Bedfordshire Pension Fund

Report and Accounts

2017 / 2018

BEDFORD BOROUGH COUNCIL

Registration number: 00328861RF

Contents

Foreword

I am pleased to be presenting our Annual Report for Bedfordshire Pension Fund (BPF) for the year ending March 2018. Whilst there has been significant developments over recent years in respect of how the Local Government Pension Scheme (LGPS) is structured, I am satisfied to report that Bedford Borough Council as the Administering Authority is now a shareholder in the "Pool Company" (Pool) – "Border to Coast Pensions Partnership" (BCPP). This will entail transferring approximately half of our Assets Under Management (AUM) to the Pool.

It is important to remember, however, the fund's Investment Strategy, see page 52 and Asset Allocation, see page 54, remains firmly with BPF. These two important strategic elements play a critical part in the fund's performance. BCPP will in the future invest our assets through a variety of vehicles/mandates, just as a fund manager would do, with a view to delivering risk adjusted returns at the best net cost, to you, the Scheme Members.It is recognised that approximately 50% of the asset value (currently) will sit outside the Pool, due to the nature of the investment vehicles e.g. life funds/passive equities. The Pool will be fully functional in the summer of 2018 and I can confirm (at the time of writing) an application by BCPP to the Financial Conduct Authority has been accepted. The new office for the Pool will be based in Leeds, which has been chosen, due to its proximity to the majority of the other eleven participating funds, see page 58 and being the northern financial centre in England.Bedfordshire Pension Fund, ended the year (at March 2018) with assets of £2,175 million.

Our Investment Strategy has remained similar to that of past years except that we have included a new, but small, investment class – "opportunistic". It was decided last year having taken careful consideration and advice that we invest $50 million in private equity. Whilst draw down has been measured, there are already some encouraging signs from this asset class. The fund's performance through the period 2017 to 2018 continues to show some growth. Whilst the global economy continues to be challenging the Fund employed 9 specialist Fund Managers to invest on behalf of BPF in a variety of asset classes which is explained in detail at page 50. These include equities, fixed interest securities, property and private equity. Advice is regularly received from our Investment Consultant and Independent Adviser and appropriate action is taken as necessary. In the period we refer, it is pleasing to report the fund has seen reductions in fees from managers in particular for equities as a direct result of pooling.

Our exposure to liabilities (payment of benefits now and in the future) continues to be at the fore of our minds and indeed concentrates our efforts in attempting to get an improved position – this year we have made some progress, moving to a funding level of 72%. The fund value is a real figure whilst the liabilities are estimated utilising specific forecasted assumptions – bond rates and yields in the case of BPF.

I would like to record my gratitude to the members of the Committee for their support and contribution during an exceptionally busy year. On behalf of the Committee, I would like to thank the Assistant Chief Executive (Enabling Services) and Chief Finance Officer and all their colleagues, in the Pension Team for their continued efforts in delivering the services to both Scheme Members and Committee through this very challenging time. I am only too aware that the investment and administration team work tirelessly to provide the best outcomes from our investments and of course an excellent service to our Scheme Members and Employers alike.

BPF has been for many years a Member of Local Authority Pension Fund Forum (LAPFF) which is a member association with 72 members with AUM of approximately £175 billion This means that collectively the scheme is by far the biggest in the UK and is in the top ten in the world, therefore enabling the scheme to participate in positive engagement with companies that we hold interests in. I have, and continue to be a member of the Executive of LAPFF and am able to reflect the views of our fund at a national level. LAPFF carries out excellent work on behalf of the funds, but more importantly we are always reflecting on what our Scheme Members would want – you! Areas of assignments include Responsible Investment, Climate Change, Voting Rights, Investor engagement, Human Capital Issues and Company Financial Reporting to mention a few. In addition we are able, as a collective, to meet with government officials and other national organisations as appropriate. You can see details about the Forum at www.lapfforum.org or alternatively contact the Fund for information on Responsible Investment etc. - pensions@bedford.gov.uk.

In closing, I invite Members and Employers to make contact with me directly, if you wish to discuss or understand details of your Funds' activities from a Committee Member perspective doug.mcmurdo@bedford.gov.uk.

Councillor Doug McMurdo
Chairman of the Pension Fund Committee
5 July 2018

Management Report

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Management & Advisers as at 31 March 2018

Administering Authority	Bedford Borough Council
Administrator	Andy Watkins, Assistant Chief Executive (Enabling)
Pension Fund Committee Members	
Bedford Borough Councillors	Doug McMurdo (Chair)
	Shan Hunt
	Jon Gambold
Central Bedfordshire Councillors	Kevin Collins
	Richard Wenham
Luton Borough Councillors	Stephen Lewis
	John Young
Scheme Member Representative (non-voting)	Willy White
Independent Adviser	Leslie Robb
Investment Managers	BlackRock Advisors
	CBRE Global Investors
	Insight Investment Management
	Invesco Perpetual
	Legal & General Investment Management
	Newton Investment Management
	Pyrford International
	Standard Life Capital Partners
	Trilogy Global Advisors
Custodian	The Northern Trust Company
Investment Consultant	William Marshall
	Hymans Robertson
Actuary	Gemma Sefton
	Hymans Robertson
External Auditor	Ernst and Young LLP
AVC Providers	Prudential
	Standard Life Assurance Company
Bankers	National Westminister Bank
	Goldman Sachs Asset Management International
	Santander UK plc

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 Administering Authority is undertaken via the Pension Fund Committee. The Committee consists of nominated elected members of Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. A scheme member representative, nominated by the trade unions, is invited to sit on the Committee in an observer role. An independent investment adviser sits on the Committee in an advisory role. The Committee also takes advice from 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 2018 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.

Corporate Governance

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

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

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

In addition, the Pension Fund Committee has published a Governance Compliance statement in accordance with current regulations. This statement is reproduced in full on page 102.

Role of the Pension Board

A Pension Board was established at the start of 2015/2016 in compliance with the requirements of the Public Service Pension Act 2013. The Pension Board is responsible for assisting the Administering Authority in relation to securing compliance with the scheme regulations and other legislation relating to the governance and administration of the Scheme. It is also responsible for securing compliance with requirements imposed in relation to the Scheme by the Pensions Regulator. Bedfordshire Local Pension Board is made up of 4 employer representatives and 4 scheme member representatives, and it is proposed that, from 2018/2019, an Independent Chairman is appointed.

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.

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, other than teaching staff, police officers and firefighters who have their own pension schemes. A number of other bodies also participate in the pension scheme 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.

Pensions Administration Performance

The Pension Administration performance as measured by agreed performance indicators is reported quarterly to the Pension Fund Committee. The table below summarises the year.

	Target days to complete	Total cases outstanding 31 March 2018	Cases ready to action 31 March 2018	2017/2018 Average days to complete	2017/2018 Number of cases	Cases completed within target 2017/2018	
						Number	%
Creation of member records	10	198	109	7.10	5,573	5,020	90.1%
Payment of refunds	10	18	16	2.10	1,178	1,177	99.9%
Process retirement							
Normal	10	33	3	1.29	239	239	100.0%
Ill Health	10	18	0	2.10	47	47	100.0%
Flexible	10	2	0	0.65	12	12	100.0%
Early Retirement (redundancy or Efficiency)	10	12	0	1.88	139	139	100.0%
Preserved Benefit into Payment	10	120	10	1.23	504	504	100.0%
Total Retirements		185	13	1.37	941	941	99.0%
Retirement Estimates							
Normal	10	34	14	3.89	338	311	92.0%
Long Term forecasts	20	20	15	4.50	373	372	99.7%
Ill Health	10	5	5	2.36	51	51	100.0%
Early Retirement (redundancy or Efficiency)	10	9	7	4.35	411	374	91.0%
Total Retirement Estimates		68	41	4.18	1,173	1,108	94.5%
Transfers In	35	30	1	2.55	345	345	100.0%
Transfers in LG	120	35	3	19.48	382	328	85.9%
Transfers Out	10	13	0	4.43	49	49	100.0%
Transfers Out LG	60	9	3	3.27	138	138	100.0%
Preserved Benefits	60	231	154	92.00	9,805	7,750	79.0%
Death entitlement	10	77	8	5.17	448	413	92.2%

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 2017/2018 budget approved by the Pension Fund Committee in February 2017 are shown below together with actual performance.

Administrative cash flows	Budget	Actual	Variance
	£000s	£000s	£000s
Contributions Received	-118,500	-118,898	-398
Transfer Values Received	-6,000	-24,883	-18,883
Benefits Paid	93,600	93,359	-241
Transfer Values Paid	6,000	7,997	1,997
Cost of Administering the fund	5,860	5,436	-424
Net additions/withdrawals from dealings with members	**-19,040**	**-36,989**	**-17,949**

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

Contributions are payable by participating employers on a monthly basis, due in arrears by the 7th working day of the following month. During 2017/2018, 93% of contributions were received by the due date.

The Pension Fund Committee formally agreed a budget for 2017/2018 at its meeting on 28 February 2017. The Committee receives regular reports on progress against the budget during the year. The final position is shown in the following table.

Bedfordshire Pension Fund Budget Monitoring 2017/2018

	2017/2018 Current Budget	2017/2018 Outturn	2017/2018 Variance
	£000	£000	£000
Investment Management Fees			
Investment Management - Basic Fees	3,938	4,048	110
Investment Management - Underlying Property Fees	2058	1,686	-372
Investment Management - Performance	500	271	-229
Investment Management - Custodian & Transactional	40	49	9
Total Investment Management Fees	**6,536**	**6,054**	**-482**
Oversight & Governance			
Actuarial & Other professional fees	185	164	-21
Audits - Internal & external	46	44	-2
Other Expenses	610	400	-210
Total Oversight & Governance	**841**	**608**	**-233**
Administration			
Running Expenses	81	195	114
Computer Costs	300	296	-4
Fund Administration - BBC Recharge	1,172	1149	-23
Total Administration	**1,553**	**1,640**	**87**
Total Management Expenses	**8,930**	**8,302**	**-628**

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 2016/2017 and is summarised in the following table:

Cost per Scheme Member (£)	2016/2017		2015/2016	
	Bedfordshire	All LGPS	Bedfordshire	All LGPS
Investment management:				
base fee	85.08		103.63	
performance fee	5.96		5.53	
Investment advice/ support:	10.74		7.89	
Total Investment Costs	**101.77**	**164.57**	**117.05**	**126.88**
Administration:				
Total	**17.21**	**20.73**	**18.08**	**26.00**

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 108.

