimated whole Fund income and expenditure items for the period to 31 March 2019;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2018 and 31 March 2019; and
- Details of any new early retirements for the period to 31 March 2019 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Fund membership statistics

The table below summarises the membership data, as at 31 March 2016.

Member data summary	Number	Salaries/Pensions	Average age
		£000s	
Actives	20,576	346,070	49
Deferred pensioners	28,112	33,543	51
Pensioners	14,964	68,903	68

Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2019.

We have been notified of 77 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £357,700.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2019 is estimated to be 6%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Bedfordshire Pension Fund as at 31 March 2019 is as follows:

Asset breakdown	31 Mar 2019	
	£000s	%
Equities	1,595,689	69%
Bonds	378,954	16%
Property	230,453	10%
Cash	94,936	4%
Total	2,300,032	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2019 is likely to be different from that shown due to estimation techniques.Please note that the total asset value as at 31 March 2019 remains unchanged following allowance for the bulk transfer of Barnfield College as an indicative amount of the required bulk transfer payment was included as a creditor in the 31 March 2019 net asset statement.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2019, we have rolled forward the value of the Fund's liabilities calculated for the IAS26 valuation as at 31 March 2018, using financial assumptions that comply with IAS19.

A full actuarial valuation involves projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2019 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2019 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

Demographic/Statistical assumptions

With the exception of the CMI projection model, we have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. This is consistent with the approach adopted at the last accounting date. Full details of these assumptions can be found in the 2016 valuation report prepared by Hymans Robertson LLP and we have summarised the main demographic assumptions below.

The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2018, which was released in March 2019. We have adopted the default smoothing parameter of 7.0 and have not applied an additional initial rate, while continuing to adopt a long term improvement rate of 1.25% p.a. At the last accounting date, the CMI_2015 Model was adopted. The effect of updating to the most recent model is reflected in the Change in demographic assumptions figure in Appendix 3.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		
Retiring today		
	Males	20.7
	Females	23.2
Retiring in 20 years		
	Males	21.7
	Females	24.7

Details of the life expectancy assumption last year can be found in last year's report.

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service for cash at retirement;
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for

preparing Key Performance Indicators.; and

- 5% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions
The financial assumptions used to calculate the results in the Appendices are as follows:

Assumptions as at	31 Mar 2019	31 Mar 2018
	% p.a.	% p.a.
Discount rate	2.40%	2.70%
Pension increases	2.40%	2.40%
Salary increases	2.70%	2.70%

These assumptions are set with reference to market conditions at 31 March 2019.

Our estimate of the Fund's past service liability duration is 19 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has been updated since the last accounting date. Details of the previous approach adopted can be found in the previous year's report prepared by Hymans Robertson LLP.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. The approach has been updated since the last accounting date. Details of the previous approach adopted can be found in the previous year's report prepared by Hymans Robertson LLP.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 0.7% p.a. below RPI in addition to a promotional scale.

Please note that, consistent with the approach used for the Fund's 2016 valuation, the adjustments for the CPI and salary increase assumptions relative to RPI are applied geometrically.

Curtailments
We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The cost assessed is only in relation to those that affect the pension liabilities in the Fund.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that 116 former employees became entitled to unreduced early retirement benefits.

The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £2,085,000. This figure has been included within the service cost in the statement of profit or loss.

Settlements

With effect from 31 January 2019, Barnfield College (a Scheme employer in the Bedfordshire Pension Fund) transferred to the Hertfordshire Pension Fund as part of a merger with West Herts College. As part of this bulk transfer, a payment needs to be made from the Bedfordshire Pension Fund to the Hertfordshire Pension Fund in respect of the liabilities of Barnfield College that are transferred to the Herfordshire Pension Fund. The amount of this payment is yet to be agreed between the Fund Actuaries of each Fund and the transfer of responsibility to the Hertfordshire Fund for paying the members' pension benefits has not yet taken place, but for the purpose of the accounts this year, we have been requested to include an indicative effect of the transfer.

We have included the effect on the assets and liabilities as a settlement as at 31 January 2019, based on the results of Barnfield College's 31 January 2019 FRS102 report (dated 28 February 2019). The estimated values of assets and liabilities attributable to Barnfield College (calculated on assumptions at the start of the accounting year) are summarised below:

Settlements out		Assets transferred	Liablities transferred	
	Transfer date			Report date
Employer transferred to		£000s	£000s	
Hertfordshire Pension Fund	31 January 2019	21,042	31,273	28 February 2019
Total		**21,042**	**31,273**	

We would emphasise that the *Assets transferred* figure shown has not actually been paid to the Hertfordshire Pension Fund and is only indicative at this stage. The final amount to be paid will be agreed between the Fund Actuaries as part of the bulk transfer process.

Details of the approach used to estimate the value of the liabilities as at 31 January 2019 can be found in the Barnfield College 31 January 2019 FRS102 report.

Results and disclosures

We estimate that the net liability as at 31 March 2019 is a liability of £1,520,411,000.

The results of our calculations for the year ended 31 March 2019 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2019;
- Appendix 2 details a reconciliation of assets and liabilities during the year; and
- Appendix 3 shows a sensitivity analysis on the major assumptions.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

MWDurrant

Melanie Durrant FIA CERA
Associate

Appendix 1 Statement of position as at 31 March 2019

Net pension asset as at		31 Mar 2019	31 Mar 2018
		£000s	£000s
Present value of the defined benefit obligation		3,820,443	3,633,000
Fair value of Fund assets (bid value)		2,300,032	2,174,629
Net liability in balance sheet		1,520,411	1,458,371

*Present value of funded obligation consists of £3,779,990,000 in respect of vested obligation and £40,453,000 in respect of non-vested obligation.

Please note that the *Fair value of Fund assets (bid value)* figure as at 31 March 2018 is as disclosed in the Fund's 2017/18 accounts. The *Present value of the defined benefit obligation* figure is as disclosed in the 31 March 2018 IAS26 report prepared by Hymans Robertson LLP.

Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2019

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to
	31 Mar 2019
	£000s
Opening defined benefit obligation	3,633,000
Current service cost	146,235
Interest cost	97,026
Change in financial assumptions	218,887
Change in demographic assumptions	(173,698)
Experience loss/(gain) on defined benefit obligation	-
Liabilities assumed / (extinguished) on settlements	(31,273)
Estimated benefits paid net of transfers in	(97,533)
Past service costs, including curtailments	2,085
Contributions by Scheme participants	25,714
Unfunded pension payments	-
Closing defined benefit obligation	3,820,443

The indicative effect of the Barnfield College bulk transfer is reflected in the *Liabilities assumed / (extinguished) on settlements* figure, with secondary effects on the *Interest cost, Change in financial assumptions and Change in demographic assumptions* figures.

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to
	31 Mar 2019
	£000s
Opening fair value of Fund assets	2,174,629
Interest on assets	59,004
Return on assets less interest	62,854
Other actuarial gains/(losses)	-
Administration expenses	(3,739)
Contributions by employer including unfunded	100,145
Contributions by Scheme participants	25,714
Estimated benefits paid plus unfunded net of transfers in	(97,533)
Settlement prices received / (paid)	(21,042)
Closing Fair value of Fund assets	2,300,032

The total return on the Fund's assets for the year to 31 March 2019 is £121,858,000.

The indicative effect of the Barnfield College bulk transfer is reflected in the *Settlement prices received / (paid)* figure, with secondary effects on the *Interest on assets and Return on assets less interest* figures.

Appendix 3 Sensitivity analysis

Sensitivity analysis	£000s	£000s
Present value of total obligation	3,820,443	
Sensitivity to	+0.1%	-0.1%
Discount rate	3,751,439	3,890,785
Long term salary increase	3,834,160	3,806,843
Pension increases and deferred revaluation	3,876,999	3,764,973
Sensitivity to	+1 Year	- 1 Year
Life expectancy assumptions	3,959,580	3,686,344

18. Long Term Debtors

In 2005, Magistrates Courts' staff transferred from the Local Government Pension Scheme to the Civil Service Scheme. Whilst transfers of value were effected then, agreement on funding the deficit position was not finalised until February 2011 when it was agreed that the Bedfordshire Pension Fund would receive ten annual payments of £0.608 million, commencing April 2011. The fair value of these payments has been recognised in the Fund's accounts for 2018/2019. Those instalments falling due more than one year from the balance sheet date are shown as a long term debtor, £0.608 million at 31 March 2019 (£1.193 million at 31 March 2018). The amount falling due within less than a year is shown as current assets.

19. Current Assets

2017/2018	Current Assets	2018/2019
£000		£000
1,240	Contributions due from Administering Authority	1,589
7,416	Contributions due from other scheme employers	8,919
564	Civil Service Pensions Scheme - see note 189 above	586
16,000	Bulk Transfer due from other Local Authorities	0
329	Other	879
25,549		**11,973**
83,458	Cash	63,192
109,007	Current Assets	**75,165**

The cash balance of £63.2 million is held in the Fund's own bank accounts. Cash held by the Fund's managers is included in cash deposits in Note 12.2 above.

20. Current Liabilities

2017/2018	Current Liabilities	2018/2019
£000		£000
2	Administration costs etc. due to Administering Authority	202
974	Investment managers' fees	586
70	Other professional fees	7
0	AVCs in transit	2
0	Death grants	0
82	Other	21,813
1,128		**22,610**
0	Provision for Tax Reclaims over 1 Year	11
1,128	Current liabilities	**22,621**

An accrual has been made of £21 million to reflect the bulk transfer of Barnfield College above as a prudent estimate of the liabilities transferring to Hertfordshire Pension Fund. The final amount will be agreed between the Funds' actuaries.

21. Additional Voluntary Contributions

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

2017/2018	Additional Voluntary Contributions	2018/2019
£000		£000
4,768	Value at 1 April	**4,746**
	Income	
828	Contributions received	**913**
	Expenditure	
-973	Retirements	-955
14	Transfers values paid	4
-959		**-951**
109	Change in market value	262
4,746	Value at 31 March	**4,970**

In accordance with Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, additional voluntary contributions are excluded from the Fund Account and Net Assets Statement.

22. Related Party Transactions

Administration and investment management costs include charges by Bedford Borough Council for providing services in its role as administering authority. For 2018/2019 these amounted to £1.2 million (2017/2018 £1.3 million).

The Administration team provide the legacy payroll for Teachers pension added years.

The Fund pays compensatory added years benefits on behalf of some of its employers. The costs of these are invoiced to the employer. In 2018/2019 £3.1 million (2017/2018 £3.1 million) was paid and recovered from their employer.

The senior officers involved in the financial management of Bedfordshire Pension Fund in 2018/2019 were the Assistant Chief Executive (Enabling), (The Fund Administrator) and the Chief Officer for Corporate Finance & Pensions. Both of these officers' charge a proportion of their time to Bedfordshire Pension Fund as part of Bedford Borough Council's charge as administering authority.

Pension Committee members and relevant senior officers are required to declare any interests in related party transactions and relationships between themselves, and their related parties, and the Pension Fund. A number of the Pension Committee members also act as councillors or board members of the Fund's scheduled or admitted bodies, who maintain a conventional employer relationship with the Fund. These are listed below but do not include representation of their respective bodies as Committee members:

- Councillor Doug McMurdo is a member of the Bedfordshire & River Ivel Drainage Board.
- A member of Councillor McMurdo's immediate family is an employee of the Sharnbrook Academy Federation.
- Councillor Shan Hunt is a board member of BPHA, a scheme employer.
- Councillor Richard Wenham is a Director at Raynsford Church of England Academy.
- Councillor John Young is a Director at London Luton Airport Limited and Active Luton.

There were no material transactions between members and officers and the Fund during 2018/2019.

The only material related party transactions during 2018/2019 were in respect of contributions paid by the employing bodies into the Fund. See Note 6.

Amounts owed to and from the Administering Authority can be seen in Notes 19 and 20.

