LONDON BOROUGH OF BEXLEY

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Draft Pension Fund Accounts for the year 2019/20

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Pension Fund Account

2018/19		Note	2019/20
£'000			£'000
	Dealings with members, employers and others directly involved in the scheme		
(24,546)	Contributions	5	(26,142)
(1,961)	Transfers in from other pension funds	6	(3,886)
(26,507)	**Total contributions**		**(30,028)**
31,191	Benefits	7	32,992
1,638	Payments to and on account of leavers	8	2,959
32,829	**Total benefits**		**35,951**
6,322	**Sub-total: Net (additions) / withdrawals from dealings with members**		**5,923**
6,501	**Management expenses**	9	**7,670**
	Returns on investments		
(13,172)	Investment income	10	(17,231)
(58,538)	(Profit) and losses on disposal of investments and changes in value of investments	11a	27,719
(71,710)	**Net returns on investments**		**10,488**
(58,887)	**Net (increase) / decrease in the net assets available for benefits during the year**		**24,081**

Pension Fund Net Assets Statement

2018/19		Note	2019/20
£'000			£'000
864,488	Investment Assets	11	831,463
17,064	Cash Deposits	11	16,272
881,552	**Total Net Investments**		**847,735**
1,595	Current Assets	16	1,619
883,147			**849,354**
(10,584)	Current Liabilities	17	(872)
872,563	**Net assets of the scheme available to fund**		**848,482**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme accounting year. The actuarial position of the scheme, which does take into account such obligations, is detailed in note 15 below.

Notes to the Financial Statements

1 Introduction to the Fund

The London Borough of Bexley Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS). It is administered by the London Borough of Bexley under the provisions of the Superannuation Act 1972 and the subsequent detailed regulations to provide benefits for employees. These benefits include retirement and spouses' and children's pensions, retirement and death lump sum grants. All employees who are not eligible to join another public service scheme are eligible for membership of this scheme. Employees of other scheduled and admitted bodies also participate in this scheme.

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

(a) General

The Fund is governed by the Public Service Pensions Act 2013. It is administered in accordance with the detailed regulations of:

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

It is a contributory defined benefit pension scheme and operates to provide pension benefits for employees of the London Borough of Bexley and its scheduled and admitted bodies. Teachers are not included as they come within another national pension scheme. The Fund is overseen by the Pensions Committee of the London Borough of Bexley and the Local Pensions Board. Day to day responsibility for the Fund is delegated to the Statutory Section 151 Officer.

(b) Membership

Membership of the LGPS is voluntary but employees are automatically enrolled when they are employed. After they start employment they have the right to opt out. They can also make their own personal arrangements outside the scheme.

Organisations participating in the Pension Fund include:

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

Numbers for employers and employees in the Fund are:

31 March 2019		31 March 2020
69	Number of employers with active members	75
	Number of employees in the Fund	
2,703	London Borough of Bexley	2,399
2,949	Other employers	3,173
5,652	*Total*	*5,572*
	Number of pensioners in the Fund	
4,884	London Borough of Bexley	4,912
691	Other employers	770
5,575	*Total*	*5,682*
	Number of deferred pensioners in the Fund	
3,766	London Borough of Bexley	3,729
1,149	Other employers	1,241
4,915	*Total*	*4,970*

(c) Funding

In 2019/20, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.5% to 12.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2019 and shows a funding level of 101% (2016 was 94%). This includes an estimate of the expected increase in liabilities following the McCloud court judgement. Further details on the McCloud court judgement can be found in Note 15. Whilst the Fund as a whole is fully funded the funding levels for individual employers in the fund varies with some being in a deficit position. The average deficit recovery period is ten years. Currently Employer contribution rates range from 15.3% to 32.1%. Further details on the funding position are contained in Note 15.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one- off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is adjusted annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website www.lgpsmember.org

2 Basis of Preparation

These financial statements summarise the Fund's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. They have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2019/20 (‘the Code’). The Code is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on the accruals basis. This means that income and expenditure is recognised as it is earned or incurred, not when it is received or paid.

The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pensions benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in note 15.

The accounts have been prepared on a going concern basis.