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 and includes 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 a website that is managed by its own officers and supported by Bedford Borough Council. The web address is www.bedspensionfund.org

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 of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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

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

The following training against the plan has been provided during the year. The table reviews the training received by the Fund in 2017/2018.

Bedfordshire Pension Fund – 2017/2018 training plan review

The table below shows training undertaken by Pension Fund committee and board members in 2017/18.
The unshaded rows indicate training events which are considered essential within the first two years of a member joining the committee and the shaded rows show additional optional events.

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 26 June 2017, 15 Sep 2017 17 Nov 2017 23 Feb 2018	x	x	X	X	X		26 June 2017 5 members/4 officers 15 Sep 2017 7 members/ 2 officers 17 Nov 2017 4 members/5 officers 23 Feb 2018 5 members/5 officers
Local Government Association (LGA) Trustee training	3 days	X	X	X	X	X	X	1 officer/4 Board Total to date 7 Members/3 officers 1 Observer/4 Board
Training Day Skills and knowledge	1 day 12 March 2018	X		X	X	X		12 Mar 2018 4 Member/7 officers 2 Board
PLSA Local Authority Conference	2 days 16/17 May 2017	X	X		X	X		0 Member/2 officers
LGC Pension Funds Symposium	29/30 June 2017	X				X	X	0 Member/1 officers
LGC – Investment Seminar	2 days 2/3 Mar 2018	X		X	X	X		1 Member/1 officers
LGPS Trustees Conference	29 June 2017		X		X		X	1 Member/ 1 officer
CIPFA – Pensions Network Conference	22 Nov 2017	X		X	X	X		1 Member/1 Board
SPS Events	15 Mar 2018	X			X	X	X	1 Member/ 1 officers
LGIF Pension Investment Forum	1 day 11 Oct 2017	X			X	X	X	1 Member/ 1 officers
LAPFF Annual Conference	6/7 Dec 2017				X			1 Member
LGC – Investment Summit	2 days 7/8 Sept 2017	X		X	X	X	X	1 Member/ 1 officers

Officers also attended CIPFA Pension network events on 26/27 Sept 2017 and 19 Jan 2018; Pensions Administration Managers Conference 20-22 November 2017; Pensions Audit and Accounting Technical Update 6 Feb 2018; various other events hosted by Fund Managers and Advisors relating to Transitional Pressures, Asset Allocation, Cost Transparency and Returns, Risk & Affordability; and a number of Pooling events including a cross Border to Coast Pension Partnership event which 3 members and 2 officers attended.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 74) and the Investment Strategy Statement (page 52). The formal risk register is considered by the Pension Fund Committee 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. 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 only 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 2017/2018 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 65).

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% and 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

	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 2017/2018 the number of pensioners increased from 15,538 at 31 March 2017 to 16,436 at 31 March 2018; the number of contributors within the fund increased from 21,140 to 22,275.

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 have been 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.

2017	Active Membership by Employer as at 31 March	2018
4,984	Luton Borough Council	5,437
4,763	Central Bedfordshire Council	4,671
3,055	Bedford Borough Council	3,069
4,402	Academies	5,098
881	Chief Constable and Police and Crime Commisioner for Bedfordshire	991
765	University of Bedfordshire	717
433	Cranfield University	390
1,857	Other Bodies	1,902
21,140	**Total**	**22,275**

Five Year Membership Summary as at 31 March					
	2014	**2015**	**2016**	**2017**	**2018**
Active members	18,766	19,931	20,428	21,140	22,275
Pensioners	13,841	14,281	14,889	15,538	16,436
Deferred Pensioners	22,821	24,910	27,409	29,456	30,160
Total	**55,428**	**59,122**	**62,726**	**66,134**	**68,871**

Participating Employers

The following are the employers participating in the Bedfordshire Pension Fund as at 31 March 2018. The contribution rates shown are the percentage of its employees' pensionable pay that each employer paid into the fund during 2017/2018. 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 2017/2018 are included in the table below.

Scheduled Bodies:	**Contribution Rate %**	**Additional payments £000**
Academy Of Central Bedfordshire	23.4	
Active Education Academy Trust	19.5	
Advantage MAT - Bedford Free School (formerly Bedford Free School)	14.9	
Advantage MAT - Elstow	25.6	
Alameda Academy	19.9	
Alban Church Of England Academy	21.5	
Aley Green Parish Council	21.8	
All Saints Academy (Dunstable)	18.8	
All Saints Lower (Post 01/10/2013) (Clifton)	25.4	
Ampthill Town Council	21.8	
Ardley Hill Academy	24.5	
Arlesey Town Council	21.8	
Arnold Academy	20.7	
B.C.A.T Wixams Academy	20.0	
B.C.A.T Wixams Tree Primary	20.0	
B.I.L.T.T - Grange (formerly Grange Academy)	21.2	
B.I.L.T.T – Greys	19.2	
B.I.L.T.T – St Johns	19.2	
Barnfield College	18.6	240
Bedford Borough Council	16.9	4,848
Bedford College (including Tresham)	18.4	273
Bedfordshire & River Ivel Drainage Board	21.8	
Bedfordshire Fire And Rescue Service	17.3	97
Beecroft Academy	16.5	
Biddenham Parish Council	21.8	
Biggleswade Academy Trust	25.1	
Biggleswade Town Council	21.8	
Blunham Parish Council	21.8	
Bolnhurst Parish Council	21.8	
Brickhill Parish Council	21.8	
Bromham Parish Council	21.8	
Brooklands Middle School	18.7	
Caddington Parish Council	21.8	
Cedars Academy	22.0	
Central Bedfordshire College	18.8	156
Central Bedfordshire Council	16.9	5,903
Chantry Academy	22.0	
Chief Constable	16.7	401
Chiltern Learning - Challney Girls	21.4	

Scheduled Bodies:	Contribution Rate %	Additional payments £000
Chiltern Learning - Marston	23.9	
Chiltern Learning - Putteridge	21.4	
Chiltern Learning Trust	20.1	33
CMAT – Daubeney	25.0	
CMAT – Kempston Challenger Academy	25.4	
CMAT – Lancot	24.4	
CMAT - Springfield	25.6	
Cranfield Church of England Academy	18.9	
D.S.A.M.A.T - Caldecote	24.2	
D.S.A.M.A.T - Kensworth	24.2	
D.S.A.M.A.T - Manshead	24.2	
D.S.A.M.A.T - Thomas Whitehead	24.2	
D.S.A.M.A.T - Totternhoe	24.2	
Dunstable Town Council	21.8	
Dunton Parish Council	21.8	
Eastcotts Parish Council	21.8	
Eaton Bray Academy	18.4	
Etonbury Academy	23.8	
Eversholt Lower	23.1	
Ferrars Academy	19.6	
Flitwick Town Council	21.8	
Fullbrook Academy	22.9	
Gamlingay Village College	22.6	
Gilbert Inglefield Academy	23.6	
Goldington Academy	21.4	
Goldington Green Academy	25.4	
Gothic Mede Lower Academy	23.8	
Gravenhurst Academy	23.8	
Great Barford Parish Council	21.8	
Greenfield & Pulloxhill Academy	21.7	
Hadrian Academy	22.4	
Harlington Academy	20.1	
Harlington And Sundon Academy Trust	25.4	
Harlington Area Schools Trust	25.0	
Harlington Parish Council	21.8	
Haynes Parish Council	21.8	
HEART Acadamies - Cauldwell	25.6	
HEART Acadamies - Shackleton	25.6	
HEART Acadamies - Shortstown	25.6	
Heart Academies Trust (formerly Bedford Academy)	17.6	
Henlow Church Of England Academy	21.5	
Henlow Parish Council	21.8	
Holywell Academy	21.3	
Houghton Conquest Parish Council	21.8	
Houghton Regis Academy	22.6	
Houghton Regis Town Council	21.8	
Icknield Academy	23.1	
Kempston Burial Joint Board	21.8	
Kempston Rural Parish Council	21.8	
Kempston Town Council	21.8	
Kensworth Parish Council	21.8	
Langford Lower Academy	23.8	