The disclosures required by the above legislation can be found in the main accounts of Bedford Borough Council.

23. Contingent Liabilities and Contractual Commitments

There were no material contingent liabilities as at 31 March 2019. But there were outstanding commitments to investment vehicles of up to £38.3 million.

SECTION 3
Investment Report

- *Investment Management*
- *Investment Strategy Statement*
- *Report of the Actuary*
- *Investment Activity and Performance*

Investment Management

Investment Powers

The principal powers to invest are contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations permit a wide range of investments, subject to specific restrictions limiting the proportion of the fund that may be invested in any one holding. In undertaking investment, the regulations require that the administering authority shall obtain and take regard of proper advice. It must also consider the suitability of investments and the need for diversification. The Pension Fund Committee is satisfied that these requirements are fully met.

Myners' Principles for Institutional Investment Decision Making

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

Legislation requires Administering Authorities to publish a written Investment Strategy Statement, which is to include the extent to which the administering authority has complied with the Myners' principles. The Borough Council complies fully with all six of the principles as is reported in the Fund's Investment Strategy Statement, reproduced in full on page 55.

Investment Management

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

The present investment structure involves a passively managed portfolio, together with actively managed specialist portfolios for bonds, property, absolute return multi asset funds, private equity and infrastructure. The objective is for the specialist portfolios to add value by diversifying from the traditional asset classes. The investment managers and their appointed portfolios are shown below, the figures in brackets showing the percentage of the Fund's assets that each manager handles based on market values at 31 March 2019.

Manager	Asset Class	2018/2019	
		£ million	%
Legal & General	Global Equities	537.9	23.40%
Blackrock Advisors	Equities	344.7	14.99%
CBRE Global Investors	Indirect Property	227.6	9.90%
Legal & General	UK Equities	199.5	8.68%
Insight Investment	Absolute Return Bonds	193.2	8.41%
Blackrock Advisors	Gilts inc. Index Linked	185.7	8.08%
Pyrford	Absolute Return Multi-Asset	153.6	6.68%
Invesco Asset Management	Absolute Return Multi-Asset	153.2	6.66%
Newton Investment Management	Absolute Return Multi-Asset	122.5	5.33%
Blackrock Advisors	Emerging Markets	68.0	2.96%
SI Capital	Private Equity	17.3	0.75%
Pantheon	Infrastructure	15.7	0.68%
Pool Share Capital	Equities	0.8	0.04%
Net Assets Managed by the Administering Authority		79.1	3.44%
Total Assets		**2.299.0**	**100.00%**

The benchmarks and target returns governing these portfolios are detailed in the Investment Strategy Statement, included in full within this report. The net assets managed by the Administering authority are cash held at the bank less any Fund debtors and creditors.

Custody Arrangements

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

Stock lending

There were no direct stock lending arrangements in place during 2018/2019.

Transparency Code

The following Investment Managers within Bedfordshire Pension Funds portfolio have signed up to the Scheme Advisory Board Transparency Code:

Aberdeen Standard	Legal & General Investment Management
BlackRock	Newton Investment Management
Insight Investments	Pyrford International
Invesco	

The Fund is awaiting further developments in the reporting mechanism relating to the code. The Fund was a forerunner in identifying hidden costs and is transparent about these where known. The Fund will be working towards full disclosure in due course.

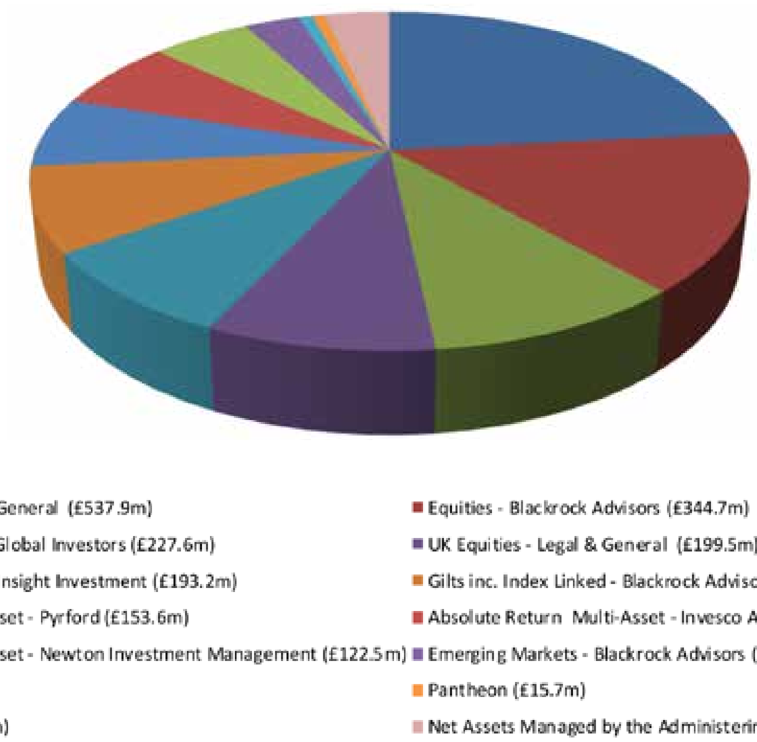
Funding Strategy Statement (FSS)

The FSS will be updated in 2019/2020 to be compliant to cover exits credits.

Monitoring and Review

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

Composition of the Fund by portfolio as at 31 March 2019



Investment Strategy Statement

1. Introduction

1.1 Fund Details

1.1.1 This is the Investment Strategy Statement ("ISS") of the [Bedfordshire] Pension Fund ("the Fund"), which is administered by Bedford Borough Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

1.1.2 The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

1.1.3 The ISS, which was approved by the Committee on 6 March 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

1.1.4 The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (dated March 2017)

1.1.5 Administration of the Fund is the responsibility of the Borough Council, which also has overall responsibility for the investment of the Fund's assets. Day to day administration of the Fund is delegated to the Assistant Chief Executive - Enabling Services (the Fund Administrator) supported by the Council's Pension Fund Panel (the Panel).

1.16 The Fund has chosen to opt up and be classified as professional clients under Markets in Financial Instruments Directive II.

2. Investment Strategy

2.1 The suitability of particular investments and types of investments

2.1.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

2.1.2 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

2.1.3 The Committee takes environmental, social or corporate governance (ESG) matters and stewardship seriously and each year it conducts a review of its policies in this area and its investment managers' approach to ESG.

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

2.1.5 It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:
• A modelling exercise was undertaken and tested against 5000 different future outcomes for investment returns, inflation and interest rates for a few broad asset allocation scenarios including the status quo.
• The modelling shows that, for the whole Fund based on the current contribution strategy,

there is around a 65% probability that the Fund will be 100% funded on a gilts plus 1.9% basis (i.e. the existing funding basis) based on a 20 year view. The modelling also indicates that the current investment strategy offers a reasonable balance between expected success and limiting the worst outcomes.

• Other investment strategies were considered: more in equities increased the risk that volatility of the deficit would be too great and more in gilts didn't provide a high enough probability of successful 100% funding in the 20 year period.

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

2.1.7 In addition, the Committee monitors the Fund's investment strategy on an ongoing basis, focusing on factors including, but not limited to:

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

2.1.8 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The strategic benchmark weights have ranges around them. If there is any rebalancing then the most underweight asset allocation area will be the recipient of that rebalancing (assuming it is investible) and this will be repeated on additional cash available for investing subject to market conditions providing for compelling reasons not to do so.

2.1.9 The Committee has the following long term assumptions (as at March 2017) about investment returns:

Table 1: Asset Classes

Asset class	Expected return %	Expected Volatility %
Listed equities	5.6	18
Private equity	6.8	29
Property	3.7	14
Absolute Return Bonds credit	3.6	10
Gilts	1.3	10
Diversified Growth Funds	4.5	12
Cash	2.5	1

2.2 Investment of money in a wide variety of investments - Asset classes

2.2.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

2.2.2 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification for the Fund.

2.2.3 The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes (as defined by the upper range levels). In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 2: Fund Allocation

Asset class	Target Allocation %	Allocation Range %
UK Equities	10%	40%- 60%
Global/Overseas Equities	40%	
UK Gilts	8%	
Absolute Return Bonds	10%	13%-23%
Absolute Return Multi Asset	20%	15%-25%
Property	10%	5%-15%
Private Equity	1%	0%-2%
Cash/Opportunistic	1%	Opportunistic 0%-2% Cash 0%-10%

The strategic asset allocation permits up to 2% of Fund assets to be invested in 'Opportunistic' investments. Such investments are defined as follows:

- Opportunities that are genuinely different from the Fund's existing assets, and so would be expected to offer a diversifying source of returns;
- Target relatively high levels of absolute return and so provide an opportunity to enhance the Fund's overall returns with a commensurate level of increase in risk;
- Specific opportunities that aim to take advantage of market fluctuations and/or market inefficiencies and thus scope for generating value;
- May be illiquid in nature, with an expectation that loss of liquidity is a potential source of enhanced returns for the Fund.

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

Table 3: Fund Asset Class Benchmarks

Asset class	Benchmark %
UK Equities	67% - FTSE All Share Index 33% - FTSE 250
Overseas Equities	37% - FTSE America 25% - FTSE Developed Europe ex UK 23% - MSCI Emerging Markets 10% - FTSE Japan 5% - FTSE Developed Pacific ex Japan
Global Equities - Active	MSCI All Country World Index
Global Equities - Passive	45% - FTSE RAFI Index 55% - MSCI All Country World Net TR Index
UK Gilts	42 % - FTSE A All Stocks Gilt Index 58 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBID + 3%
Absolute Return Multi Asset	RPI +5% & 3 month LIBOR + 5% & 1 month LIBOR + 4%
Private equity	10%
Property	AREF/IPD UK QPFI All Balanced Property Fund Index

Key

FTSE	Financial Times/ Stock Exchange
MSCI	Morgan Stanley Capital International
RPI	Retail Price Index
LIBOR	London Interbank Offer Rate
LIBID	London Interbank Bid Rate
RAFI	Research Affiliates Fundamental Index®
AREF	Association of Real Estate Funds
IPD	Investment Property Databank Ltd

2.2.5 At 31 March 2017, the expected return of this portfolio was 4.6% p.a. with an expected volatility of 10.8% p.a. This volatility includes an assumed diversification benefit. In the absence of this diversification, the expected volatility would have increased to 14.9 %p.a.

2.2.6 The Fund's overall performance benchmark is the weighted average of the asset allocation and the asset allocation performance index (see Table 4 below). The Committee currently considers that these benchmarks in aggregate are consistent with achieving the objectives in 2.1.1 above.

Table 4: Fund Benchmark

Asset class	Benchmark %
UK Equities	6.7 % - FTSE All Share Index 3.3 % - FTSE 250
Overseas Equities	2.6 % - FTSE America 1.9 % - FTSE Developed Europe ex UK 1.8 % - MSCI Emerging Markets 0.8 % - FTSE Japan 0.4 % - FTSE Developed Pacific ex Japan
Global Equities - Active	6.0 % - MSCI All Country World Index
Global Equities - Passive	11.5 % - FTSE RAFI Index 15.0 % - MSCI All Country World Net TR Index
UK Gilts	3.4 % - FTSE A All Stocks Gilt Index 4.6 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	10.0 % - LIBID + 3%
Absolute Return Multi Asset	7.5 % - RPI +5% 7.5 % - 3 month LIBOR + 5% 5.0 % - 1 month LIBOR + 4%
Private equity	1.0 % - 10%
Property	10.0 % - AREF/IPD UK QPFI All Balanced Property Fund Index
Cash	1.0% - 1 month LIBOR

2.2.7 The above performance benchmark was determined following a review of the strategic asset allocation.

2.2.8. The cost of carrying out the investment management function, which includes both the fees paid to the Investment Managers and the internal costs of the Borough Council, are benchmarked against annual data derived by the Ministry of Housing, Communities and Local Government (MHCLG) from the Pension Funds' Accounts return competed for all Local Government Pension Scheme Funds (Form SF3). The Fund also uses CEM Benchmarking to compare against the global Pension Funds.