Accounting Policies

(a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers’ contributions in respect of ill-health and early retirements are accounted for in the year the event arose.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund and are calculated in accordance with LGPS regulations. The timing of these receipts and payments depends on factors such as confirmation of instructions from members and the administrative processes of the previous/new employer. Transfer values are accounted for on a cash basis as opposed to the accrual basis used for the rest of the accounts.

(c) Investment income

(i) Interest income

Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

(ii) Dividend income

Dividend income is accounted for on the date the shares are quoted ex-dividend. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset

(iv) Movement in the net market value of investments

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

(d) Benefits payable

Pensions and benefits payable include all amounts due as at the end of the financial year; any amounts unpaid show as current liabilities.

(e) Voluntary Scheme Pays, Mandatory Scheme Pays and lifetime allowance

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

(f) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

(g) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

Administrative expenses

All administrative expenses are accounted for on an accruals basis. Costs of the external pension fund administrator and other suppliers are charged direct to the Fund, whereas internal staff, accommodation and other overhead costs are apportioned to the Fund and charged as expenses.

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

All investment management expenses are accounted for an accruals basis. The fees of the external investment managers are mainly based on the market value of the funds they invest and will increase or decrease with the value of their investments. Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by the investment manager these are shown separately in note 9a and grossed up to increase the change in value of investments.

Where an investment manager's fee note has not been received by the year-end date, 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. In 2019/20 £0.1m of fees is based on such estimates (2018/19: £0.1m).

Private Equity Management fees are estimated by taking a portion of the total management fees of the private equity partnership based on the percentage of the Fund holdings with the partnership. In 2019/20 £2.7m of fees is based on such estimates (2018/19: £1.6m).

Net assets statement

(h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 12). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

(i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Cash and cash equivalents

Cash and cash equivalents is represented by the balance on the Fund's bank account together with amounts held by the Fund's external managers and invested in Money Market Funds.

(k) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's actuary in accordance with IAS 19 and relevant actuarial standards. As permitted under the code, the Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the net assets statement (see note 15).

(m) Additional voluntary contributions

Scheme members can also make arrangements for separate investments into their personal Additional Voluntary Contribution (AVC) accounts with an AVC provider recommended by the Fund. The Fund is only involved in collecting and paying over these amounts on behalf of scheme members and the separately invested amounts are not included in these pension fund accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The AVC provider is Prudential and contributions are also collected for life assurance policies provided by Utmost Life and Pensions (Previously managed by Equitable Life).

(n) Prepayment of Employer Contributions

Following the 2016 valuation the London Borough of Bexley prepaid its employer contributions for 2017/18, 2018/19 and 2019/20. The remaining prepayment balance of £9.8m was shown as a current liability in the 2018/19 accounts and was fully discharged over 2019/20. The prepayment receipts were invested as Fund assets and are assumed by the actuary to earn similar returns to other Fund assets. The risk of the extra amounts arriving in the Fund at an inauspicious time for investment returns was mitigated by making the investments over a period of time. The treatment of these payments was set out in the actuary's rates and adjustments certificate.

3 Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors including the impact of market volatility following the COVID-19 outbreak. Unquoted private equities and infrastructure investments are valued by the investment managers. The value of unquoted private equities at 31 March 2020 as £62.3m (2018/19: £72.2m) and unquoted infrastructure at 31 March 2020 was £23.1m (2018/19: £21.2m).

Pension Fund liability

The Fund liability is calculated every three years by the Fund's actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

4 Major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2020 for which there is a significant risk of material adjustment in the following financial year are:

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 judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. The Fund employs a professional actuary to provide expert advice about the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For example • a 0.5% increase in the discount rate assumption would reduce the pension liability by £83m. • A 0.25% reduction in assumed salary inflation would reduce liabilities by £3m, and • a one year increase in assumed life expectancy would increase the liability by around £30m.