Scheduled Bodies:	**Contribution Rate %**	**Additional payments £000**
Lark Rise Academy	19.4	
Leighton Linslade Town Council	21.8	
Linslade Academy Trust	20.4	
Luton Borough Council	17.3	5,788
Luton Sixth Form College	19.4	110
Mark Rutherford School Trust	18.4	
Marston Moretaine Parish Council	21.8	
Maulden Parish Council	21.8	
Meppershall Lower Academy School	23.8	
Northill Parish Council	21.8	
Oak Bank Special School Academy	19.0	
Oakley Parish Council	21.8	
Police and Crime Commissioner	16.7	
Potton Town Council	21.8	
Priory Academy	22.1	
Putnoe Academy	21.8	
Queens Park Academy	19.3	
Queensbury Academy	25.5	
Raynsford Church Of England Academy	23.1	
Redborne Academy	19.1	
Robert Bloomfield Academy	23.8	
S.A.C.A.T – Cardinal Newman	23.1	
S.A.C.A.T – St Margaret Of Scotland	23.1	
S.A.C.A.T – St Martin De Porres	23.1	
S.A.C.A.T - St Marys Caddington	23.1	
S.A.C.A.T - St Vincents	23.1	
Samuel Whitbread Academy	23.8	
Sandy Town Council	21.8	
Sandye Place Academy	16.8	
Shared Learning Trust	17.1	22
Sharnbrook Academy Federation	20.1	
Sharnbrook Parish Council	21.8	
Sharnbrook Primary (formerly John Gibbard Academy)	23.0	
St Augustine’s Academy	23.4	
St Christopher's Academy	16.1	
St Francis Of Assisi Academies Trust	24.1	
St Mary’s School (Stotfold)	21.8	
Stanbridge Parish Council	21.8	
Staploe Parish Council	21.8	
Stotfold Town Council	21.8	
Stratton Education Trust	22.6	
The Firs Academy	19.6	
The Hills Academy	24.4	
Tilsworth Parish Council	21.8	
Toddington Parish Council	21.8	
Toddington St George Church Of England School	24.5	
Turvey Parish Council	21.8	
UNITY CofE MAT - Great Barford	25.6	
University of Bedfordshire	18.0	1,024
Ursula Taylor Academy	23.4	
Vandyke Upper School	21.8	
Weathefield Academy	21.1	

Scheduled Bodies:	**Contribution Rate %**	**Additional payments £000**
Whipperley Infant Academy	20.7	
Woodland Middle	18.6	
Wootton Academy Trust	21.3	
Wootton Parish Council	21.8	

Admitted Bodies:	**Contribution Rate %**	**Additional payments £000**
ABM Catering Ltd	30.8	
Active Luton Trust	19.5	35
Aragon Housing Association	21.1	535
BPHA	21.1	1,127
Churchill (Chalk Hill)	28.8	
Civica UK Limited	26.5	
Cleantec Services Ltd	23.9	
Cranfield University	19.2	2,408
Creative Support	24.2	
ELFT Bedfordshire - East London NHS Foundation Trust Bedfordshire	27.9	127
ELFT Luton - East London NHS Foundation Trust Luton	27.2	
Enterprise Support Services UK	26.8	
Fusion Lifestyle	23.7	45
Grand Union Housing	21.1	
LGSS Law Ltd	24.9	
Luton Cultural Services Trust	21.3	95
Mitie	27.0	
Mountain Healthcare	21.4	
Multi Active Holiday Courses	15.8	
Ridge Crest Cleaning Services	24.0	
Ringway Jacobs	29.1	
St. Christopher's Fellowship	31.2	
St. Francis Children's Society	32.3	
Stevenage Leisure Limited	26.9	

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	146	0
Admitted Body	24	2
Admitted Authority	1	0
Total	**171**	**2**

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

	2013/2014	**2014/2015**	**2015/2016**	**2016/2017**	**2017/2018**
Scheduled Body	121	119	126	127	147
Admitted Body	19	18	19	22	24
Total	**140**	**137**	**145**	**149**	**171**

Financial Statements

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

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. At Bedford Borough Council that officer is the Assistant Chief Executive (Enabling) & Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Assistant Chief Executive (Enabling) & Chief Finance Officer's Responsibilities

The Assistant Chief Executive (Enabling) & Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices, as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Chief Executive (Enabling) & Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Assistant Chief Executive (Enabling) & Chief Finance Officer has also:

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

Certification

This statement of accounts presents a true and fair view of the financial position of Bedford Borough Council at 31 March 2018 and income and expenditure for the year ended 31 March 2018.

Signed: A M Watkins

Date: 30 July 2018

Andy Watkins, Assistant Chief Executive (Enabling) & Chief Finance Officer

Approval

I confirm that the Statement of Accounts was approved by the Audit Committee at its meeting on 30 July 2018.

Signed: M Nawaz

Date: 30 July 2018

Chair of Audit Committee

Building a better working world

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

Opinion

I have examined the pension fund financial statements for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22.

In my opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Bedfordshire Pension Fund for the year ended 31 March 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Respective responsibilities of the Assistant Chief Executive (Enabling Services) and Chief Finance Officer and the auditor

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

My responsibility is to report to you my 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 Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

- Foreword
- Management Report
- Financial Statements
- Investment Report
- Funding Strategy Statement
- Bedfordshire Local Pension Board

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

MARK HODGSON
ERNST & YOUNG LLP
....

Date:...31...July 2018

Mark Hodgson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge

Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The pension fund liability is calculated every three years by the Fund's actuary, with annual updates in the intervening years. The methodology used is in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Report on page 65. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted Investments

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

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

The 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 2018 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 about 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

Pension Fund Accounting Policies

Accounting Standards

The accounts are compliant with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 (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.

Basis of Preparation

The accounts have been prepared on an accruals basis unless otherwise stated.

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 due 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. 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. 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 been received by the balance sheet date, then no accrual is made. The departure from the accruals basis for these death gratuities does not materially affect the reported figure. Only benefits paid under local government pension scheme regulations are included in the Fund account. For administrative ease, the Fund also pays out compensatory added years benefits on behalf of scheme employers; these are refunded in full by the employer. Both the benefit paid and the subsequent 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. Due to scheme changes there are delays in processing transfer values as further actuarial factors are awaited.

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 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
- Trilogy – Global Equities

Where an investment manager's fee note has not been received by 31 March 2018, 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 2018.

(ii) Traded futures are valued by reference to their exchange prices as at 31 March 2018.

(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 2018. 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 2018. Exchange gains and losses arising from movements in current assets and liabilities are included in the fund account for the year.

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

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

Taxation

The Fund is 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 2017/2018 relating to 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

There have been no events since 31 March 2018, and up to the date that these accounts were authorised, that require any adjustments to these accounts.

Events after the Balance Sheet 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.

Five Year Financial Summary of Net Asset Statement

	2013/2014 £million	2014/2015 £million	2015/2016 £million	2016/2017 £million	2017/2018 £million
Net assets at 1 April	**1,467**	**1,544**	**1,710**	**1,733**	**2,074**
Contributions	92	102	106	109	117
Investment and other income	14	16	23	21	51
Total income	**106**	**118**	**129**	**130**	**168**
Benefits and other expenses	-89	-116	-95	-102	-106
Change in market value of investments	59	164	-11	313	39
Increase/(decrease) in value of fund	**77**	**166**	**23**	**341**	**101**
Net Assets at 31 March	**1,544**	**1,710**	**1,733**	**2,074**	**2,175**

Fund Account for the Year Ended 31 March 2018

2016/2017 £000		2017/2018 £000	See Note
	Contributions and Benefits		
108,936	Contributions	117,314	1
12,848	Transfers in from other pension funds	40,883	2
88	Other Income	67	
121,872		**158,264**	
-86,415	Benefits	-90,278	3
-7,552	Payments to and on account of leavers	-7,980	4
27,905	**Net additions/(withdrawals) from dealings with members**	**60,006**	
-7,890	Management Expenses	-8,302	5
	Returns on Investments		
8,363	Investment income	10,138	6
-125	Taxes on income	-80	7
312,643	Profit and losses on disposal of investments and changes in value of investments	39,157	8.4a
320,881	**Net return on investments**	**49,215**	
340,896	Net increase/(decrease) in the fund during the year	100,919	
1,732,814	Net assets of the fund at 1 April	2,073,710	
2,073,710	**Net assets of the fund at 31 March**	**2,174,629**	

Net Assets Statement for the Year Ended 31 March 2018

31 March 2017 £000		31 March 2018 £000	See Note
	Investment Assets		
1,993,897	Managed and unitised funds	2,030,031	8.1
20,094	Cash deposits & other assets	35,525	8.2
2,013,991		**2,065,556**	
	Investment Liabilities		
-3,872	Other liabilities	0	8.3
2,010,119		**2,065,556**	
1,758	Long Term Assets	1,194	9
63,867	Current Assets	109,007	10
-2,034	Current Liabilities	-1,128	11
2,073,710	**Net assets of the fund available to fund benefits at the period end**	**2,174,629**	

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

Notes to the Accounts

Fund Account

1. Contributions

2016/2017 £000	Contributions	2017/2018 £000
23,014	Employees' normal contributions	24,047
392	Employees' additional voluntary contributions	314
53,907	Employers' normal contributions	65,249
29,720	Employers' deficit funding	25,342
1,903	Employers' augmentation contributions	2,363
108,936		**117,314**
17,971	Administering authority	19,210
80,173	Scheduled bodies	86,185
10,791	Admitted and other bodies	11,919
108,936		**117,314**

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

2. Transfers in from other pension funds

2016/2017 £000	Transfers in from other pension funds	2017/2018 £000
854	Transfers in from other pension funds - bulk	25,000
11,994	Individual transfers from other pension funds	15,883
12,848		**40,883**

A payment on account from Northamptonshire Pension Fund of £9 million was made in March 2018 to reflect the bulk transfer of Tresham College to Bedford College. An accrual of £16 million has also been included as a prudent estimate agreed by both pension funds of the remaining liability which will ultimately be agreed between the Funds' actuaries.

3. Benefits

2016/2017 £000	Benefits	2017/2018 £000
69,306	Pensions	72,432
14,956	Commutations of pensions and lump sum retirement benefits	15,889
2,153	Lump sum death benefits	1,957
86,415		**90,278**
	Further analysed as:	
10,853	Administering authority	12,715
66,498	Scheduled bodies	68,064
9,064	Admitted and other bodies	9,499
86,415		**90,278**

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

4. Payments to and on account of leavers

2016/2017 £000	Payments to and on account of leavers	2017/2018 £000
381	Refunds of contributions	831
0	Transfers to other schemes – bulk	0
7,153	Transfers to other schemes – individuals	6,995
18	Annual Allowance - Tax Charge	107
0	Lifetime Allowance - Tax Charge	47
7,552		**7,980**

There were no bulk transfers out in 2016/2017 or 2017/2018.