2.3 Restrictions on investment

2.3.1 2.3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the Border to Coast Pension Partnership Pool (BCPP), subject to the Fund receiving appropriate investment and/or legal advice.

Table 5: Investment Restrictions

Type of investment	Maximum investment by the Fund % of assets
Contributions invested in any single partnership	5%
Contributions invested in partnerships	30%
Cash deposits	10%
Investment with any single active manager strategy either directly or via the Border to Coast Pension Partnership pool X%	15%
Total investment in illiquid assets[1]	30%

[1] Private Equity, Infrastructure and Property Unit Trusts classified as illiquid.

2.4 Managers

2.4.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

2.4.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.
The managers of the passive funds in which

the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

2.5 The approach to risk, including the ways in which risks are to be measured and managed

2.5.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

2.5.2 The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

2.5.3 Funding risks

• **Financial mismatch** – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
• **Changing demographics** –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
• **Systemic risk** – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

2.5.4 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2016 analysis highlighted the Fund has 65% probability of achieving full funding over a 20 year period. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

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

2.5.6 The Committee uses passive investments where it do not believe that they can identify active management to add value, and it uses of fundamental (non market cap) indices to avoid index biases and manage overall style risk.

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

2.5.8 Asset risks

• Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation, would result in difficulties in achieving funding objectives.
• Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
• Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
Environmental, social and governance – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

2.5.9 The Committee measure and manage asset risks as follows.
• The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance

benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

• The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

• The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Fund's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists (Other factors include that the Committee believes that the Manager is not capable of achieving these performance objectives in the future; and/or; the Manager's company status changes or there are significant staff changes to their investment team).

2.5.10 Other provider risk

• Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

• Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

• Credit default - The possibility of default of a counterparty in meeting its obligations.

• Stock-lending – The possibility of default and loss of economic rights to Fund assets

2.5.11 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

2.5.12 A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

3 Approach to Pooling Investments

3.1 Setting up of Pools

3.1.1 The November 2015 Criteria set out in the Government's guidance.

a. Asset Pools that achieve the Benefits of Scale

b. Strong Governance and Decision Making

c. Reduced Costs and Excellent Value for Money

d. An improved Capacity and Capability to invest in Infrastructure

3.1.2 The core beliefs of the Border to Coast Pension Partnership (BCPP) are as follows:

a. One Partner Fund, one vote for all participating funds from time to time regardless of Fund size.

b. Asset allocation strategy remains a decision for each Partner Fund. This is necessary to enable Partner Funds to demonstrate that they are exercising their democratic and fiduciary duty. For practical reasons, the Parties will work together to establish a single Responsible Investor RI/ESG policy and a policy for the exercise of rights attaching to investments, based on best practice, with the intention that it will be adopted by each Partner Fund. The adoption of such a policy will be a matter for individual determination by each Partner Fund.

c. The BCPP Pool's role is to independently and professionally deliver Partner Funds asset allocation choices. It will make decisions relating to and monitor the investment managers (including employees of the BCPP Pool) who manage the administering authorities' "fund money" with the aim of maximising the long-term net of fees investment returns attributable to each of the Parties. All Partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes.There will be clear segregation between duties undertaken by the Parties and duties undertaken by the BCPP Pool, including during the period after the BCPP Pool has been established but assets have not yet been transferred when staff secondment arrangements will be entered into for certain employees of the BCPP Pool. This will ensure both that the fiduciary duty and democratic responsibility of the Partner Funds can be maintained, whilst achieving the cost benefits and expanded professionalisation of the investment functions through scale

d. The BCPP Pool should have a strong corporate governance philosophy, focused on the delivery of long term value through active corporate engagement, the rationale being that this aligns directly with ensuring the Partner Funds exercise their fiduciary duty in the best interests of their members and employers.

e. The Parties acknowledge that there may be occasions where the BCPP Pool is unable to implement all asset allocation strategy decisions made because it would not be cost effective to do so, but the Parties and the BCPP Pool will work together to avoid this situation.

3.1.3 Bedfordshire Pension Fund (BPF) has confirmed their intention to join the Border to Coast Pension Partnership Pool (BCPP).
This comprises of the following funds:
- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

3.1.4 On 15 July 2016 these Funds submitted their proposal to set up BCPP and the Minister has written to confirm he was content for BCPP to implement that proposal.

3.1.5 Key elements of how that proposal meets the Government's Criteria are as follows:

3.1.6 The BCPP collaboration has combined asset base of over £35.9 billion as at 31 March 2015.

3.1.7 These BCPP shared beliefs show how it is meeting the strong governance and decision making criteria.

3.1.8 BPF has long considered cost efficiency and Value for Money as very important and has argued for better transparency of costs within the LGPS. Even before it pools its assets it has delivered substantial reduction in costs which formed part of the BCPP submission. Reduction in costs that have already been achieved shows the purchasing power of a joint LGPS working.

3.1.9 BCPP does offer a cost efficient solution in creating its FCA regulated investment vehicle that will deliver long term savings for all the BCPP Funds.

3.1.10 These solutions will contribute to reduced costs and value for money throughout the BCPP Pool and meets the criteria as laid out by the Government.

3.1.11 All asset allocation decisions are BPF's Committee's responsibility, including Infrastructure. BCPP will create capacity in this area but it is a BPF decision whether it meets its requirements for risk adjusted returns in its overall asset allocation.

3.1.12 BPF states that it will notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria.

3.1.13 In setting up the Pool, expert advice and reports were commissioned on behalf of, and assessed by all Funds in the Partnership: the costs of which during this setting up period will be shared between the founding member Authorities.

3.1.14 BPF has previously determined that all asset allocation and investment decisions should be made primarily on a financial assessment of risk and return. Therefore, along with the majority of Funds in BCPP, it is not proposed that BPF makes an application to DCLG to request a dispensation from pooling in this regard. For some legacy investments there could be a long run out time as they reach maturity and are sufficiently liquid to be transferred into the Pool.

3.2 Structure and Governance Arrangements of BCPP

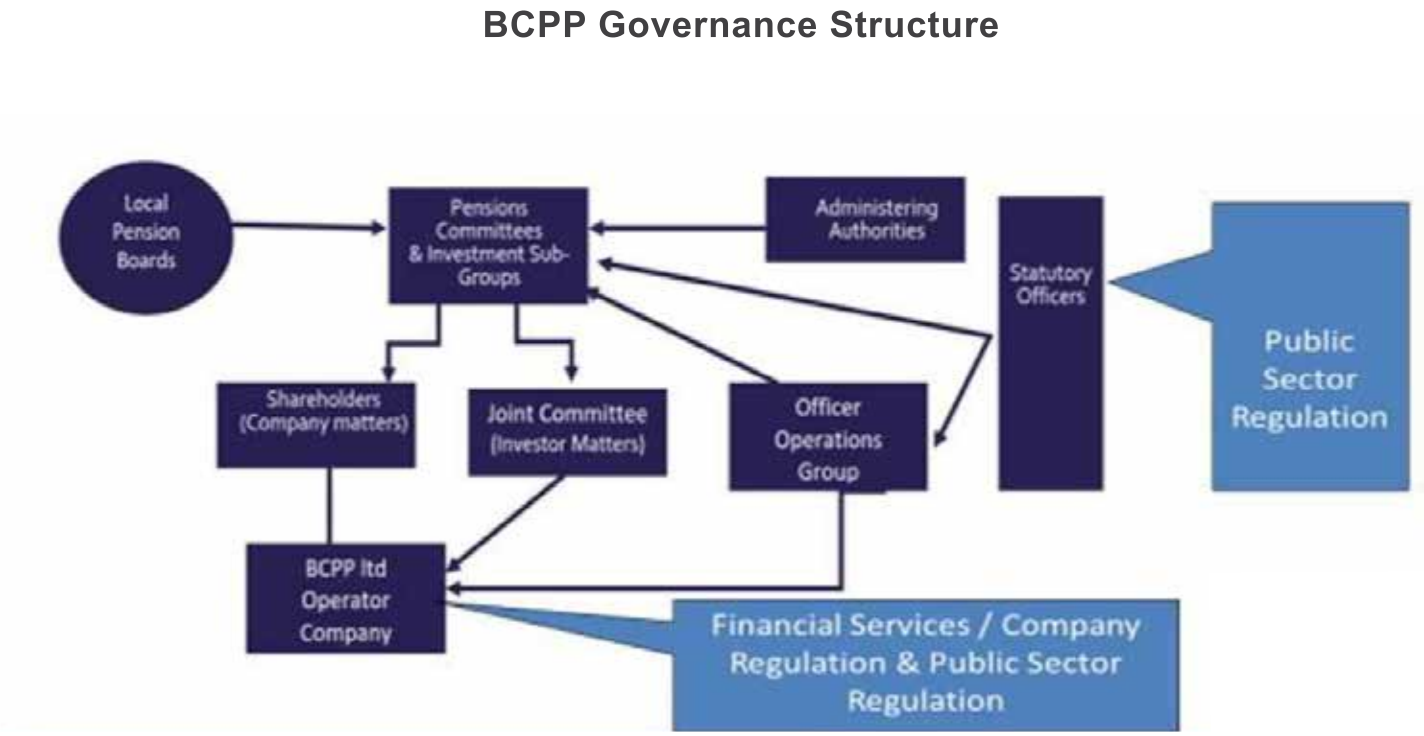
3.2.1 A key guiding principle has always been that as decisions on asset strategy drive over 80% of returns this must remain at the Fund level. This is to ensure that Committees can undertake their fiduciary duty to the members and employers within the Fund and thus deliver a strategy that matches the individual Funds liability profile and risk appetite.

3.2.2 The following split of roles is envisaged between the Funds of BCPP and the Pool itself.

Respective Roles

Fund	Pool
• Identify Local Liability profile • Focus on Investment Strategy • Manage the relationship with pool (Supplier and Shareholder) • Risk monitoring • Administration • Regulatory compliance • Accounts and Annual Report • Triennial Valuation	• Implement Individual Funds Investment Strategy, • Appoint / manage / monitor / dismiss Investment Managers • VFM – deliver savings • Accountability; Transparency; Strong Governance • Shareholder Activism; Corporate Governance. • Client Relationship Management

3.2.3 The governance of the new Pooling arrangements is shown in the following diagram:



3.2.4 It is proposed that there would be several reserved matters that the Funds, through the shareholder meeting, would retain control of. These reserved matters would ensure the Funds retain control of the fundamental strategic direction and decision making for the new entity. Examples of anticipated reserved matters would include, but are not limited to:

i. Appointment / Removal of Company Directors
ii. Approval of the Company's Annual Business Plan (including an annual review of sub-funds and asset allocation template)
iii. Approval Annual Budget (Fee Model / Cost Base)
iv. Appointment of Senior Company Executives
v. Approval of Executive Pay (usually through a remuneration sub-group)
vi. Approval of Capital Requirements
vii. Approval of significant transactions (e.g. mergers / acquisitions), and
viii. Approval / Determination of exit terms including notice periods / exit treatment.

3.3 Procurement of Services

3.3.1 It is proposed that there would be several reserved matters that the Funds, through the Joint Committee in its shareholder capacity, would retain control of. These reserved matters would ensure the Funds retain control of the fundamental strategic direction and decision making for the new entity. Examples of anticipated reserved matters would include, but are not limited to:
i. External Audit;
ii. Custodian, depositary, asset servicer;
iii. Tax;
iv. HR, payroll (anticipated to be serviced by one of the larger funds in-house teams);
v. Transition management services;
vi. Class action monitoring;
vii. Benchmarking;
viii. Performance Monitoring Sub-Funds;
ix. Independent Advisors;
x. External Valuers.