McCloud Judgement	As a result of the McCloud judgement regarding age discrimination in the Fire Service and Judiciary pension schemes the Government is going to bring forward proposals to address the issue for other public pension schemes, including the LGPS. At this stage it is unknown what the proposals for the LGPS will be and therefore an estimation of the potential increase in liabilities has been disclosed in the accounts.	The Fund's actuary has estimated that the cost of the judgment could be an increase in past service liabilities of broadly £7 million and an increase in the primary contribution rate of 0.7% of pensionable pay per annum. Where an employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer over 2020/23 (and also within the Whole Fund average secondary rate of £1.1 million). If the actual cost of the judgement differs from the estimate this will be reflected in contribution rates at the next valuation.
COVID-19	The COVID-19 pandemic has created market volatility and economic uncertainty, impacting the value of the assets in the Fund. Judgements have had to be made as to what the impact is on those assets which are not publicly listed such as Private Equity. There may also be an impact on the pension liabilities in the Fund, for example if the longevity of members differs from that in the actuary's assumptions. At this time, it is too early to determine the full impact that the pandemic will have on the Fund	Sensitivity analysis of the valuation of unquoted assets is included in note 14. The valuation results and employer contributions were assessed as at 31 March 2019. Employer contributions have not been revisited but the position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.
Private Equity Investment	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £62.3m. (2018/19: £72.2m) There is a risk that this investment may be under- or overstated in the accounts.

5. Contributions Receivable

By category

2018/19 £'000		2019/20 £'000
5,946	Employees' contributions	6,375
	Employers' contributions:	
14,733	Normal contributions	15,409
3,860	Deficit recovery contributions	4,351
7	Augmentation contributions	7
18,600	**Total Employers' contributions:**	**19,767**
24,546	**Total contributions receivable**	**26,142**

By type of employer

2018/19 £'000		2019/20 £'000
13,814	Administering Authority	14,048
9,475	Scheduled bodies	10,548
1,257	Admitted bodies	1,546
24,546		**26,142**

6. Transfers in from other pension funds

2018/19 £'000		2019/20 £'000
1,166	London Borough of Bexley	3,658
794	Scheduled bodies	178
1	Admitted bodies	49
1,961	**Total**	**3,886**

All transfers in relate to individual transfers from other schemes as there were no bulk transfers in these periods.

7. Benefits Payable

By category

2018/19 £'000		2019/20 £'000
26,652	Pensions	28,084
7	Augmented service	7
3,728	Commutation of pensions and lump sum retirement benefits	3,875
804	Lump sum death benefits	1,026
31,191	**Total**	**32,992**

By authority

2018/19 £'000		2019/20 £'000
27,580	London Borough of Bexley	28,253
1,285	Scheduled bodies	2,059
2,326	Admitted bodies	2,680
31,191	**Total**	**32,992**

8. Payments to and on account of leavers

By category

2018/19 £'000		2019/20 £'000
70	Refunds of contributions	126
,568	Individual transfers out to other schemes	2,833
1,638	**Total**	**2,959**

By authority

1,402	London Borough of Bexley	2,355
233	Scheduled bodies	609
3	Admitted bodies	16
1,638	**Total**	**2,959**

There were no bulk transfers in 2019/20.

Management expenses

2018/19 £'000		2019/20 £'000
491	Administrative costs	507
5,595	Investment management expenses	6,614
415	Oversight and governance costs	549
6,501	**Total**	**7,670**

(a) Investment Management expenses

2018/19		2019/20
£'000		**£'000**
4,962	Management fees	5,778
63	Custody and performance measurement fees	257
570	Transaction costs	579
5,595	**Total**	**6,614**

In addition to these costs, indirect costs are incurred through the bid–offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 11a).

The LCIV has negotiated a performance related fee element with its global equity sub fund manager Newton. In 2019/20 a net performance related fee of £0.2m was paid by the Fund and this is included in the figures above. (no performance fee was due in 2018/19).