The Annual Allowance Tax Charge is on behalf of individual scheme members who exceeded the annual allowance in 2016/2017 and 2017/2018 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 in 2017/2018 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.

5. Management Expenses

2016/2017 £000	Management Expenses	2017/2018 £000
1,141	Administrative expenses	1,640
6,091	Investment management expenses	6,054
658	Oversight and governance costs	608
7,890		**8,302**

2016/2017 £000	Investment Management Expenses	2017/2018 £000
0	Transaction costs	0
3,770	Management fees	4,048
395	Performance related fees	271
1,872	Underlying property fees	1,686
54	Custody fees	49
6,091		**6,054**

The Administering Authority charged £1.1 million of administration costs in 2017/2018 compared to £1.1 million in 2016/2017. In 2017/2018, £1.1 million of Investment Managers' fees were based on estimates as the final fee notes had not been received. This compares with £0.8 million in 2016/2017. In addition indirect costs are incurred through the bid/offer spread on investments within pooled investments. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

6. Investment Income

2016/2017 £000	Investment Income	2017/2018 £000
126	Dividends from equities	29
7,918	Income from pooled investment vehicles	9,607
319	Interest on cash deposits	502
8,363	**Total Investment Income**	**10,138**

The £0.03 million dividends from equities represents a write back of a bad debt relating to tax.

7. Taxes on Income

2016/2017 £000	Total Investment Income	2017/2018 £000
-125	Irrecoverable with-holding tax	-80

8. Investments

2016/2017 £000	Investments	2017/2018 £000	See note
	Managed and Unitised Funds		
3	UK un-authorised unit trusts	3	8.1
1,207,384	UK insurance managed funds	1,208,075	
185,816	UK property unit trusts	189,951	
600,694	Overseas unit trusts	623,890	
0	Private Equity	8,112	
1,993,897		**2,030,031**	
	Cash Deposits & Other Investment Assets		
0	Amount receivable for sales of investments	0	8.2
97	Investment income outstanding	46	
97	**Other Investment Assets**	**46**	
19,997	Cash deposits	35,479	
20,094		**35,525**	
	Investment Liabilities		
-3,872	Other liabilities	0	8.3
-3,872		**0**	
2,010,119	**Total**	**2,065,556**	

2016/2017 £000	Quoted/Un-quoted Investments	2017/2087 £000
745,925	Quoted	779,138
1,264,194	Un-quoted	1,286,418
2,010,119		**2,065,556**

Investment liabilities at year end usually relate to property market purchases which occur close to 31 March 2018. These are included in our Property holding but the financial consideration i stsill outstanding. This is normal accounting practice and reflects the timing of the transactions that were settled in the following financial year. There were no such liabilities in 2017/2018 (£3.9 million 2016/2017).

8.4a Value of Investments 2017/2018

	Market Value at 31 March 2017 £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Change in Market Value £000	Market Value at 31 March 2018 £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**

8.4b Value of Investments 2016/2017

	Market Value at 31 March 2016 £000	Purchases at cost & derivative payments £000	Sale proceeds & derivative receipts £000	Change in Market Value £000	Market Value at 31 March 2017 £000
Equities					
UK	0	0	0	0	0
Overseas	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Managed Funds	**1,004,121**	**348,028**	**-392,064**	**247,299**	**1,207,384**
Unit Trusts					
Property	187,797	29,344	-30,585	-740	185,816
Other	476,503	60,854	-2,744	66,084	600,697
	664,300	**90,198**	**-33,329**	**65,344**	**786,513**
Other Assets	**0**	**0**	**0**	**0**	**0**
Total	**1,668,421**	**438,226**	**-425,393**	**312,643**	**1,993,897**
Cash & other	**12,312**				**16,222**
Total	**1,680,733**				**2,010,119**

Managed and unitised investments, other than property unit trusts, are predominantly in Blackrock Advisers' Aquila Life Funds and Legal & General's Pooled Pension Fund Policy. The amount and the percentage of the net assets of the Fund, as at 31 March 2018, that these represent are shown below:

Managed and Unitised investment	2017/2018 £000	% of Total Market Value
Legal & General Pooled Pension Fund Policy	567,130	26.1%
Blackrock Advisers Aquila Life Fund	485,697	22.4%
Invesco Perpetual Global Targeted Return Fund	155,249	7.1%
Pyrford - Absolute Return Multi-Asset	148,415	6.8%
Insight - Bonds Plus Portfolios	174,876	8.0%
Trilogy Global Diversified Fund	118,547	5.5%
Newton - Real Return Fund	114,493	5.3%
Total	**1,764,407**	

No other assets comprised more than 5% of the net assets of the Fund as at 31 March 2018.

9. Long Term Asset

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 2017/2018. Those instalments falling due more than one year from the balance sheet date are shown as a long term debtor, £1.193 million at 31 March 2018 (£1.758 million at 31 March 2017). The amount falling due within less than a year is shown as current assets.

10. Current Assets

2016/2017 £000	Current Assets	2017/2018 £000
1,178	Contributions due from Administering Authority	1,240
6,082	Contributions due from other scheme employers	7,416
544	Civil Service Pensions Scheme - see note 9 above	564
0	Bulk Transfer due from other Local Authorities	16,000
195	Other	329
7,999		**25,549**
55,868	Cash	83,458
63,867	Current Assets	**109,007**

The cash balance of £83.4 million is held in the Fund's own bank accounts. Cash held by the Fund's managers is included in cash deposits in Note 8.3 above. An accrual of £16 million to reflect the bulk transfer of Tresham College to Bedford College is included above as a prudent estimate agreed by both pension funds of the remaining liability which will ultimately be agreed between the Funds' Actuaries. In addition Note 8.3 above shows the details of other investment assets of less than £0.1 million.

11. Current Liabilities

2016/2017 £000	Current Liabilities	2017/2018 £000
8	Administration costs etc. due to Administering Authority	2
1,088	Investment managers' fees	974
61	Other professional fees	70
0	AVCs in transit	0
0	Death grants	0
848	Other	82
2,005		**1,128**
29	Provision for Tax Reclaims over 1 Year (Note 12)	0
2,034	Current liabilities	**1,128**

12. Provision for Tax reclaims over 1 year

The Fund's managers reclaim tax withheld from investment income where international treaties allow. Allowance is made for those claims that are over one year old and considered unlikely to be recovered. The balance at 31 March 2018 was less than £1,000.

13. Self-investment

The regulations governing investment of pension funds require the disclosure of any self-investment by the Fund. As at 31 March 2018 there was no self-investment by the Fund

14. Related party transactions

Administration and investment management costs include charges by Bedford Borough Council for providing services in its role as administering authority. For 2017/2018 these amounted to £1.3 million (2016/2017 £1.1 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 2017/2018 £3.1 million (2016/2017 £3.1 million) was paid and recovered from their employer.

The senior officers involved in the financial management of Bedfordshire Pension Fund in 2017/2018 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 2017/2018.
The only material related party transactions during 2017/2018 were in respect of contributions paid by the employing bodies into the Fund. See Note 1.

Amounts owed to and from the Administering Authority can be seen in Notes 10 and 11.

15. Contingent Liabilities and Contractual Commitments

There were no material contingent liabilities as at 31 March 2018. But there were outstanding commitments to investment vehicles of up to £52.8 million.

16. Stock Lending

The Fund did not undertake any stock lending during 2017/2018.

17. Additional Voluntary Contributions (AVC)

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

2016/2017 £000	Additional Voluntary Contributions	2017/2018 £000
4,235	Value at 1 April	**4,768**
	Income	
987	Contributions received	828
	Expenditure	
-964	Retirements	-973
8	Transfers values paid	14
-956		**-959**
502	Change in market value	109
4,768	Value at 31 March	**4,746**

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.

18. Post Balance Sheet Events

There have been no major post balance sheet events since 31 March 2018.

19. Actuarial Present Value of Promised Retirement Benefits

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018, based on International Financial Reporting Standards and issued by the Chartered Institute of Public Finance and Accountancy, the future liabilities of the Fund to pay pensions and other benefits are disclosed in a report by the Fund's Actuary as set out on page 65.

20. Financial Instruments

Classification of Financial Instruments

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

	2016/2017				2017/2018	
Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
			Financial Assets			
1,993,897	0	0	Managed & unitised funds	2,030,031	0	0
0	75,865	0	Cash	0	118,937	0
0	98	0	Other investment assets	0	46	0
0	3,831	0	Debtors	0	19,173	0
1,993,897	**79,794**	**0**		**2,030,031**	**138,156**	**0**
			Financial Liabilities			
-3,872	0	0	Other investment liabilities	0	0	0
-29	0	-2,006	Creditors	0	0	-1,128
-3,901	**0**	**-2,006**		**0**	**0**	**-1,128**
1,989,996	**79,794**	**-2,006**		**2,030,031**	**138,156**	**-1,128**

A number of values included in the Net Assets Statement are not financial instruments (for example contributions payable); therefore the totals above will not be found elsewhere in the notes to the accounts.

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

Net Gains & Losses on Financial Instruments

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

Fair Value of Financial Instruments

All financial instruments are carried in the net asset statement at their fair value.

21. Valuation of financial instruments carried at fair value

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 Pension Fund Policy Documents, the Fund has determined that the valuation methods described below are likely to be accurate to within the following range. The consequent potential impact on the closing value of investments held at 31 March 2018 is shown in the table below.

	Valuation Range	Value at 31 March 2018	Valuation Increase	Valuation Decrease
Level 3 Assets	**+/-**	**£000**	**£000**	**£000**
Property Unit Trust	14%	113,429	129,310	97,549
Private Equity	29%	8,112	10,464	5,759
		121,541	**139,774**	**103,308**

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. Amounts owed to and from the Administering Authority can be seen in Notes 10 and 11.