3.3.2 The services that are anticipated to be externally provided initially but developed internally over time include:
xi. Procurement advice, (Investment Manager selection);
xii. Basic Legal services e.g. contract and procurement;
xiii. Support to shareholder voting;
xiv. Risk management advice.

3.4 Summary of assets deemed not suitable for investing through the pool along with its rationale for doing so

3.4.1 BPF has previously determined that all asset allocation and investment decisions should be made primarily on a financial assessment of risk and return. Therefore, along with the majority of Funds in BCPP, it is not proposed that BPF makes an application to request a dispensation from pooling in this regard.

3.5 Regularly review assets at least every three years, that the authority has previously determined should be held outside the pool, ensuring this continues to demonstrate value for money

3.5.1 BPF will ensure that there is an annual review of the decision to not request a dispensation from pooling from any of its assets.

3.6 Submit an annual report on the progress of asset transfers to the Scheme Advisory Board

3.6.1 BPF will ensure that it reports annually to the Scheme Advisory Board on the progress of the transfer of assets to the Pool.

4. Approach to environment, social or corporate governance)

4.1 How environmental, social or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

4.1.1 It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment in two key areas:
• **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
• **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

4.1.2 The Committee takes ESG matters very seriously and each year it conducts a review of its policies in this area and its investment managers' approach to ESG. Details of the most recent review can be found on the Fund's website. The Committee has also developed a set of Responsible Investment beliefs and guiding principles which are available on the Fund's website.

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

4.1.4 To date, the Fund's approach to Social Investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

4.1.5 The Fund does not hold any assets which it deems to be Social Investments.

4.2 Voting rights

4.2.1 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitors the voting decisions made by all its investment managers on a regular basis.

4.3 Stewardship

4.3.1 The Committee has formally agreed to adhere to the UK Stewardship Code as published by the Financial Reporting Council (FRC). The Committee/Panel expects both the BCPP Pool and any directly appointed fund managers also comply with the UK Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the UK Stewardship Code can be found on the Fund's website. At the FRC's most recent review, the fund was rated as a tier 1, which is the highest possible.

4.3.2 As part of its compliance with the UK Stewardship Code the Fund has adopted a set of Voting Intention Guidelines (See Appendix 1). The current guidelines can be found on the Fund's website. The Committee publishes an annual report of voting activity as part of the Fund's annual report. In addition to the Fund's compliance with the UK Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. The Committee is a member of the Institutional Investors Group on Climate Change and of the Carbon Disclosure Project. It is also a signatory to the Paris Pledge for Action 2015 and the letter to G20 leaders setting out recommendations for achieving the Paris Agreement's goals.

5 Myners investment principles for pension funds

5.1 Compliance with the Myners Investment Principles for Pension Funds

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

Principle		Comments
Principle 1: Effective decision making	Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resource necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Full compliance
Principle 2: Clear objectives	An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority and scheme employers, and these should be clearly communicated to advisors and investment managers	Full compliance
Principle 3: Risk and liabilities	In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Full compliance
Principle 4: Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report this to scheme members.	Full compliance
Principle 5: Responsible ownership	Administering authorities should: • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents; • Include a statement of their policy on responsible ownership in the statement of investment principles; • Report periodically to scheme members on the discharge of such responsibilities.	Full compliance
Principle 6: Transparency and reporting	Administering authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives Provide regular communication to scheme members in the form they consider most appropriate	Full compliance

Appendix 1

Voting Policy

Directors' Contracts

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

Share Options or Incentive Schemes

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

Internal Committees

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

Other Issues

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

Remuneration

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

a. regards performance related bonuses as an investment by the company to improve its performance. Therefore the Remuneration Committee should satisfy itself that, as with any other investment, the returns justify the expenditure;
b. should not be based upon performance reward criteria which disbenefit the long term interests of the company;
c. rewards recipients for exceptional and not for average performance;
d. awards bonuses in the form of shares (held in trust) thereby subjecting Directors to the same risks and interests as shareholders;
e. requires any contractual compensation for loss of office to be paid annually and be dependent upon the individual not acquiring another post.

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

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

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

Actuary's Statement as at 31 March 2019

Introduction

The last full triennial valuation of the Bedfordshire Pension Fund (the Fund) was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 27 March 2017.

Asset value and funding level

The results for the Fund at 31 March 2016 were as follows:

- The market value of the Fund's assets as at 31 March 2016 for valuation purposes was £1,733m.
- The Fund had a funding level of 71% i.e. the assets were 71% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £713m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 17.8% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017. This also includes an allowance of 0.5% of payroll p.a. for the Fund's expenses.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

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

The assumptions used to value the liabilities at 31 March 2016 are summarised below:

Assumption	31 March 2016
Discount rate	4.1% p.a.
Pension increases	2.1% p.a.
Salary increases	2.4% p.a.
Mortality Based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.	
Retirement Retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators	
Commutation 50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008)	

The discount rate assumption adopted for the Fund's 2016 valuation is set with reference to gilt yields, allowing for an Asset Outperformance Assumption of 1.9% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2016 valuation report prepared for the Fund by Hymans Robertson LLP (dated 27 March 2017).

Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a significant decrease in the gilt yields underlying the 2016 valuation funding model. Overall, on methods and assumptions consistent with those adopted for the Fund's 2016 valuation, we estimate that the funding position as at 31 March 2019 has worsened slightly compared with the position as at 31 March 2016 and the primary rate will have also increased due to changes in market conditions.

However, the next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020. As part of the 2019 valuation, the Fund and us as the Fund Actuary will work together in setting the assumptions for the valuation. In particular, we intend on moving away from a gilts plus approach to setting the discount rate for funding purposes, and instead will look at the Fund's long term investment strategy and the expected returns for each asset within that strategy.

Melanie Durrant FIA CERA
Associate, Barnett Waddingham LLP

Investment Activity and Performance

Investment Performance

The Fund measures performance using the service provided by its custodian, Northern Trust. The investment target for each manager with an active portfolio is to out-perform an appropriate benchmark that reflects market performance in their respective asset class. The performance of the Fund as a whole is measured against a blended benchmark based on the individual portfolio benchmarks set out in the Investment Strategy Statement.

The overall return on the Fund's assets over the year to 31 March 2019 was of 5.8%, behind its benchmark return of 6.7%. Returns achieved by the major asset classes over the year are shown in the graph below:

Over the three-year period to 31 March 2019, the Fund's assets delivered a total return of 8.7% p.a., outperforming the benchmark return of 7.6% p.a.. Similarly, the Fund's assets outperformed the benchmark return over a five year period, achieving a total return of 7.4% p.a., compared to a benchmark return of 6.9% p.a..

The following table summarises the breakdown of returns from underlying mandates and asset classes over 1 year, 3 year and 5 year periods:

	1 Year Fund	1 Year B'Mark	1 Year Relative	3 Year Fund	3 Year B'Mark	3 Year Relative	5 Year Fund	5 Year B'Mark	5 Year Relative
Global Equity	8.3	8.4	-0.1	11.8	11.8	0.0	9.3	9.3	-0.1
BlackRock - Global Equity	9.6	9.5	0.1	11.6	11.6	0.0	10.5	10.5	0.0
LGIM - Global Equity	6.9	6.9	0.0	11.6	11.6	0.0	7.9	7.9	0.0
LGIM - Global Equity (ex Trilogy)	11.1	12.0	-0.8	14.3	14.4	-0.1	11.5	12.2	-0.6
Property	4.6	4.9	-0.3	6.0	6.2	-0.2	8.8	9.1	-0.3
CBRE - UK Property	4.6	4.9	-0.3	6.0	6.2	-0.2	8.8	9.1	-0.3
Absolute Return	2.8	6.2	-3.2	2.1	6.1	-3.8	3.0	6.2	-3.0
Invesco - Absolute Return	-1.3	6.1	-6.9	1.4	5.7	-4.1	n/a	n/a	n/a
Newton - Absolute Return	7.7	4.7	2.8	2.9	4.5	-1.5	n/a	n/a	n/a
Pyrford - Absolute Return	3.4	7.4	-3.8	3.1	8.0	-4.5	4.3	7.4	-2.9
Absolute Return Bonds	-3.9	3.6	-7.2	0.3	2.8	-2.4	0.6	2.7	-2.1
Insight - Absolute Return Bonds	-3.9	3.6	-7.2	0.3	2.8	-2.4	0.6	2.7	-2.1
Government Bonds	5.1	4.9	0.2	12.8	12.7	0.1	n/a	n/a	n/a
BlackRock - Gilts	5.1	4.9	0.2	12.8	12.7	0.1	n/a	n/a	n/a
Total	5.8	6.7	-0.9	8.7	7.6	1.1	7.4	6.9	0.5

Source: Northern Trust, Investment Managers.

Investment Activity

The Fund's assets are diversified across a range of distinct asset classes which are, in combination, expected to provide strong long-term and relatively stable returns. The investment strategy is implemented through a combination of passive and active investment managers. The objective for passive managers is to track respective benchmark indices. The active managers have discretion to invest tactically within the parameters of each portfolio in order to their respective performance objectives.

Over the year to 31 March 2019, the Committee has been considering potential implementation approaches for the Fund's investment strategy in the context of LGPS pooling. LGPS pooling provides the opportunity to access alternative asset classes, at potentially lower cost than in the past due to larger combined asset sizes.

The Committee expects to implement changes to the Fund's investment approach in the coming years to capture these opportunities, whilst supporting the Fund's longer term funding and investment objectives.

Market review – Year to 31 March 2019

GDP data over the 12-month period confirms that global growth has moderated with forecasts being revised lower for 2019. US growth has remained relatively robust while growth slowed more markedly in Europe and Japan. Brexit risk appears to be causing a deferral of investment as the UK economy grew at its slowest pace in several years in 2018.

Oil prices drifted higher, peaking at $86 per barrel in October, before plummeting to $53 towards the end of 2018. Despite a recovery in oil prices in the first 3 months of 2019, the sharp decline in the fourth quarter of 2018 has weighed on inflation expectations – inflation forecasts have generally been revised lower for most developed economies in 2019.

The Fed continued its gradual tightening of monetary policy over the period, the Bank of England also raised interest rates in August and the ECB ended its 4-year QE programme in December 2018. However, slowing global growth and inflation saw central banks adopt more cautious stances at the beginning of 2019: Fed forecasts now indicate no further rate hikes in 2019 while the ECB announced a new injection of cheap liquidity for banks and has pushed out rate hikes until 2020.

The strength of the US dollar, and to a lesser extent the Japanese yen, were key features of the foreign exchange market for much of the year. Despite continued uncertainty surrounding Brexit, Sterling drifted only marginally lower in trade weighted terms.

US 10-year treasury yields reached their highest level for seven years in early October before yields fell sharply towards the end of the period amid concerns over slowing global growth. Equivalent UK yields followed this pattern, ending the period at their lowest level since Q3 2017, while 10-year bund yields returned to negative territory.

Despite a strong rebound in the first 3 months of 2019, following a dramatic sell-off at the end of 2018, credit spreads ended the period wider. Speculative-grade credit spreads rose more than then their investment-grade peers, particularly in the European high yield market where specific political risks led to greater widening in 2018.

After experiencing heavy falls as bond yields rose in October and again in December, amid mounting concerns over slowing global growth, markets rebounded strongly in 2019 as central bank rhetoric turned more cautious - global equity indices regained near record-high levels with the FTSE All-World index returning 5.9% (10.7% in Sterling terms).

Japan was the worst performing region as the strength of the yen and slowing growth in Europe and China weighed on exporters while North America outperformed. The more defensive utility and healthcare sectors outperformed while financials saw the worst performance.

UK commercial property market returns slowed to 5.6% year-on-year, as falls in the final two quarters of the period left the capital value index only marginally positive. Capital values and rents in the retail sector continue to fall - down over 8% and 3.5% respectively year-on-year. Even in the industrial sector, where investment demand remains strong, the pace of capital value growth and rental growth is slowing.