9. Investment income

2018/19		2019/20
£'000		**£'000**
210	Income from Equities	318
9,683	Income from Pooled Investments - unit trusts and other managed funds	13,434
695	Private Equity Income	603
2,560	Pooled Property Investments	2,818
24	Interest on cash deposits	58
13,172	**Total**	**17,231**

10. Investments

31.3.2019 £'000		31.3.2020 £'000
	Long term investments	
150	Equities	150
	Investment assets	
789,759	Pooled investment vehicles	767,704
72,181	Private Equity	62,257
17,064	Cash/temporary investments	16,272
2,398	Investment income due	1,352
881,552	**Total investment assets**	**847,735**

(a) Reconciliation of movements in investments

	Value at 31.3.2019 £'000	Purchases during the year £'000	Sales during the year £'000	Change in Market value £'000	Value at 31.3.2020 £'000
Equities	150	-	-	-	150
Pooled investment vehicles (LCIV)	541,398	14,382	(2,879)	(27,752)	525,149
Pooled investment vehicles (non-LCIV)	156,474	96,515	(96,875)	2,312	158,426
Pooled Property investment	91,887	4,186	(9,905)	(2,039)	84,129
Private Equity	72,181	4,688	(14,372)	(240)	62,257
	862,090	**119,771**	**(124,031)**	**(27,719)**	**830,111**
Other investment balance:					
Cash Deposits	17,064				16,272
Investment income due	2,398				1,352
Net Investment Asset	**881,552**			**(27,719)**	**847,735**
Current Net Assets/(Liabilities)	**(8,989)**				**747**
Net Asset	**872,563**			**(27,719)**	**848,482**

	Value at 31.3.2018 £'000	Purchases during the year £'000	Sales during the year £'000	Change in Market value £'000	Value at 31.3.2019 £'000
Equities	150	-	-	-	150
Pooled investment vehicles (LCIV)	406,018	95,464	(2,262)	42,178	541,398
Pooled investment vehicles (non-LCIV)	262,443	50,737	(160,834)	4,128	156,474
Pooled Property investment	92,733	13,342	(16,896)	2,708	91,887
Private Equity	68,801	4,132	(10,276)	9,524	72,181
	830,145	**163,675**	**(190,268)**	**58,538**	**862,090**
Other investment balance:					
Cash Deposits	735				17,064
Investment income due	2,301				2,398
Net Investment Asset	**833,181**			**58,538**	**881,552**
Current Net Assets/(Liabilities)	(9,684)				(8,989)
Long Term Liabilities	(9,820)				-
Payable of Purchases of Investment	-				-
Net Asset	**813,677**			**58,538**	**872,563**

(b) Analysis of investments

31.3.2019 £'000		31.3.2020 £'000
	Equities	
150	UK unquoted	150
150		**150**
	Pooled investment vehicles	
91,887	Managed funds – UK property unquoted	84,129
104,899	Managed funds - UK index-linked unquoted Bonds	107,065
30,402	Managed funds - Overseas index-linked unquoted Equities	28,771
93,354	Managed funds – Overseas limited liability partnership unquoted	84,846
	London Collective Investment Vehicle (LCIV) Pooled Sub-Funds - Global Unquoted	
276,300	- Global Equity Fund	268,497
92,953	- Income Equity Fund	81,323
81,700	- Absolute Return Fund	84,329
90,446	- Global Bond Fund	90,486
-	- Infrastructure Fund	515
861,940		**829,961**

17,064	Cash/temporary investments	16,272
2,398	Investment income due	1,352
19,462		**17,624**
881,552	**Total investment assets**	**847,735**

(c) Investments analysed by fund manager

2018/19 £'000	%		2019/20 £'000	%
150	-	LCIV - Shareholding	150	-
277,798	31.5	LCIV –Newton Global Equity Fund	268,892	31.7
81,700	9.3	LCIV – Ruffer Absolute Return Fund	84,329	10.0
93,780	10.6	LCIV – Epoch Income Equity Fund	82,203	9.7
-	-	LCIV – Stepstone Infrastructure Fund	515	0.1
90,446	10.3	LCIV – PIMCO Global Bond Fund	90,486	10.7
543,875	**61.7**	**LCIV Sub total (London Collective Investment Vehicle)**	**526,575**	**62.2**
104,899	11.9	BlackRock Index linked Bond	107,065	12.6
30,402	3.4	BlackRock Index linked Equity	28,771	3.4
98,219	11.1	La Salle	98,309	11.6
72,181	8.2	Partners Group	62,257	7.3
21,173	2.4	UBS infrastructure Fund	22,590	2.7
3	-	Cash Held at Custodian (Northern Trust)	168	-
10,800	1.2	LGIM Money Market Fund	2,000	0.2
881,552	**100.0**		**847,735**	**100.0**

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

The managed funds overseas unquoted limited liability partnerships are investments in funds of private equity funds, and an infrastructure fund.