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 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**

Restated	31 March 2017			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Financial Assets	£000	£000	£000	£000
Financial Assets at Fair Value through profit and loss	745,925	1,134,743	113,229	1,993,897
Loans and Receivables	**79,794**	0	0	79,794
Total Financial Assets	**825,719**	**1,134,743**	**113,229**	**2,073,691**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-3,901	0	0	-3,901
Financial liabilities at amortised cost	**-2,006**	0	0	-2,006
Total financial liabilities	**-5,907**	**0**	**0**	**-5,907**
Net financial assets	**819,812**	**1,134,743**	**113,229**	**2,067,784**

Reconciliation of Fair Value Measurement within Level 3

	2016/2017	Transfer into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains/ Losses	Realised Gain/ Losses	2017/2018
	£000	£000	£000	£000	£000	£000	£000	£000
Private Equity	0	0	0	8,309	0	0	-197	8,112
Property	113,229	0	0	13,562	-3,756	-9,516	-90	113,429
	113,229	**0**	**0**	**21,871**	**-3,756**	**-9,516**	**-287**	**121,541**

22. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund's assets are fully comprised of financial instruments which are managed by the Council, predominantly by the appointment of external investment managers as determined by the Pension Fund Committee. Each investment manager is required to invest the assets in accordance with the terms of a written mandate or fund prospectus. The Pension Fund Committee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Funds' Investment Strategy Statment. 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:

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

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

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

Asset type	Carrying value at 31/03/2017	Change in year in net assets available to pay benefits	
		+100 bps	-100 bps
	£000	£000	£000
Fixed interest securities	737,797	7,378	-7,378
Cash & cash equivalents	82,316	823	-823
	820,113	**8,201**	**-8,201**

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 2018 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

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**

2016/2017

Asset Type	Value (£000)	% Change	Value on Increase (£000)	Value on Decrease (£000)
Overseas Equities	929,834	15.00%	1,069,310	790,359
Overseas Property	0	15.00%	0	0
Overseas Absolute Return	144,796	15.00%	166,515	123,076
Overseas Diversified Growth	19,144	15.00%	21,981	16,247
Overseas Cash	0	15.00%	0	0
Total	**1,093,774**	**15.00%**	**1,257,806**	**929,682**

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 2017/2018 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	**14.12%**

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.

2017/2018

Asset Type	Value (£000)	% Change	Value on Increase	Value on Decrease
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**

2016/2017

Asset Type	Value (£000)	% Change	Value on Increase	Value on Decrease
UK Equities	230,355	19.00%	274,123	186,588
Overseas Equities	835,718	19.00%	994,505	676,932
Property	187,524	14.00%	213,778	161,271
Absolute Return Bonds	174,535	10.00%	191,989	157,082
Diversified Growth Funds	387,475	10.00%	426,222	348,727
Gilts	175,787	9.00%	191,607	159,966
Cash	82,316	1.00%	83,139	81,493
Total	**2,073,710**	**14.55%**	**2,375,363**	**1,772,059**

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.

With the exception of 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 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 consistently 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 £942 million representing 43% of the Fund.

Bodies participating in the Bedfordshire Pension Fund

Academy Of Central Bedfordshire
Active Education Academy Trust
Advantage MAT - Bedford Free School (formerly Bedford Free School)
Advantage MAT - Elstow
Alameda Academy
Alban Church Of England Academy
Aley Green Parish Council
All Saints Academy (Dunstable)
All Saints Lower (Post 01/10/2013) (Clifton)
Ampthill Town Council
Ardley Hill Academy
Arlesey Town Council
Arnold Academy
B.C.A.T Wixams Academy
B.C.A.T Wixams Tree Primary
B.I.L.T.T - Grange (formerly Grange Academy)
B.I.L.T.T – Greys
B.I.L.T.T – St Johns
Barnfield College
Bedford Borough Council
Bedford College (including Tresham)
Bedfordshire & River Ivel Drainage Board
Bedfordshire Fire And Rescue Service
Beecroft Academy
Biddenham Parish Council
Biggleswade Academy Trust
Biggleswade Town Council
Blunham Parish Council
Bolnhurst Parish Council
Brickhill Parish Council
Bromham Parish Council
Brooklands Middle School
Caddington Parish Council
Cedars Academy
Central Bedfordshire College
Central Bedfordshire Council
Chantry Academy
Chief Constable
Chiltern Learning - Challney Girls
Chiltern Learning - Marston
Chiltern Learning - Putteridge
Chiltern Learning Trust
CMAT – Daubeney
CMAT – Kempston Challenger Academy
CMAT – Lancot
CMAT - Springfield
Cranfield Church of England Academy
D.S.A.M.A.T - Caldecote
D.S.A.M.A.T - Kensworth
D.S.A.M.A.T - Manshead
D.S.A.M.A.T - Thomas Whitehead
D.S.A.M.A.T - Totternhoe
Dunstable Town Council
Dunton Parish Council
Eastcotts Parish Council
Eaton Bray Academy
Etonbury Academy
Eversholt Lower
Ferrars Academy
Flitwick Town Council
Fullbrook Academy
Gamlingay Village College
Gilbert Inglefield Academy
Goldington Academy
Goldington Green Academy
Gothic Mede Lower Academy
Gravenhurst Academy
Great Barford Parish Council
Greenfield & Pulloxhill Academy
Hadrian Academy
Harlington Academy
Harlington And Sundon Academy Trust
Harlington Area Schools Trust
Harlington Parish Council
Haynes Parish Council
HEART Acadamies - Cauldwell
HEART Acadamies - Shackleton
HEART Acadamies - Shortstown
Heart Academies Trust (formerly Bedford Academy)
Henlow Church Of England Academy
Henlow Parish Council

Holywell Academy
Houghton Conquest Parish Council
Houghton Regis Academy
Houghton Regis Town Council
Icknield Academy
Kempston Burial Joint Board
Kempston Rural Parish Council
Kempston Town Council
Kensworth Parish Council
Langford Lower Academy
Lark Rise Academy
Leighton Linslade Town Council
Linslade Academy Trust
Luton Borough Council
Luton Sixth Form College
Mark Rutherford School Trust
Marston Moretaine Parish Council
Maulden Parish Council
Meppershall Lower Academy School
Northill Parish Council
Oak Bank Special School Academy *
Oakley Parish Council
Police and Crime Commissioner
Potton Town Council
Priory Academy
Putnoe Academy
Queens Park Academy
Queensbury Academy
Raynsford Church Of England Academy
Redborne Academy
Robert Bloomfield Academy
S.A.C.A.T – Cardinal Newman
S.A.C.A.T – St Margaret Of Scotland
S.A.C.A.T – St Martin De Porres
S.A.C.A.T - St Marys Caddington
S.A.C.A.T - St Vincents
Samuel Whitbread Academy
Sandy Town Council
Sandye Place Academy
Shared Learning Trust
Sharnbrook Academy Federation
Sharnbrook Parish Council
Sharnbrook Primary (formerly John Gibbard Academy)
St Augustine's Academy
St Christopher's Academy
St Francis Of Assisi Academies Trust
St Mary's School (Stotfold)
Stanbridge Parish Council
Staploe Parish Council
Stotfold Town Council
Stratton Education Trust
The Firs Academy
The Hills Academy
Tilsworth Parish Council
Toddington Parish Council
Toddington St George Church Of England School
Turvey Parish Council
UNITY CofE MAT - Great Barford
University of Bedfordshire
Ursula Taylor Academy
Vandyke Upper School
Weathefield Academy
Whipperley Infant Academy
Woodland Middle
Wootton Academy Trust
Wootton Parish Council

Admitted and Other Member Bodies:

ABM Catering Ltd
Active Luton Trust
Aragon Housing Association
BPHA
Churchill (Chalk Hill)
Civica UK Limited
Cleantec Services Ltd
Cranfield University
Creative Support
ELFT Bedfordshire - East London NHS Foundation Trust Bedfordshire
ELFT Luton - East London NHS Foundation Trust Luton
Enterprise Support Services UK
Fusion Lifestyle
Grand Union Housing
LGSS Law Ltd
Luton Cultural Services Trust
Mitie
Mountain Healthcare
Multi Active Holiday Courses
Ridge Crest Cleaning Services
Ringway Jacobs
St. Christopher's Fellowship
St. Francis Children's Society
Stevenage Leisure Limited

Pension Fund Accounts Reporting Requirement - From the Fund Actuary

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2017/18 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Bedfordshire Pension Fund ("the Fund").

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

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

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

Present value of Promised Retirement Benefits

Year ended	31 March 2018	31 March 2017
Active members (£m)	1,536	1,399
Deferred members (£m)	910	916
Pensioners (£m)	1,187	1,236
Total (£m)	**3,633**	**3,551**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits. It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £75m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.7%	2.6%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.0 years	26.2 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	311
0.5% p.a. increase in the Salary Increase Rate	2%	62
0.5% p.a. decrease in the Real Discount Rate	11%	394

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2018 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.-

Gemma Sefton FFA
25 April 2018
For and on behalf of Hymans Robertson LLP

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 52.

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 overseas equities, bonds, property and absolute return multi asset funds. 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 2018.

Manager	Asset Class	2017/2018	
		£ million	%
Legal & General	Global Equities	377	17.4%
Blackrock Advisors	Equities	309	14.2%
CBRE Global Investors	Indirect Property	218	10.0%
Legal & General	UK Equities	190	8.7%
Blackrock Advisors	Gilts inc. Index Linked	177	8.2%
Insight Investment	Absolute Return Bonds	175	8.0%
Invesco Asset Management	Absolute Return Multi-Asset	155	7.1%
Pyrford	Absolute Return Multi-Asset	148	6.8%
Trilogy Global Advisors	Global Equities	119	5.5%
Newton Investment Management	Absolute Return Multi-Asset	114	5.3%
Blackrock Advisors	Emerging Markets	68	3.1%
SL Capital (SOF III)	Private Equity	9	0.4%
Net Assets Managed by the Administering Authority		116	5.3%
Total Assets		**2,175**	**100.0%**

The benchmarks and target returns governing these portfolios are detailed in the Investment Strategy Statement, included in full within this report.