Global Equities

UK equities rose by 6.4% over the year, whilst global equities rose by 10.7% in Sterling terms, based on representative market indices. The best performing region was North America, which returned 17.7% to Sterling investors over the year.

The Fund's equity mandates are managed largely on a passive (index-tracking) basis. The Fund's equity mandates, which incorporate exposure to a mix of UK and overseas regions, returned 8.3%, broadly in line with the composite equity benchmark.

Commercial Property

The Fund invests in a UK commercial property fund of funds mandate, which is expected to deliver outperformance over the longer term relative to the broader property peer group. The mandate returned 5.7% over the year relative to the peer group return of 6.5%. Underperformance is partly due to cash held in the portfolio pending investment.

Multi Asset Absolute Return

As a strategic mix of asset classes and management styles, the objective for the Fund's multi-asset mandate is to provide investment growth over the medium term with lower volatility than equities. The Fund invests with three managers which have, in aggregate, delivered a return of 2.8% relative to a combined performance target of 6.3% over the year. Although performance has been disappointing, the managers are evaluated over the course of an economic cycle and not necessarily over a single year which is a relatively short time period for assessing mandates of this nature. It is noted that the overall mandate at least preserved capital values over the year.

Absolute Return Bonds

The Fund's absolute return bond mandate is intended to provide modest investment growth, with a commensurate level of risk, with focus on preservation of capital values over the medium term. Over the year to 31 March 2019, the mandate returned negative 3.9% compared with a target return of 3.6%. Similar to the multi-asset absolute return mandates, the Fund's absolute return bond mandate is assessed over the course of economic cycles, with performance over a single year too short to judge the manager.

Government bonds

The Fund invests passively in a combination of fixed and inflation-linked government bonds. The Fund's UK government bond mandate delivered a benchmark return of 5.1% for the year, broadly in line with benchmark returns.

Private equity/Infrastructure

The Fund also invests in private equity and infrastructure funds managed by Standard Life Capital Partners and Pantheon Ventures respectively. Since inception to 31 December 2018, the SOF III fund managed by Standard Life Capital Partners has delivered c. 30% of additional value relative to the Fund's invested capital. It is too early to judge performance from the Pantheon Real Assets fund, although to date the manager has added value relative to the Fund's invested capital.

Future Developments

The Pension Fund continues to monitor the strategic asset allocation of the fund, seeking to improve performance within its accepted risk parameters. It is expected that new investments in global equity and infrastructure sub-funds managed by the Border to Coast Pensions Partnership ("BCPP") will be implemented during the Fund year to 31 March 2020, reflecting the Fund's adherence to LGPS pooling. The merits of other sub-funds are currently being considered, including private credit and multi-asset credit, however, the precise timing of potential investment is currently not specified.

Updated Statement of Compliance with the U.K. Stewardship Code for Institutional Investors

Bedfordshire Pension Fund has a long-standing commitment to the values of stewardship, in relation to its conduct as an asset owner. It considers the responsibilities of stewardship to be part of its fiduciary duty to its stakeholders.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

Bedfordshire Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit in its Statement of Investment Stategy Statement (ISS) and directly refers to the Stewardship Code in Section 6 of the ISS, 'Corporate Governance and Socially Responsible Investment'.

The Fund has previously required its asset managers to state their approach to the ISC (Institutional Shareholders Committee) Code on the Responsibilities of Institutional Investors on a comply or explain basis. The Fund's investment strategy seeks long-term returns from investing in equities and appoints asset managers who best reflect this long-termism in their investment philosophy and process.

The Fund does not delegate all responsibility for stewardship to its asset managers. It publishes within its ISS a Voting Policy that its asset managers are expected to follow.

The Fund publishes a section on its website dedicated to Responsible Investment. This includes the following:

- Listing of the Fund's Investments
- The Fund's Investment Stategy Statement (ISS)
- Statements of commitment to Responsible Investing Outcomes such as Paris Pledge for Action and Global Investor Statement on Climate Change
- Voting Reports
- Reports of lobbying groups of which the Fund is a member e.g. LAPFF

The Fund uses external Fund Managers to carry out its investment activities by allocating a proportion of its portfolio to different mandates. The Fund's Investment Advisor advises on the selection of Fund Managers and procurement is made with reference to the Public Contracts Regulations (2015)

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship. Actual, apparent or potential conflicts of interest should be clearly identified and where such conflicts exist, then the recommendation of a voting service provider should take precedence. Codes of Conduct, where they exist, should emphasise high ethical standards.

Conflicts policies should be clearly available on asset managers' websites for public scrutiny and the policy should be subject to regular review.

The Fund will review the Independent Internal Controls Document which is expected to be published on at least an annual basis. Management should address any exceptions that have been noted in the testing and how they expect to resolve them.

The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest. This falls within the administering authority's Code of Conduct for Officers, where all potential conflict of interests must be declared and registered on a Register of Interests. The Pensions Committee Chairman will take appropriate action when this turns into an actual conflict of interest to ensure that the decision making process is not affected.

Principle 3 – Institutional investors should monitor their investee companies

Day-to-day responsibility for managing equity holdings is delegated to appointed asset managers. The Fund expects asset managers to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. The Fund expects that asset managers provide a regular report on engagement activity and voting decisions. Quarterly review meetings with asset managers are used to raise particular issues of note or concern. All of the Fund's investments are currently in pooled investment vehicles.

In addition, the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum (LAPFF), which highlights corporate governance issues of concern at investee companies.

Effectiveness of each Fund Manager is assessed by their compliance with the Voting policy as laid out in the ISS. It is also measured by an assessment of how they compare to their original response to the investment mandate requirements. The Fund will use different targets and benchmarks to consider this depending on the type of portfolio.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. They should reflect the circumstances in which they would intervene and how they would escalate their actions. Leading asset managers will include the steps to be taken in engaging with companies, which ideally would be to make contact with the Board initially, and subsequently, if there is no response, collaborative engagement with other institutional investors.

Assessing the effectiveness of intervention should be based on clear objectives set at the start of an engagement. The Fund would expect to see that a Fund Manager is consistently reviewing progress against objectives and operates a lessons learned approach to improve future effectiveness

However, the Fund may itself choose to escalate activity, principally through engagement activity with LAPFF. When The Fund believes it is warranted by the egregious conduct of a company board causing a loss of shareholder value, the Fund will seek redress by pursuing shareholder litigation, of whatever form and in whatever jurisdiction deemed suitable. The Fund considers this an appropriate tool for use by long-term shareholders to send a powerful message of reproach to a company's directors and to the wider industry.

Whilst not an exhaustive list, issues that may precede escalation of engagement activity would include:
- Concerns over remuneration packages
- Board structure
- Management succession
- Loss of confidence in management
- Acquisitions or disposals

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members. Bedfordshire Pension Fund strives to provide active leadership within LAPFF and currently the Chairman of Bedfordshire Pension Fund, Councillor Doug McMurdo is a member of the LAPFF Executive. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings. This will increase the individual power and influence of investors in order to push for change. Meetings may deal with company specific matters or broad industry concerns.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues with companies to standardize and improve disclosure on climate change and improve performance.

The Fund will work collaboratively with other Local Government Pension Scheme (LGPS) Funds on issues relating to public sector regulations especially and as part of the Border to Coast Pensions Partnership (BCPP) will act as a member of that group where appropriate. BCPP comprises the Funds of Cumbria, East Riding, Lincolnshire, Surrey, Tyne and Wear, Warwickshire, Bedfordshire, South Yorkshire Transport, South Yorkshire, North Yorkshire, Northumberland, Teesside and Durham.

The main officer contact for collaborative purposes is Geoff Reader, Chief Officer for Corporate Finance & Pensions, who can be contacted on 01234 228562 or on email at geoff.reader@bedford.gov.uk

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity

The Fund has its voting policy detailed as part of its ISS. This voting policy applies to all of its UK holdings under the Code and where practical, the Fund seeks to mirror this with its non-UK equity holdings. The Fund views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. As an active shareholder the Fund will seek to use its own efforts, its Fund Managers and alliances with other investors to promote the standards of best practice as set out in the Fund's policies.

Voting policies are aligned with its views on best practice as set out in fund's ESG policies. In practice, investment managers have delegated authority to exercise the Funds' voting rights in line with the fund's corporate governance policy. The Fund managers/ proxy agencies are responsible for reporting, on a quarterly basis, a statement of voting instruction submitted to Company meetings on behalf of the Fund and any significant company issues, if any, which arose during the quarter. Voting decisions are published on the Fund's website which can be found here. Engagement with investee companies is undertaken to encourage accountability between directors, shareholders, and other stakeholders to strengthen the integrity of relationships between these bodies, and improve board transparency in the way companies are run. This includes engagement to ensure companies are minimising the risks and maximising the opportunities presented by climate change and climate policy

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members and membership of the Institutional Investors Group on Climate Change, which has an aim to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change. The Fund also monitors and receives reports back on engagement activity undertaken by its Asset Managers.

The Fund's ISS contains an Appendix 1 which clearly states its Voting Policy in detail on Directors' Contracts, Share Options or Incentive Schemes, Internal Committees and Other Issues. A link to this is here.

The Pension Fund does not currently allow stocklending in its segregated accounts although it may occur in pooled investments.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

The Fund maintains a Responsible Investment section on its website. This can be found here. Annual reporting on stewardship activity has formed part of the report and accounts. In future the annual report will include information about the Fund's voting and engagement work.

The Fund expects Fund Managers to incorporate independent assurance within its Assurance Reports on Internal Controls of Service Organisations and to be made available to third parties. Guidance from the Institute of Chartered Accountants of England and Wales (ICAEW) on this clearly states that Reporting Accountants should be able to provide assurance against Principles 1,2,4,6 and 7 as they can be objectively verified. Principles 3 and 5 are not considered "objectively verifiable ". If this is not available, then an internal audit review would be considered the most appropriate way of ensuring that the Stewardship Code is fully observed.

Date Agreed: 3 July 2018

Funding Strategy Statement

1. Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

1.2 What is the Bedfordshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Bedfordshire Fund to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;

2. Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate contribution will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies (or Multi Academy Trusts), as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – community admission bodies ("CAB") or those providing a service on behalf of a scheme employer – transferee admission bodies ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The funding target is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/ dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,
B. who is responsible for what,
C. what issues the Fund needs to monitor, and how it manages its risks,
D. some more details about the actuarial calculations required,
E. the assumptions which the Fund actuary currently makes about the future,
F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact [Geoff Reader Head of Pensions in the first instance, e-mail Geoff.Reader@bedford.gov.uk] or on telephone 01234 228562

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3. Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:-

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

1.1 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	Local Authorities, Police, Fire	Colleges	Academies	Open to new entrants	Closed to new entrants	Open to new entrants Closed to new entrants
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	**(see Appendix D – D.2**					
Stabilised contribution rate?	Yes - see Note (b)	No	Yes - see Note (b)	No		No
Maximum time horizon – Note (c)	20 years	15 years	15 years	15 years	Remaining working lifetime – subject to risk assessment by Administering Authority	Outstanding contract term – subject to risk assessment by Administering Authority
Secondary rate – Note (d)	Cash	Cash	% of pay	Cash		Cash
Treatment of surplus	Covered by stabilisation arrangement			Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term if appropriate
Probability of achieving target – Note (e)	2 in 3	2 in 3	2 in 3	2 in 3	2 in 3	2 in 3
Phasing of contribution changes	Covered by stabilisation arrangement			Up to 3 years		TBC
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council	Academies
Max cont increase	1% of pay	0.5%
Max cont decrease	1% of pay	0.5%

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will be set as monetary amounts.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The modelling undertaken has been done to achieve around a 2 in 3 probability for Local Authorities.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- The Fund believes the employer poses a greater funding risk than other employers;
- The employer does not have tax-raising powers;
- The employer does not have a guarantor or other sufficient security backing its funding position; and/or
- The employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion The Academy's may pay contributions initially in line with the ceding Local Education Authority (LEA) and thereafter, the stabilisation overlay will be applied. At some point the Academy's rate may diverge from the LEAs.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. Note that from 1 April 2017, the minimum rate payable by an Academy is the calculated Primary Rate.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as Section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling
Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks
Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed
Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn't responsible for. For example the contractor may typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee. This can only be done with the agreement of the guarantor and may impact on the guarantor's contribution rate.