The LCIV unit trusts are unquoted, however all investments within the Global Equity, Income Equity and Global Bond sub-funds are quoted.

The following investments represent more than 5% of the net assets of the scheme

Asset Class / Security Name	Manager	31.03.20 £'000	31.03.20 % of inv assets
BlackRock Aquila Index Linked Gilts	BlackRock	97,780	11.5

Asset Class / Security Name	Manager	31.03.19 £'000	31.03.19 % of inv assets
BlackRock Aquila Index Linked Gilts	BlackRock	95,759	10.9

11. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the financial year	Not required	Not required
Unquoted bonds funds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Pooled investments – overseas unit trusts and property funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Significant changes in rental growth, vacancy levels or the discounted rate could affect valuations as could more general changes to market prices
Pooled LCIV	Level 2	Quoted investments are valued at mid-market value as at close of business on the last working day of the relevant period Unquoted investments or if a quotation is not available at the time of valuation, the fair value shall be estimated on the basis of the probable realisation value of the investment. Collective investment schemes are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds, on the last business day of the relevant period.	Evaluated Price Feeds	Not required
Unquoted private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	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 cashflows, and by any differences between audited and unaudited accounts
Unquoted Infrastructure Managed Funds	Level 3	The fair value of the investments has been determined using valuation techniques appropriate to each investment. These techniques include discounted cashflow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines.	Significant unobservable inputs and observable inflation.	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 cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with investment managers and independent advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	10%	62,257	68,483	56,031
UBS Infrastructure Fund	15%	22,590	25,979	19,202
LCIV Infrastructure Fund	15%	515	592	438
La Salle Pooled Investment Property	15%	84,129	103,097	80,677
Total		**169,491**	**198,151**	**156,348**

a) 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

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

Level 2

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

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

Values at 31 March 2020	Quoted market price Level 1	Using Observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	150	660,471	169,490	830,111
Net investment assets	**150**	**660,471**	**169,490**	**830,111**

Values at 31 March 2019	Quoted market price Level 1	Using Observable inputs (restated) Level 2	With significant unobservable inputs (restated) Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	150	676,700	185,241	862,091
Net investment assets	**150**	**676,700**	**185,241**	**862,091**

Reconciliation of Fair Value Measurements Within Level 3

2018/19	Market Value 01-Apr-19	Purchases during the year and derivative movements	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31-Mar-20
	£'000	£'000	£'000	£'000	£'000	£'000
UBS Infrastructure Fund	21,173	-	(360)	1,777	-	22,590
LCIV Infrastructure Fund	-	515	-	-	-	515
Private equity	72,181	4,688	(14,372)	(6,874)	6,634	62,257
La Salle Pooled Investment Property	91,887	4,186	(9,905)	(3,917)	1,878	84,129
	185,241	**9,389**	**(24,637)**	**(9,014)**	**8,512**	**169,491**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

12. Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading.

Classification of financial instruments

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
	2018/19				2019/20	
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
150			Equities	150		
185,241			Pooled investment vehicles (non bond)	197,746		
541,398			Pooled investment vehicles (LCIV)	525,150		
135,301			Pooled investment vehicles (bond)	107,065		
	17,649		Cash		16,812	
2,398			Other investment balances	1,352		
	1,010		Debtors		1,079	
			Financial Liabilities			
		(10,584)	Creditors			(872)
864,488	**18,659**	**(10,584)**	**Total**	**831,463**	**17,891**	**(872)**

(a) Net gains and losses on financial instruments

2018/19		2019/20
£'000		£'000
	Financial Assets	
58,538	Fair value through profit or loss	**(27,719)**

13. Nature and Extent of Risks Arising from Financial Instruments

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

(a) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of movements in market prices. To mitigate market risk, the Committee and its investment /advisors undertake regular monitoring of market conditions and benchmark analysis. Market risk may be sub-divided into interest rate risk, price risk and currency risk, although these are to some extent inter-linked.