Custody Arrangements

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

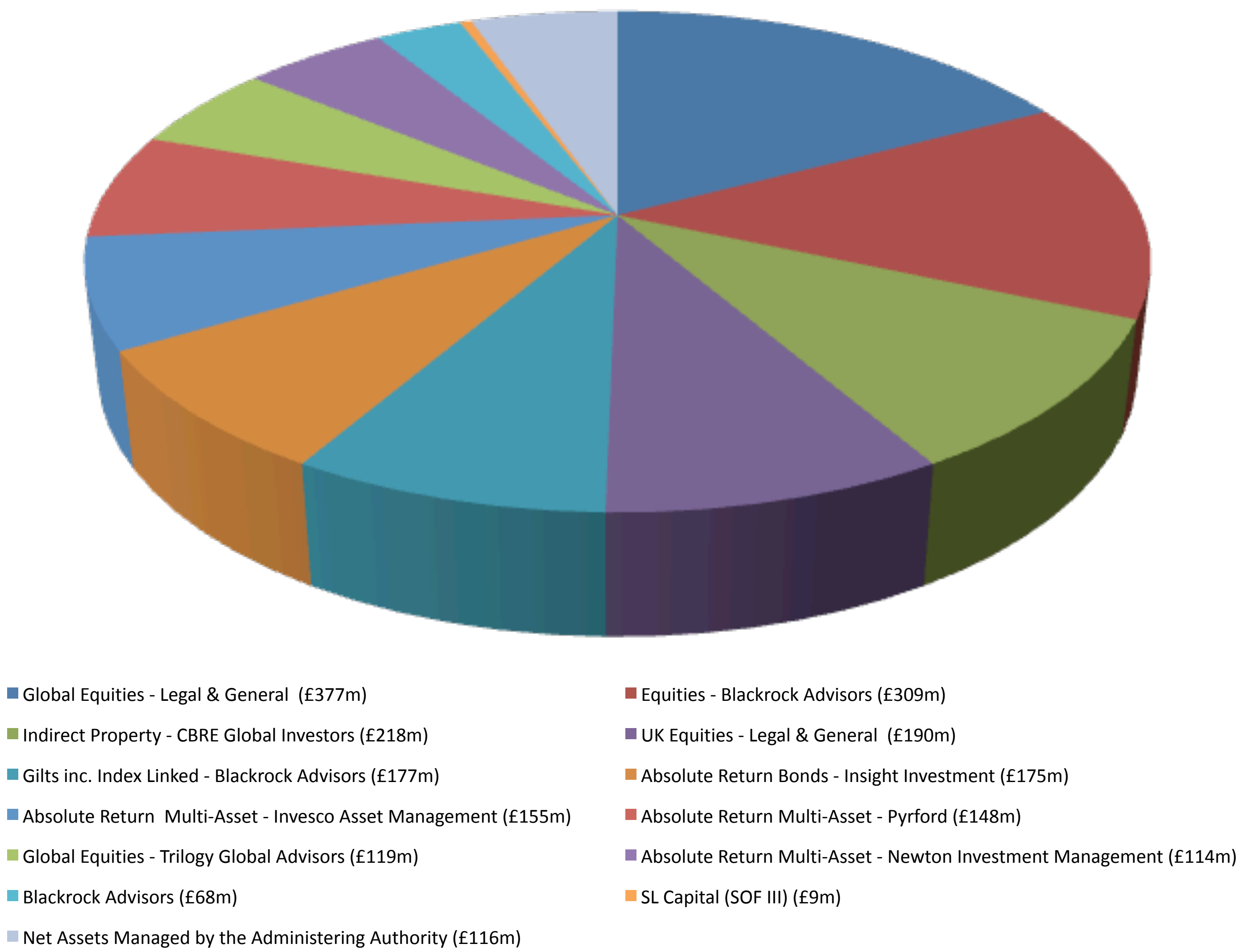
Stock lending

There were no direct stock lending arrangements in place during 2017/2018.

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 2018



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%	13%-23%
Absolute Return Bonds	10%	
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 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.

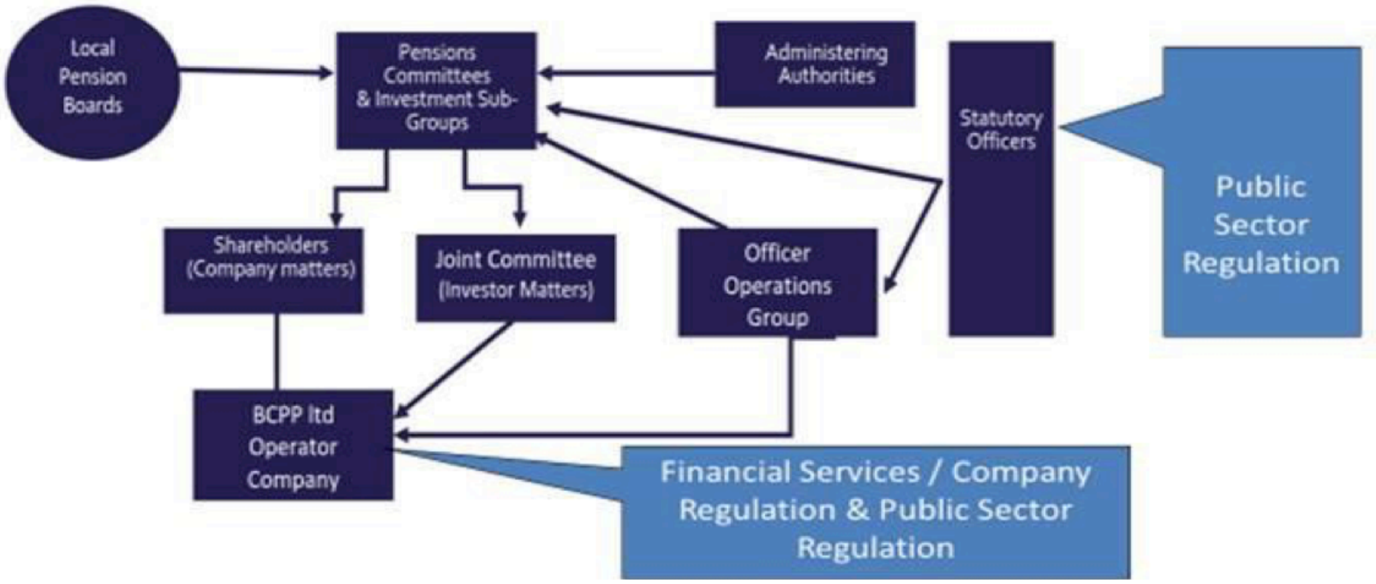
3.2.2 The following split of roles is envisaged between the Funds of BCPP and the Pool itself.

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:

BCPP Governance Structure



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.

Bedfordshire Pension Fund – Investment Strategy Statement

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.

Actuarial Statement for 2017/18 - From the Fund Actuary

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- 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 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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 67% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,733 million, were sufficient to meet 71% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £713 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.1%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are 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. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners*	24.0 years	26.2 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

In the period from the valuation date to early March 2017, index returns on the Fund's asset mix have been very strong. However, global expectations for future asset returns have fallen in light of events such as the Brexit vote.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA
For and on behalf of Hymans Robertson LLP
25 April 2018

Hymans Robertson LLP20
20 Waterloo Street
Glasgow
G2 6DB

Investment Activity and Performance

Investment Activity

Under the current investment management arrangements, the asset class of each portfolio is defined, giving less volatility in the asset allocation of the fund and less risk of over-exposure to under-performing sectors, relative to the benchmark. However the active managers have discretion to select investments within the parameters of each portfolio and changes in weightings between the various categories of investments occur. Following approval at committee to allocate $50 million from opportunistic funds to Standard Life Capital Secondary Opportunities Fund III, the first draw down of $1.7 million occurred in September 2017. Further drawdowns occurred with a total of $11.4 million being invested by 31 March 2018. In June 2017 the Pension Committee agreed to rebalance its Equity weighting and transferred £36 million from Global Equities to multi asset absolute return.

Market review – Year to 31 March 2018

Despite a less than positive start at the start of 2018, equity markets performed strongly over the period, driven for the most part by growing economic optimism. While there was some concern about equity valuations, it was held at bay by the building momentum of corporate earnings. The FTSE All-World Index returned 12% over the period in local currency terms. In sterling terms, the return was significantly lower at 3%.

This difference reflected sterling's strength against a generally weak US dollar. In broad terms, the yen and Asian and emerging market currencies tracked the dollar more closely than did sterling, which rode on the coat-tails of the euro, the strongest of the major currencies over the period.

The strength of the Eurozone economy – the latest estimate of growth in 2017 is 2.3%, its fastest pace since 2007 – was one factor behind the euro's strength. Similar momentum elsewhere helped to underpin investors' economic optimism – reported year-on-year growth in the US, Japan and China was generally rising over the period.

The UK was an exception: the post-referendum resilience in output faded in the early part of the period. The UK was also an exception in terms of CPI inflation. The annual rate at the end of the period was little changed from the rate at the start – not so different from experience elsewhere. However, the continued climb in UK inflation to 3% p.a. around the turn of the year, followed by a rapid decline to 2.5% p.a. in March was at odds with a more stable global position.