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

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

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

The Administering Authority has arranged ill health insurance for all of the scheme employers with less than 300 active members at 31 March 2016. This is to mitigate the risk of such employers having to fund the early retirement strain costs for active members retiring on grounds of ill health.

The Administering Authority has enabled all the other scheme employers to be offered an ill health insurance quote to enable them to make an informed decision about managing that risk, such employers should contact the Administering Authority in the first instance.

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and - there is no need for monitoring of allowances. The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund. This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS Pension Funds with other LGPS Pension Funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:
1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:
1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in 12 December 2016 for comment;

b) Comments were requested by 13 January 2017;

c) There was an Employers Forum on 6 December 2016 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- The FSS is published on the website, under www.bedspensionfund.org/default.aspx?page=9
- A link sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Link sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.bedspensionfund.org/default.aspx?page=9

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date of 7th working day of the following month;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund’s SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund’s operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority’s own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary’s Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.
	Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.
	Analyse progress at three yearly valuations for all employers.
	Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.
	Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.
	Inter-valuation monitoring, as above.
	Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.
	Inter-valuation monitoring, as above, gives early warning.
	Some investment in bonds also helps to mitigate this risk.
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.
	If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy.
	The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision.
	Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:
	Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/ or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.
	The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.
	The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.
	Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers.
	Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.
	Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.
	The risk is mitigated by:
	Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).
	Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
	Vetting prospective employers before admission.
	Where permitted under the regulations requiring a bond to protect the Fund from various risks.
	Requiring new Community Admission Bodies to have a guarantor.
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).
	Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Future Service Rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for 5,000 ranges of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a 5,000 outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

For employers who have a short time horizon then the Administering Authority may not levy a secondary rate depending on the employer's individual circumstances.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

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

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.9% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. The retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment.
Note that the basis of such increases is set by the Government, and
is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Governance Compliance Statement

Structure

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

b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. Mostly Compliant – All Unitary Councils represented, Observers for academy schools and scheme member

c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. Fully Compliant: membership is the same.

d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Fully Compliant: membership is the same.

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

* Please use this space to explain the reason for non-compliance

Please use this space if you wish to add anything to explain or expand on the ratings given above :-
b) Due to the preferred size of the Panel more observers not invited. The current Committee structure covers 78% of the active membership (based on 2013/2014 Annual Report).

Meetings (frequency/quorum)

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

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

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

Fully compliant: via annual general meeting

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

* Please use this space to explain the reason for non-compliance

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

Representation

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

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

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

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

Full compliance

	Not Compliant*		Fully Compliant		
a)				✓	
b)					✓

* Please use this space to explain the reason for non-compliance

Please use this space if you wish to add anything to explain or expand on the ratings given above :- a) Due to the preferred size of the Committee more employers not invited. The current Committee structure covers 78% of the active membership (based on 2013/2014 Annual Report). The Committee also has an independent investment advisor and a scheme member observer.

Voting

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

Compliant – See governance statement

	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance

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

Delegation

a) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance

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

Local Pension Board

a) That administering authorities has prepared a written statement details of the terms, structure and operational procedures relating to the local pension board established under regulation 106

Full compliance – See governance statement

	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance

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

SECTION 4
Pooling

- *Partner Funds*
- *Set up costs*
- *Risks*

Introduction

Bedfordshire Pension Fund is a founding member of the Border to Coast Pensions Partnership (BCPP) along with 11 other Pension Funds namely:-

Cumbria Pension Fund	South Yorkshire Pension Fund
Durham Pension Fund	Surrey Pension Fund
East Riding Pension Fund	Teesside Pension Fund
Lincolnshire Pension Fund	Tyne and Wear Pension Fund
North Yorkshire Pension Fund	Warwickshire Pension Fund
Northumberland Pension Fund	

Rachel Elwell and Chris Hitchen have been appointed as Chief Executive Officer and Chairman respectively.

The registered office is at:
5th Floor, Toronto Square, Leeds, LS1 2HJ Telephone 0113 487 2550 (Reg No. 10795539)
BCPP became Financial Conduct Authority approved on 15 May 2018, (FRN 800511).

The Bedfordshire Pension Funds Chairman is also the Chairman of the Border to Coast Pensions Partnership Joint Committee.

Set Up Costs

The table below identifies those costs Bedfordshire Pension Fund has occurred in setting up BCPP

Pool Set Up Costs	**Direct**	**Indirect**	**Previous Years**	**Cumulative**
	£000	**£000**	**£000**	**£000**
Set Up Costs				
Recruitment	0	0	17	17
Legal	27	0	0	27
Procurement	0	0	36	36
Other Support costs e.g IT, Accommodation	0	0	2	2
Share purchase/subscription	833	0	0	833
Other Working capital (loans)	0	0	0	0
Staff Costs	23	0	62	85
Operating Costs	171	0	23	194
Other Costs	245	0	44	289
Total Set Up Costs	**1,299**	**0**	**184**	**1,483**
Transition Costs				
Transition Fees	0	0	0	0
Taxation	0	0	0	0
Other Transition Costs	0	0	0	0
Total Transition Costs	**0**	**0**	**0**	**0**

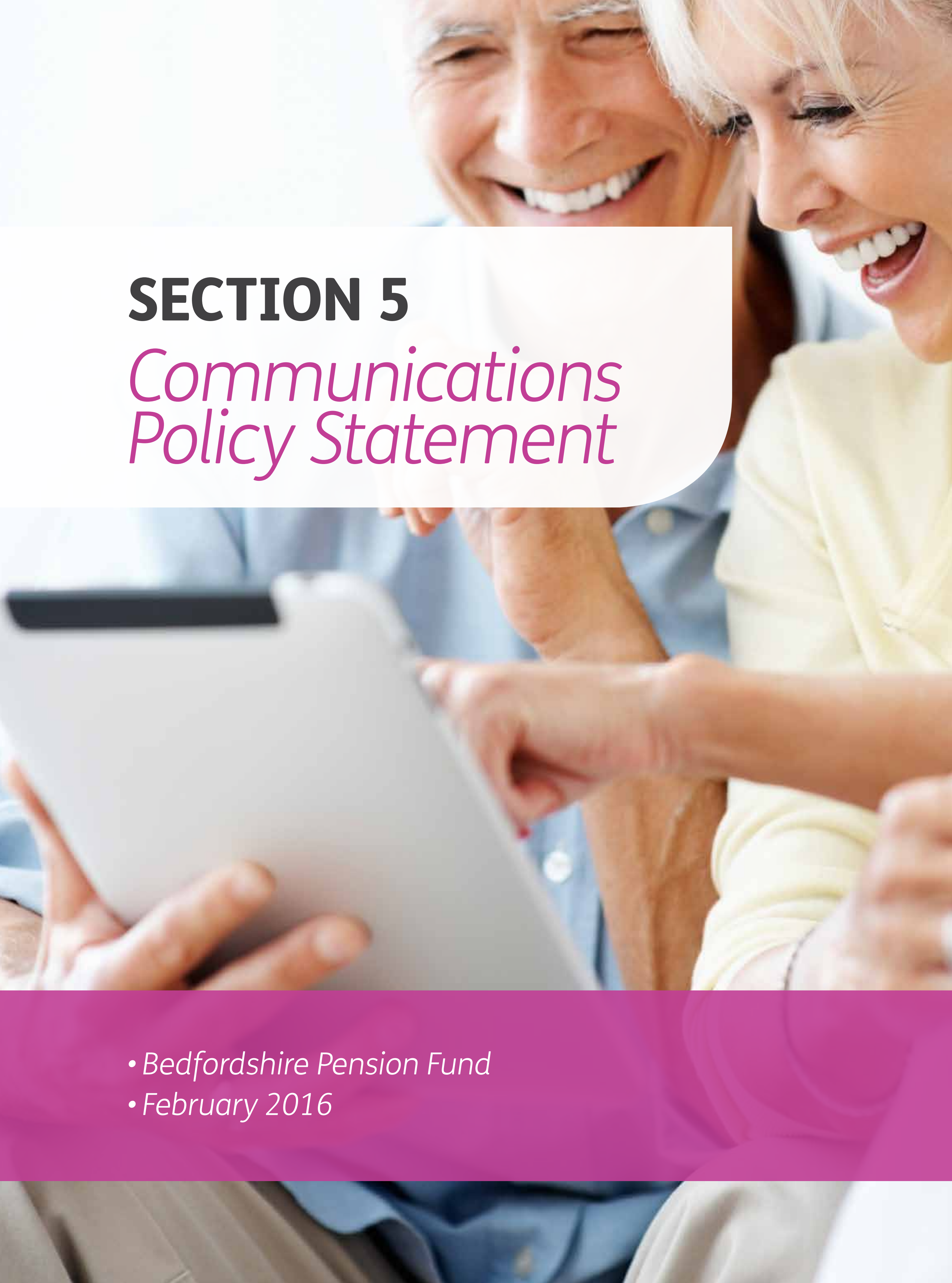
Within the setup costs Bedfordshire Pension Fund owns £1 Type A Shares and Regulatory Capital Type B Shares of £833,000. Bedfordshire Pension Fund has yet to transition any assets into the pool, the first investment is due to take place in quarter 3 2019.

Risks Relating To Pooling

Bedfordshire Pension Fund has a risk register which is reviewed regularly to ensure it is reflective of the current risks facing the Pension Fund.

In 2018 / 2019 new risks were focussed around the Pooling process. There has been significant progress with the pooling process. The focus of the last review has been to ensure that the BCPP Project Delivery Risk Register reflects the latest position. The risks previously identified are maintained but the control owners have been significantly changed.

These risks can be reviewed within the Risk Register which is available on the Funds website. Section 3 of the document specifically refers to pooling risks. The document can be found using the following link Risk Register. http://www.bedspensionfund.org/idoc.ashx?docid=a64dfe9e-3f15-4f37-a323-b001c6532d60&version=-1.



SECTION 5
Communications Policy Statement

- *Bedfordshire Pension Fund*
- *February 2016*

Contents

Introduction

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

The Fund liaises with over 140 employers and approximately 62,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

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

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

01234 228873

claire.bennett@bedford.gov.uk

Regulatory Framework

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

"....prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members
(b) representatives of members
(c) prospective members
(d) employing authorities."

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

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

Responsibilities and Resources

Within the Pensions function the responsibility for communication material is performed by our Pension Administration Manager with the assistance of the Communications and Employer Liaison Officer.

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

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

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admission bodies);
- union representatives;
- elected members/the Pension Panel;
- Pension Section staff;
- tax payers;
- the specialist media.

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

How we communicate

General communication

We will use both paper based communication and electronic methods to communicate. For security reasons, e-mails containing sensitive data are sent using Bedford Borough Council's ICT secure email solution. So as to minimise costs, we will tend to develop alternative means of communication only where necessary.

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

Accessibility

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

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

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

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

The communications are explained in more detail beneath the table:

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

Explanation of communications

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

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

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

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

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

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

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

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

Joiner packs - These provide confirmation of membership status and include forms for completion regarding previous pension benefits, personal information and an Expression of Wish form to nominate person(s) to receive a death grant.

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

Our objectives with regard to communication with prospective members are:

- to inform about LGPS
- for public relations purposes.

As we, in the Pension Fund office, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

Explanation of communications

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

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

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships
- to assist them in understanding costs/funding issues
- to work together to maintain accurate data
- to ensure smooth transfers of staff
- to ensure they understand the benefits of being an LGPS employer
- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

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

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

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

Explanation of communications

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

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Pension Board representative	Meeting	At least twice a year	Email and hard copy	All
Face to face education sessions	Face to face	On request	On request	All

Pension Board representative – an Employee side representative sitting on the Pension Board

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

Policy on communication with elected members/the Pension Fund Committee

Our objectives with regard to communication with elected members/the Pension Fund Committee or Pension Board are:

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

Our objectives will be met by providing the following communications:

Explanation of communications

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

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

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

Pension Fund Board meetings – a formal meeting of elected members, attended by senior managers, at which decisions of the Pension Fund Committee are reviewed and examined

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

Policy on communication with pension section staff

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

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Investment Strategy - a formal document setting out relevant issues in respect of the Pension Fund investments

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

Media - use of the local and national press

Policy on communication with the specialist press

Our objectives with regard to communication with the media are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

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

Policy on communication with other stakeholders /interested parties

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

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- Our objectives will be met by providing the following communications

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

Explanation of communications

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

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

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

Performance Measurement

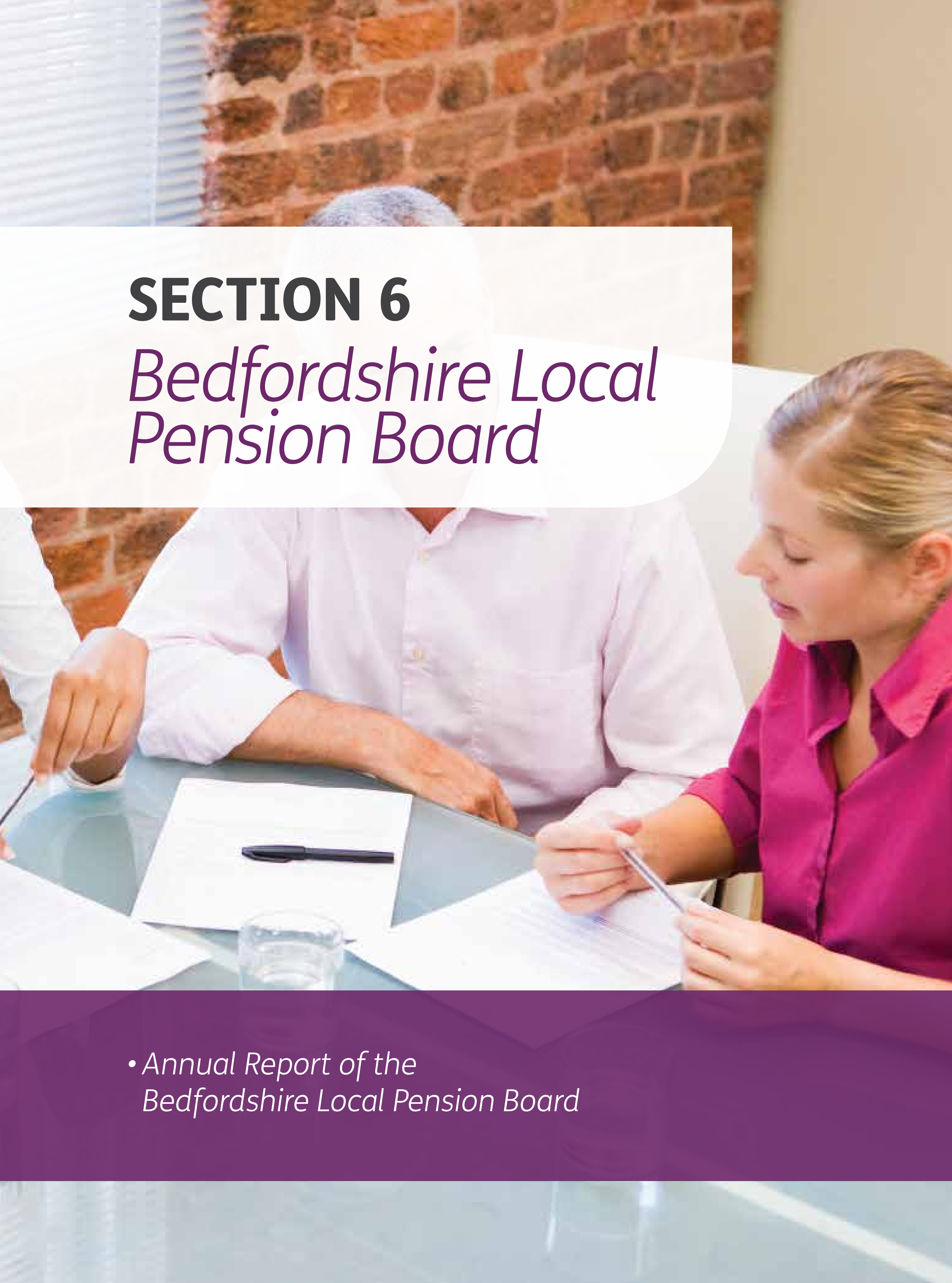
So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

We will measure against the following target delivery timescales:

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

Review Process

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



SECTION 6
Bedfordshire Local Pension Board

- *Annual Report of the Bedfordshire Local Pension Board*

Annual Report Of The Bedfordshire Local Pension Board – 2018/2019

1. Constitution, Representation and Attendance

1.1 The Bedfordshire LGPS Local Pension Board ("the Board") was constituted under the Public Service Pensions Act 2013. As such, the Board is not a Committee of Bedford Borough Council (the Council), who is the Administering Authority.

1.2 The Board held its first meeting on 25 June 2015. It consists of four representatives of the Scheme employers, and four representatives of the Scheme members, all of whom are voting members. Nominated substitutes are allowed. There is also a non-voting independent Chair who was appointed at the start of the financial year. Due to local elections and other reasons, there was significant turnover of Board membership during the year.

1.3 The Board met on five occasions during the year, on 3 May, 19 July, 11 October and 13 December 2018, and on 21 March 2019. Attendance during the year was 60%. Individual records are shown in the Appendix.

1.4 Board meetings are open to the public, other than when considering exempt items.

1.5 To facilitate the operation of the Board, the Chair is invited as an observer to meetings of the Pension Fund Committee ("the Committee").

2 Functions and Operation of the Board

2.1 The two primary functions of a Local Pension Board (LPB) are to assist the Administering Authority to:

- ensure effective and efficient governance and administration of the LGPS;
- ensure compliance with relevant laws and regulations.

2.2 It therefore has a monitor/assist/review/scrutinize purpose, rather than being a decision making body. It could be seen as being a critical but supportive friend. The Board sets its own agenda, and can be selective and probe particular topics in more depth than the Committee with its wider range of statutory responsibilities. As such, the general approach of the Board is to seek assurances with evidence from the Fund and external bodies that it is meeting its objectives, producing its required statements, managing its risks, etc. so as to achieve the overall objectives as set out in paragraph 2.1 above. It can and does commission its own reports, and where appropriate, makes recommendations to the Committee and to officers.

2.3 In so doing, the Board is helping manage the reputational risk of both the Fund and the Administering Authority. This is more critical now that the LGPS in England and Wales has both the Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator (TPR) as its regulators. The Administering Authority, and in extreme circumstances Board members, can be fined by TPR, who also has other powers available.

2.4 The Board is supported by the Principal Accountant (Board) and operates under Terms of Reference which were initially agreed by Council in March 2015. Terms of Reference are reviewed annually. On 7 February 2018, the Council accepted recommendations from the Committee to make various revisions, including the desire to appoint an Independent Chair. The url for current Terms of Reference is shown in paragraph 7.1. Other information regarding the Pension Board can be located from this webpage.

2.5 In 2018/2019 the direct costs of operating the Board, covering travel and training expenses relating to Board members and the fees and expenses of the Independent Chair amounted to £10,645. These costs do not include any indirect costs relating to officer time nor any apportioned costs for the use of the Council's premises, systems or services recharged to the Fund by the Council. The Board seeks approval from the Administering Authority for its budget on an annual basis. Mindful of delivering value for money, the Board endeavours to work in a cost-effective manner, as its costs are reflected in employer contribution rates.

3. Detailed Work of the Board

Overview

3.1.1. This is the fourth Annual Report produced by the Board, but the first written by the new Independent Chair. Since their inception, Local Pension Boards have become increasingly visible, as have the expectations of both TPR and the Scheme Advisory Board (SAB), who now make direct contact with Board Chairs.

3.1.2. As such, Boards are in a continuous state of evolution. This has manifested itself in a number of ways. There is an increasing dialogue with and between Board members between formal meetings, and between the Board Chair and officers. There are also half yearly meetings between the Board Chairs of the Pensions Funds who are members of the Border to Coast Pensions Partnership (BCPP).

3.1.3 To further improve the communication links between the Board and the Committee, the Committee accepted the Board's recommendation that Board Chair produces and formally presents to the Committee an Executive Summary from each Board meeting indicating any specific recommendations made by the Board, with justifications, what assurances it has gained on behalf of the Committee, and any other matters considered to be relevant to the Committee. This report would also include any areas where the Board had concerns over any Committee decisions, although no such concerns were reported in the year.

3.1.4 The main elements of the work programme of the Board are governance, and oversight of the pensions administration function, which is run by an in-house team. An administration report is scrutinised at each Board meeting, and minor presentational improvements have been recommended and adopted.

3.1.5 Paragraph 4 sets out further examples of how the Board is endeavouring to help manage the reputational risk of the Fund. Such a focus seeks assurances that the Fund is complying with its responsibilities and obligations. Where appropriate, these reviews are extended to ensure that all scheme employers are similarly complying, as their efficient, accurate and timely supply of information and data is critical to the Fund avoiding poor key performance indicators, but more fundamentally, avoiding breaches of the law, inaccurate data, inaccurate contribution rates and inappropriate investment decisions.

3.2 Risk management

3.2.1 A separate Risk Register is produced for Bedfordshire Pension Fund (BFP). The detailed assessment of the likelihood of each risk occurring and its impact had been judged in the light of the existence of the Board as an additional scrutiny resource. Review of the Risk Register is now a standing item at Board meetings. During the year, the Board made various recommendations regarding the Risk Register. These included making reference to advantages in succession planning for key pensions staff. The Board was assured that a staffing structure is now in place that can currently cope with the ever increasing demands and complexities of pension administration, including additional external scrutiny regarding standards. A key risk is poor data, and various suggestions were made to reduce the volume of missing or incorrect data, and ensure timely receipt from scheme employers of correct data. These and other aspects are included in the Data Improvement Plan, described in paragraph 3.3.4. Cyber security and data protection continue to receive increased scrutiny, with appropriate training being received.

3.2.2 In addition, the Board has considered the planned mitigation of risks regarding the roll out of on-line access to their personal data by individual scheme members.

3.2.3 The Risk Register was re-formatted towards the end of the financial year and will be examined in depth at the first meeting of the new financial year, with any appropriate recommendations being presented to the Committee.

3.3 The Pensions Regulator (TPR)

3.3.1 The Pensions Regulator examines the Scheme on an ongoing basis and has, for example, highlighted delays across LGPS Funds in producing Annual Benefit Statements (ABS's). The Board was pleased to note that BPF once again produced its ABS's by the due date but nevertheless continues to seek assurances that the next set of ABS's will once again be delivered on time.

3.3.2 A key achievement of the Board has been to commence, with the Principal Accountant (Board), a continuous review of the Fund against the standards and expectations as reflected in TPR's Code of Practice 14, on a red, amber, green basis: RAG. The assessment identifies areas in which the Fund needs to make improvements. No areas have red status. The Board has studied and makes recommendations on amber items but would also challenge those areas assessed as "green", so seeking on-going assurance that the evidence supports this level.

3.3.3 The Board monitors TPR's annual review of its priorities, and reflects these in agenda setting. BPF was not in the LGPS cohort of 10 Funds visited by TPR. The results are not yet published, but will in due course be scrutinised to see what can be learned from the exercise.