Despite a lack of inflation pressure, the Federal Reserve raised US interest rates 3 times, to a range of 1.50%-1.75% p.a., and started to unwind its quantitative easing (QE) programme in October. There were signs elsewhere that the 'lower for longer' interest rate regime was reaching its end. The European Central Bank announced that the pace of its QE would be reduced in 2018 and the Bank of England raised UK interest rates from 0.25% p.a. to 0.5% p.a. in November, the first increase for a decade.

This gradual shift in monetary policy did make things tougher for bond markets. 10-year gilt yields rose from 1.1% p.a. to 1.4% p.a. over the period; equivalent US and German government bond yields also drifted higher. But it was the stability of bond markets that was most notable until unexpectedly strong US wage growth in January unsettled investors. Even then, the subsequent rise in yields had been partly reversed by the end of March.

Over past 12 months, non-government bonds outperformed government bonds, as yield spreads generally narrowed. The positive economic backdrop over the year has also been good for credit markets, helping to minimise defaults. The positive backdrop helped to drive yield spreads down to historically low levels over the course of 2017. Earnings and forecast misses in certain sectors prompted high yield weakness in November 2017, however, spreads finished the year tighter than they began. Both investment and sub-investment grade spreads widened a little in Q1 2018 as economic optimism waned. The rise in spreads is insignificant in any longer context and only returns the market to levels seen in the first half of 2017.

The recovery in UK commercial property continued steadily throughout the period. Capital values surpassed pre-referendum highs by the final quarter of 2017. Annual rental growth which had been declining since early 2016 started to turn up slightly in the second half of 2017. The IPD Monthly Index returned 11% over the period as a whole; the best performance among the traditional sectors came from Industrials, which returned over 20%. .

UK Equities

UK equities increased their value with the FTSE All Share benchmark rose by about 1.25% and the FTSE 250 increasing about 2.61% in the 12 months to March 2018. As an asset class, UK equities were managed passively during 2017/2018 and slightly out-performed the benchmark by 0.06%.

Overseas Equities

Emerging markets ended the year having performed best with a 10.10% gain, although other markets showed big changes in value ranging from an increase of 1.55% in global equities to an increase in Japanese equities of 6.64%

The Fund's overseas equity portfolio showed a return of 2.11% for the year. Overseas equities are benchmarked against UK RPI over a rolling seven year period. Because of the long term nature of the benchmark, annual returns are compared to MSCI global developed equities index, which gave a return of 1.8% for 2017/2018.

Fixed Interest

As an asset class, UK government fixed income gave a benchmark return of 0.46% for the year. The Fund invests passively in Fixed Income and returns in this asset class were 0.53%.

Absolute Return Bonds

The Fixed Interest Absolute Return fund returned 0.15% and was behind its benchmark for the year of 2.41%. This is included to protect against raising interest rates.

Index Linked Bonds

The benchmark for UK Government index linked was 0.53% and are passively invested with the Fund's Index Linked Gilts holding returned 0.46% for the year.

Property

The income from this portfolio was reinvested in other asset classes during the year. Overall, the property portfolio returned 7.8%, compared to a benchmark of 8.1% in 2017/2018.

Multi Asset Absolute Return

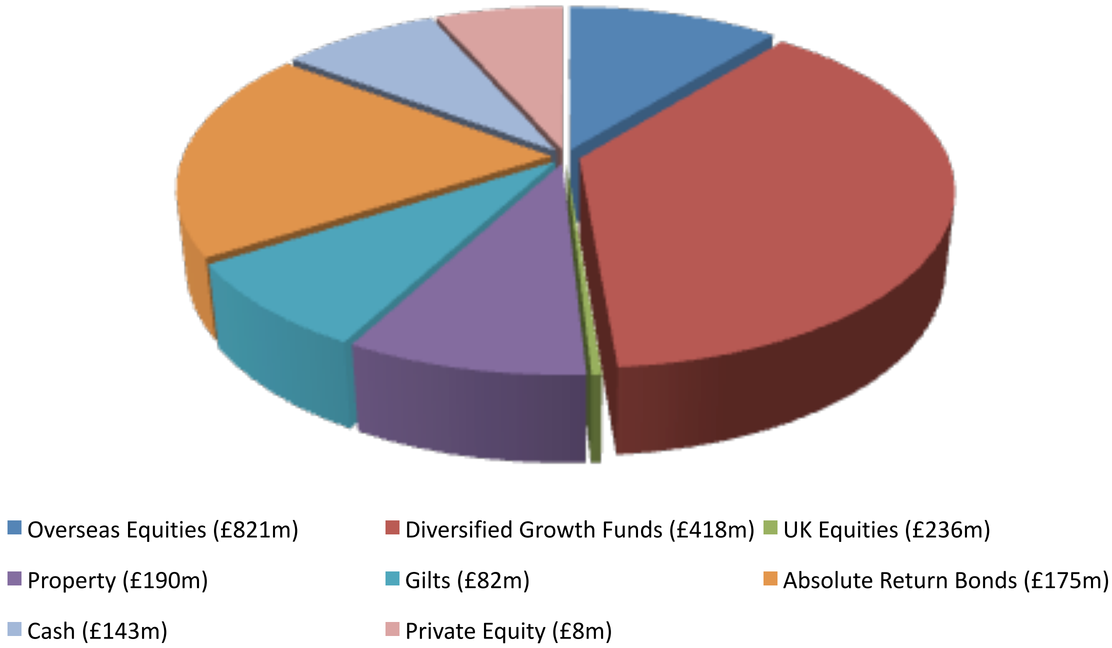
As a strategic mix of other asset classes, the mandate is seeking to smooth the return profile and over the medium term provide equity like investment returns.

The Fund uses three managers and they averaged a loss of 1.1% in 2017/2018 compared to a benchmark return of 5.68%. Although disappointing, Investment Managers are evaluated over the course of an economic cycle and not necessarily over a single year.

Future Developments

The Pension Fund continues to monitor the strategic asset allocation of the fund, seeking to improve performance within its accepted risk parameters. In addition to the £50 million opportunistic investment Standard Life Capital Secondary Opportunities Fund III the Pension Fund Committee has agreed to allocate a further $34 million towards another opportunistic investment as allowable under the Investment Strategy. This new investments relates to Pantheon Real Assets which will start to be drawn in 2018/2019.

Investments as at 31 March 2018 analysed by asset class

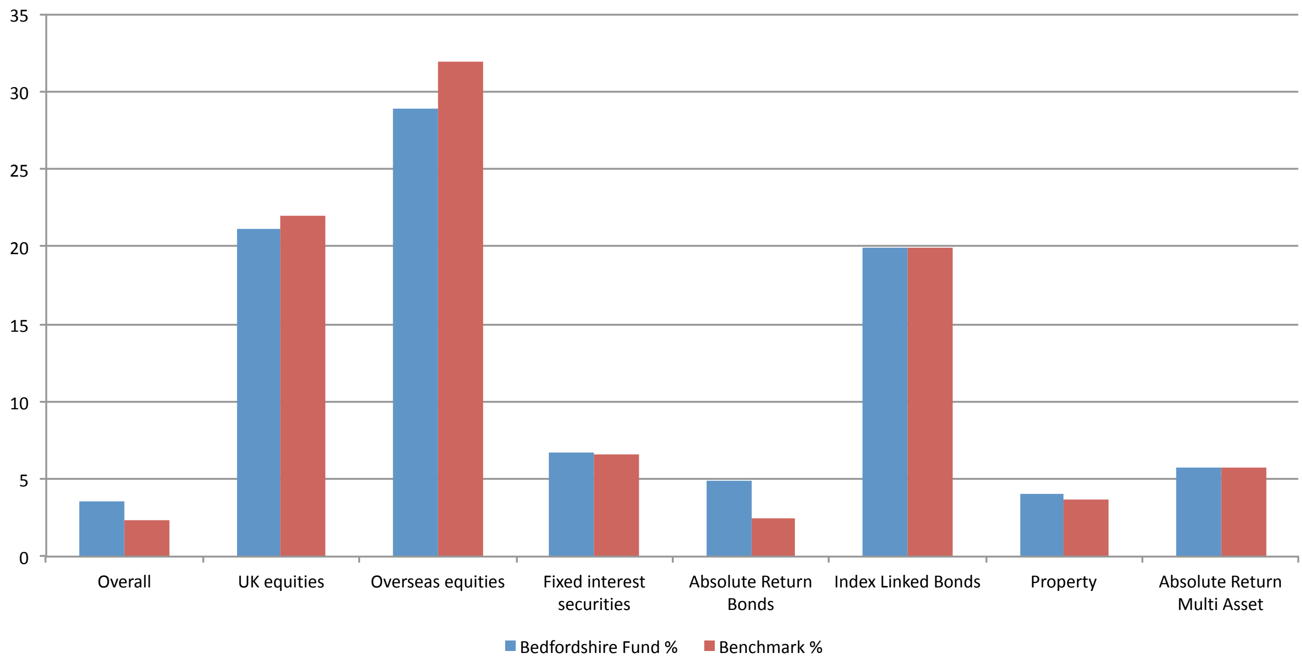


Investment Performance

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.

Hyman Robertson's analysis for the year to 31 March 2018 showed an overall return on the Fund's assets of 2.3%, behind its benchmark return of 4.0%. Returns achieved by the major asset classes are shown in the graph below. Over the three-year period to 31 March 2018, the Fund's assets in total gave a 10.4% return against a benchmark of 7.1% and the five year period showed a return of 7.2% compared to a benchmark of 6.3%.

Gross Returns by asset class for the year ended 31 March 2018



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: 27 June 2017

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).

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-

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;
- 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 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.

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 :-

Communications Policy Statement

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:

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

Explanation of communications

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

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.

Bedfordshire Local Pension Board

Annual Report of the Bedfordshire Local Pension Board – 2017/2018

1 Introduction

1.1 This is the Annual Report of the Bedfordshire Local Pension Board for 2017/2018.

1.2 Pension Boards were introduced in to the Local Government Pension Scheme (LGPS) from April 2015 under the Public Sector Pensions Act 2013 with responsibility to assist Administering Authorities, in particular pension managers, and to secure compliance with LGPS Regulations.