3.3.4 A significant addition was made in 2018/19 to the contents of TPR's Scheme Annual Return, which is an obligatory document to be returned within a set deadline, with which BPF complied. The return shows percentages for completeness and accuracy of "common data" and "scheme specific data". Using this 2018/19 data as a baseline, TPR will be measuring and seeking annual improvements in data quality. Whilst data quality for BPF was of a high level, nevertheless a Data Improvement Plan is now in place, which the Board will continue to monitor as a key part of its Work Programme.

3.4 Reporting and Recording Breaches

The Board, and all associated with the Fund, other than individual scheme members, have a responsibility to report significant breaches of law to TPR. Following the improved procedures implemented in the previous year, the Board reviews any breaches of the law as a standing item on its agenda. During 2018/19, none of the recorded breaches were deemed to be of material significance to the TPR, hence no breaches were formally reported via the Administering Authority. Following a recommendation from the Board, a defined fast track reporting system is now in place for reporting breaches of material significance to TPR in a timely manner.

3.5 Scheme Advisory Board (SAB)

3.5.1. The Board monitors the focus and priorities of the SAB, takes them into account in setting its Work Programme, and also receives minutes of SAB meetings.

3.5.2. The SAB commissions periodic surveys of local pension boards, with the second such survey scheduled for 2019/20.

3.6 Review of Investment Issues

Whilst the vast majority of the Board's work programme focuses on administration and governance issues, investment issues are not ignored.

3.6.1 As expected under the relevant Investment Regulations, the Board continues to monitor the on-going consideration and development of an appropriate strategy for responsible investment, as reflected in the Fund's Investment Strategy Statement and notes BPF's Tier 1 status as a Responsible Investor under the Stewardship Code.

3.6.2. The Board continued to receive updates on progress by BCPP regarding the pooling of assets. A representative of the scheme members of the partner Funds observes the Joint Committee of BCPP and reports back to partner Boards.

3.6.3 On behalf of the Board, the Chair liaised with the Administering Authority in providing a joint response to the informal MHCLG Guidance on Asset Pooling, with specific reference to those paragraphs which related to the role of Local Pension Boards. The Board felt that the there was scope for these paragraphs to be made more prescriptive.

3.6.4 The Board keeps a watchful eye on on-going compliance with MiFID II, particularly should there be any changes of key staff with investment expertise.

3.7 Scheme and Council documents

3.7.1 The Board examines the range of scheme documents expected to be in place. It has reported where it found gaps or a need to update. The Board also checks that appropriate information regarding the Board is shown on the website.

3.7.2 The Board pays particular regard to those standard documents which are sent to scheme members and may make recommendations regarding their content.

3.7.3 The Board reviewed the Contracts Register and found nothing untoward. A review of declaration of interests by Committee Members was also satisfactory.

4. Ensuring Compliance with Regulatory Deadlines.

4.1 An increasing component of the Board's agenda is ensuring compliance with regulatory deadlines, some of which represent an annual requirement, whilst others relate to the effective dates of new legislation and regulations. In all cases progress reports are received with the Board considering whether any recommendations are appropriate to help meet the deadlines.

4.2 Annual requirements include producing Annual Benefit Statements for active members, Pension Savings Statements and the submission of the Scheme Annual Return to the TPR. BPF complied with these deadlines.

4.3 Other specific deadlines included compliance with the General Data Protection Regulations (GDPR: 25 May 2018) and the Guaranteed Minimum Pension (GMP) reconciliation exercise. At the same time it is appropriate to continue to review on-going compliance of recently implemented legislation, such as GDPR and MiFID II (into effect 3 January 2018).

5. Training

5.1 Each Board member must be conversant with the details of the Scheme, which translates as having a good working knowledge. The training policy for Board members is based on an individual training needs analysis and is therefore being individually tailored. This allows use of both the CIPFA Framework and TPR Toolkit. In addition, Board members are informed of external training opportunities such as CIPFA Pensions Network events and the annual LGA/LGPS Trustees Conference.

5.2 Board members are encouraged to attend at least two LGPS-focussed seminars/conferences each year. Training is often targeted to specific events, e.g. the Triennial Valuation 2019, and the General Data Protection Regulations.

5.3 Board members are invited to training provided for Committee members. New Board members receive one to one training with the Board Chair. In addition, all new Board members attend the LGA three day Fundamentals course.

6. Work plan

6.1 The work plan for 2019/20 covers the separate activity areas of:

- Pension Fund Annual Report and Accounts
- administration, including Key Performance Indicators, the Data Improvement Plan and, potentially, Value for Money studies
- audit and risk management, including the Risk Register
- governance; including conflicts of interest, recording and if appropriate reporting breaches, and compliance with TPR's Code of Practice 14
- investments, including developments with the BCPP covering implications for Administering Authorities
- monitoring developments in responsible investment, including further requirements under the Stewardship Code and climate change
- external deadlines
- training
- member communications
- participating in and learning from relevant surveys, e.g. of SAB and TPR.

6.2 There is flexibility to allow for any additional reviews and developments.

7. Public accountability

7.1 As well as being open to the public, the agendas, minutes and the Board's Terms of Reference are available on the Authority's website at the following address:

www.bedspensionfund.org/fund_information/pension_board.aspx

The Chair of the LGPS Local Pension Board wishes to thank his fellow Board members who have volunteered their time and energies in their roles. Thanks are also expressed to the Principal Accountant (Board), the Chief Officer for Corporate Finance & Pensions, the Pensions Manager, the Chair of the Pension Fund Committee, Democratic Services and other support officers.

Gerard Moore
Independent Chair
Bedfordshire LGPS Local Pension Board

12 June 2019

Attendance at Pension Board Meetings 2018/2019

All meetings were attended by the Independent Chair.

Contact Points

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

Accounts and Investments:

Julie McCabe
Chief Officer Corporate Finance and Pensions
Telephone: 01234 228562

Benefits and Contributions:

Claire Bennett
Pensions Administration Manager
Telephone: 01234 228873

The Pensions Ombudsman

10 South Colonnade
Canary Wharf
London E14 4PU
Telephone: 0800 917 4487

The Money and Pensions Service

www.pensionsadvisoryservice.org.uk
Telephone: 0800 0113797

The Pensions Ombudsman

www.pensions-ombudsman.org.uk
Telephone: 0800 917 4487

Glossary

2014 Scheme
Regulations introduced in 2013, effective from 1 April 2014, changed the LGPS from a Final Salary scheme to a Career Average Revalued Earnings (CARE) Scheme. This has resulted in increased complexity in benefit membership calculations. More information on the changes to the scheme can be found on our website at:
www.bedspensionfund.org/active_members/guides_to_the_ lgps.aspx

50/50 Option
The LGPS offers the flexibility to pay half of the normal contribution rate and build up half of the normal pension whilst retaining full life and ill-health cover.

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

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

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

Annual allowance
The annual allowance is set by HM Revenue and Customs (HMRC) and is the amount that an individual's pensions savings can increase in any one year before the individual has to pay a tax charge. If the value of pension benefits increases by more than the annual allowance in one year, then the excess growth may be taxed. There is 'carry forward' which allows allowance from the three previous years to be offset against any excess in the current year. The annual allowance was set at £40,000 for 2018/19.

Assets
The Fund's investments.

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

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

CIPFA/LASSAC
The Chartered Institute of Public Finance and Accountancy and the Local Authority Scotland Accounts Advisory Committee.

Consumer Price Index (CPI)
The Consumer Price Index measures the change in the cost of living by assessing the changes in prices of a cross-section of goods and services over time.

Public service pensions increase by the rise in the Consumer Price Index (CPI). The rate is measured by the Office for National Statistics (ONS) in the twelve months to September of each year. The rate is then confirmed by the Treasury, and the increase to pensions applies from the following April, effective from the first Monday in the new tax year.

Deficit
If assets are less than liabilities, the Fund is said to be in deficit - there isn't enough money in the Fund to pay all future pension payments, so contributions may need to increase.

Discretion

This is the power given by the LGPS to enable employers or administering authorities to choose how they will apply the scheme in respect of certain provisions. Under the LGPS, employers or administering authorities are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion.

Equities

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

ESG

Environmental, Social and Governance refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business. There is growing evidence that suggests that ESG factors, when integrated into investment analysis and decision making, may offer investors potential long-term performance advantages.

Final pay / final salary

This figure is used to calculate LGPS pension benefits built up before 1 April 2014. It's normally the pensionable pay that the employee received over the last year before leaving the scheme or retiring. If they employee's pay decreased in the last year, it could be the pay from one of the two previous years.

Funding level

The percentage of the Fund's liabilities which can be paid out of the Fund. If the funding level falls below 100%, more will need to be paid into the Fund.

Global equity

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

IAS 19

International Account Standard number 19 concerning "employee benefits"

Index-linked bonds

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

Liabilities

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

Lifetime Allowance

The lifetime allowance is the maximum amount of pension and/or lump sum that you can get from your pension schemes that benefit from tax relief. The current lifetime allowance is £1 million.

Managed Funds

Managed Funds are defined as Insurance Managed Funds.

Multi-asset passive investment

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

Net Asset Value
The value of the Fund's assets minus the value of its liabilities

Overseas Unit Trusts
Overseas Unit Trusts are categorised as all unitised funds that are not included within the Managed Fund category.

Pension Account
Employees contributing to the LGPS on or after 1 April 2014 have a pension account. Each scheme year the amount of pension the employee has built up during the year is worked out and this amount is added into the employee's active pension account.

Pensionable pay
This is an employee's salary or wages plus shift allowance, bonuses, contractual and non-contractual overtime, maternity pay, paternity pay, adoption pay and any other taxable benefit specified in a contract as pensionable. An employee's pension contributions are deducted as a percentage of pensionable pay.

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

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

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

Retail Prices Index (RPI)
The Retail Price Index is a measure of inflation. It measures the changes in prices of a cross-section of goods and services over time.

The annual increase to LGPS pensions used to be based on the Retail Prices Index but from April 2011 increases have been based on the Consumer Prices Index.

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

State Pension Age
This is the earliest age that someone can receive the state basic pension. State pension age (SPA) is currently age 65 for men. SPA for women is currently being increased to be equalised with that for men and will reach 65 by December 2018.

The State pension age will then increase to 66 for both men and women from December 2018 to October 2020.

Under current legislation the State pension age is due to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046. However, the Government has announced plans to bring forward the rise to 68 to between 2037 and 2039.

State Pension Age

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

State Pension Age Equalisation Timetable for Women

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

Increase in State Pension age from 66 to 67 under the Pensions Act 2014

The Pensions Act 2014 brought the increase in the State Pension age from 66 to 67 forward by eight years. The State Pension age for men and women will now increase to 67 between 2026 and 2028. The Government also changed the way in which the increase in State Pension age is phased so that rather than reaching State Pension age on a specific date, people born between 6 April 1960 and 5 March 1961 will reach their State Pension age at 66 years and the specified number of months.

Increase in State Pension age from 66 to 67, men and women

Date of birth	Date State Pension age reached
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months (1)
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months (2)
6 January 1961 – 5 February 1961	66 years and 10 months (3)
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977*	67

*For people born after 5 April 1969 but before 6 April 1977, under the Pensions Act 2007, State Pension age was already 67.

Notes

For the purposes of calculating an individual's State Pension age the following applies:

(1) A person born on 31st July 1960 is considered to reach the age of 66 years and 4 months on 30th November 2026.

(2) A person born on 31st December 1960 is considered to reach the age of 66 years and 9 months on 30th September 2027.

(3) A person born on 31st January 1961 is considered to reach the age of 66 years and 10 months on 30th November 2027.

Surplus

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

Total membership

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

Working out if you're entitled to a benefit

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

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

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

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

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

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

Upper earnings limit

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

For 2018/19 it is £46,350 pa.

Notes

Finding out more

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

Për Informacion

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Za Informacije

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Per Informazione

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