1.3 The Bedfordshire Local Pension Board was established in March 2015 and operates independently of the Pensions Committee.

2 Purpose

2.1 The Pensions Board assists the Administering Authority in its role as a Scheme Manager of the LGPS. Such assistance is to:

- secure compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- ensure the effective and efficient governance and administration of the Scheme

3 Executive Summary

3.1 The Board have not identified any significant concerns relating to the Bedfordshire Pension Fund or its administration for 2017/18.

3.2 A decision was made to appoint an Independent Chair to support the work of the Board. The Terms of Reference were amended to reflect this decision and to outline the Chair's role and purpose. The updated Terms of Reference were approved by Full Council in February. Following a recruitment exercise, interviews were conducted in April and Gerard Moore was recommended and appointed at the meeting of the Board in May; he will chair meetings of the Board in 2018/19.

4 Constitution and Membership

4.1 The Bedfordshire Local Pension Board 2017/18 was made up of four Employer Representatives and four Member Representatives:

Employer Representatives

- Councillor Stephen Moon (Chair) (Bedford Borough Council)
- Councillor James Jamieson (Central Bedfordshire Council)
- Councillor Paul Castleman (Luton Borough Council)
- Stuart Goodwin (Bedfordshire Police) – from 24 November 2017

Member Representatives

- Martin Foster (GMB) – from 15 September 2017
- Stewart Briggs (Pensioner)
- Liam McKeating (Unison)
- Frances Bowler (Active member)

4.2 The Board met on three occasions: 20 July 2017, 19 October 2017 and 14 December 2017. The meeting due to be held in March 2018 was deferred to 3 May 2018 to allow time to recruit the Independent Chair.

4.3 Attendance at meetings for the year was 65%. (These have been adjusted for attendance by the substitute member, Councillor David Lawrence (Central Bedfordshire)).

5 Programme

5.1 At its meeting on 20 July 2017 the Board reviewed compliance against the Pensions Regulator Code of Practice 14 and guidance from the Scheme Advisory Board. This review was completed using a checklist of 99 requirements which is completed by officers for the Pensions Board on a regular basis. The checklist was updated and reviewed at both the October and December meetings.

5.2 In July's meeting, the Board considered the draft 2016/17 Annual Report and Accounts of the Bedfordshire Pension Fund.

5.3 The second Board Annual Report was published in July as required by the regulations and Guidance provided by the Scheme Advisory Board.

5.4 At its meeting on 14 December 2017, the Board reviewed its Terms of Reference relating to the membership of the Board and in particular the adoption of an Independent Chairman. The option was approved to undertake the recruitment, of an Independent Chairman as a non-voting member of the Board. This recommendation was agreed by General Purposes Committee for onward approval by Full Council in accordance with the Council's Constitution. A recruitment exercise was subsequently carried out between February and April, with a final recommendation coming to the 3 May 2018 meeting of the Board, deferred from March 2018, after the year end.

5.5 In each of the three meetings, a standing item on each agenda was the reporting of developments within the Border to Coast Pension Partnership (BCPP Pool). The local Pension Board has no jurisdiction over this development, but it is important to be aware of how these developments may affect the strategic decision making of the Bedfordshire Pension Fund. It should also be noted that the local Pension Board has oversight over the Governance processes relating to Bedfordshire Pension Funds relationship and transactions with BCPP.

5.6 A second standing item reviews the Pensions Committee decisions that have been made at the preceding Committee, noting any updates that have happened since that meeting. This has ensured that the Board is kept up to date with the key decisions made by the Administering Authority.

6 Training

6.1 The Board has a duty to monitor its own training needs to ensure that each member has the knowledge required to exercise their responsibilities. To that end, the Board has adopted the CIPFA Knowledge and Skills Framework and is following an agreed Training Plan. This 2017/18 Plan was agreed on 27 June 2017 at the meeting of the Pensions Committee, and it makes clear reference to the Public Pension Act 2013 and the requirement for knowledge and understanding of Board members. Workshops, seminars and formal training events are offered to provide members with the knowledge to perform their duties for the Board, along with one to one sessions with officers and experienced members as required.

6.2 The requirement for Board members to be trained is a fundamental part of the legislation and has been an area of focus this year. Specifically a training needs analysis report was presented at the July meeting. This report was designed to enable the Board be more focused in its training provision.

6.3 Following an adjournment of the October meeting, Gerard Moore (CIPFA) delivered a training session to the Board on the function of the Local Pension Board and how it fits into the governance of the Bedfordshire Pension Fund.

6.4 As part of the 2017/18 Training Plan, there was a commitment to complete the Pension Regulator e-learning public sector toolkit in recognition of their responsibilities as Board members. Not all Board members had completed the toolkit by the end of the year.

7 Outcomes and Recommendations

7.1 With the objective of assisting the administering authority, the Board have made a number of recommendations during the year:

7.2 The draft Pension Fund Annual Report 2016/17 was recommended for approval at the Pension Fund Committee on 20 July 2017. At the same meeting a draft Summary Report and Accounts was also recommended by the Board.

7.3 At its 3 May 2018 meeting, the Risk Register was reviewed and recommended to the Pensions Committee for approval.

7.4 Following discussion at the 19 October 2017 meeting regarding the appointment of an Independent Chair, the Board recommended that the Terms of Reference be amended at the 14 December 2017 meeting. This was to provide for the Chair to hold a term of office of 4 years and to provide for the administering authority to appoint an independent person to the Board who would be a non-voting Member and who would Chair meetings of the Board during their tenure as an independent member. Board members were subsequently involved in the recruitment of an Independent Chair.

7.5 At each meeting of the Board, items from the previous Committee were reviewed by way of a report of the Committee Decisions.

Contact Points

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

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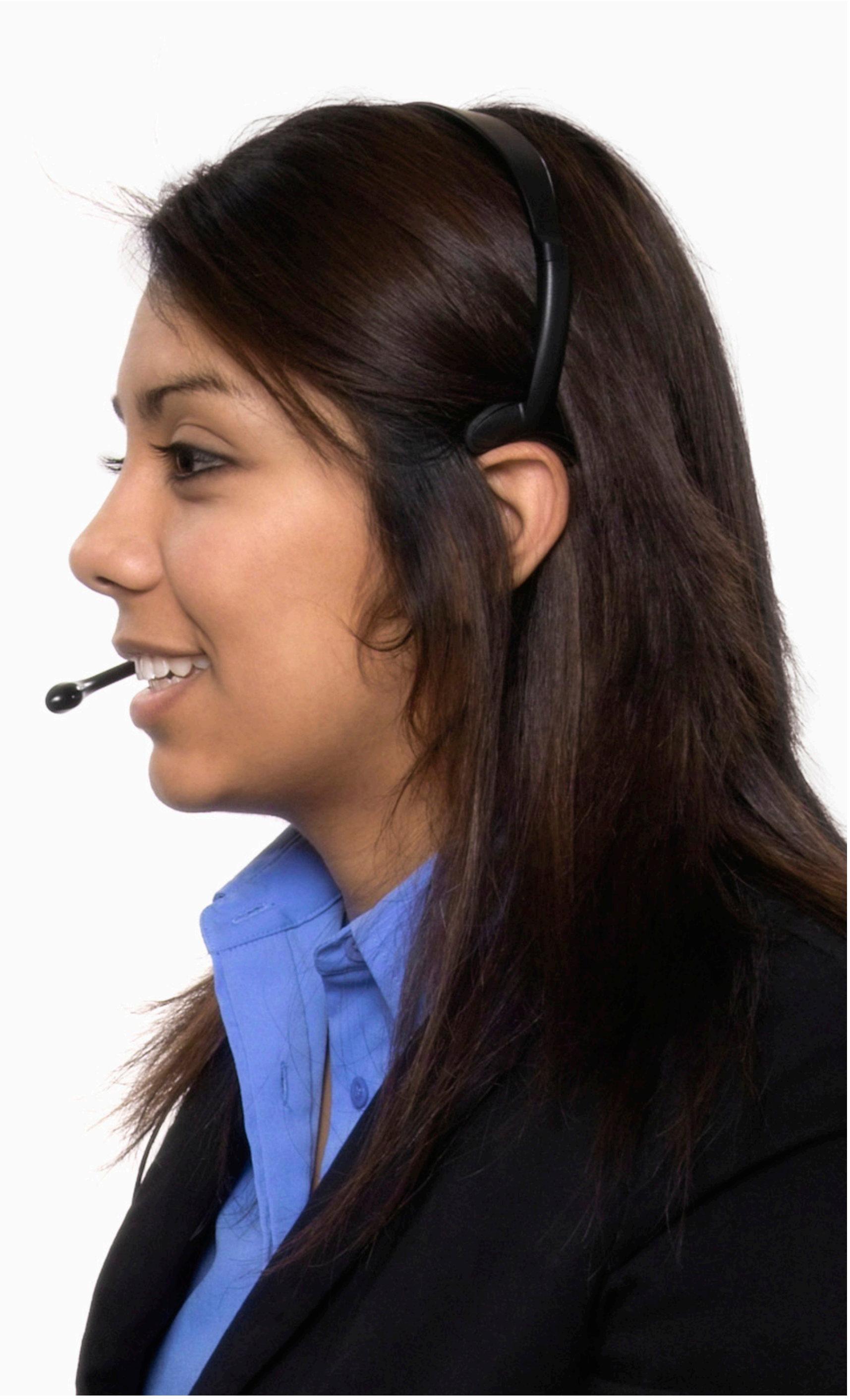

Glossary

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 2017/18.

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 2017/18 it is £45,000 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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Informacja

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