- Interest rates may vary which will impact on the valuation of fixed interest holdings. The coupon and the duration of such investments will be spread to minimise this risk.
- Currency risk is the risk that the value of financial instruments will vary with the foreign exchange rate of pounds sterling. This particularly affects the Fund's holdings in overseas equities, private equity and infrastructure. This is mitigated by the spread of investments across different countries and consideration given to hedging the risk where it is thought necessary.
- Prices of equity and other investments will vary as the prices on the stock exchange respond to factors specific to particular stocks or factors affecting stock markets as a whole. This is mitigated by having a diverse portfolio of investments across different managers, asset classes, countries and industries.

The tables below demonstrate the potential change in net assets available following movements in market risk. In 2018/19 the percentage used for the movement in price was based on past experience of the fund and interest and currency movements were based on market experience. In 2019/20 the percentage movement is based on ten-year volatility assumptions for each asset class and is therefore more forward looking and informative.

Risks	**Asset Type**	**Market Value 31Mar20 (£m)**	**% movement**	**Movement on Increased Value 2020 (£m)**	**Movement on Decreased Value 2020 (£m)**
Interest rate	Global Bonds (Investment Grade Credit)	90.49	5.5	95.46	85.51
Interest rate	UK Bonds (Investment Grade Credit)	9.29	9.0	10.12	8.45
Interest rate	UK Bonds (Gilts)	97.78	10.5	108.05	87.51
Currency, Price	Global Equities	378.74	20.0	454.49	302.99
Currency, Price	Private Equity	62.26	28.5	80.00	44.51
Currency, Price	Infrastructure	23.11	18.5	27.38	18.83
Price	UK Property	84.13	12.5	94.65	73.61
Price	Absolute Return Fund	84.33	9.5	92.34	76.32

Risk	Asset Type	Market Value 31Mar19 (£m)	% movement	Movement on Increased Value 2019 (£m)	Movement on Decreased Value 2019 (£m)
Interest rate	Bonds	195.35	1	197.30	193.39
Currency	O/S Equities	399.66	11.5	445.62	353.69
Currency	Private Equity	72.18	8.2	78.10	66.26
Currency	Infrastructure	21.17	9.3	23.14	19.20
Price	Equities	399.81	9.3	436.99	362.62
Price	Bonds	195.35	4	203.16	187.53

(b) Credit risk

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making investments on behalf of the Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. In essence, therefore, the Fund's entire investment portfolio is exposed to some form of credit risk. There is a higher credit risk involved in the Fund's allocation to private equity (7.3% at 31 March 2020 and 8.2% at 31 March 2019) but this risk is accepted as a trade off for potentially higher returns.

The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund sets an annual treasury management policy for its investment of cash flow balances and deposits are not made unless they meet the credit criteria set. The table below details the Fund's cash holding under its treasury management arrangements.

Balance as at 31 March 2019 £'000		Balance as at 31 March 2020 £'000
	Bank Account	
586	Natwest Account	540
	Money Market Fund	
10,800	LGIM Money Market Fund	2,000
11,386		**2,540**

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. To mitigate this risk, the Fund regularly monitors the state of employers in the fund.

(c) Liquidity risk

Liquidity risk is the risk that the Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2019/20 accounts show that the benefits and administrative expenses paid out exceeded the contributions to the Fund. The balance was met from investment income. However, the majority of the Fund's investments were sufficiently liquid as to be sold to provide additional cash if required. The Fund operates its own separate bank account and the liquidity position is monitored on a day to day basis. The Fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

The Fund defines liquid assets as those that can be easily converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert to cash. As at 31 March 2020 the value of illiquid assets was £169m, which represented 20% of total fund assets (31 March 2019: £182m which represented 21% of total fund assets).

14. Funding Arrangements

The Fund's actuary carries out a funding valuation every three years to set employer contribution rates for the following triennial period. The last such valuation took place as at 31 March 2019.

The key elements of the funding policy are to:

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

At the 2019 actuarial valuation the Fund was assessed as 101% funded (94% at the March 2016 valuation). This represented a surplus of £11m (£45m deficit in 2016) at that time. Contribution rates were set for the three year period ending 31 March 2023 for scheme employers and admitted bodies. The primary contribution rate (the rate which all employers in the Fund pay) was set at 18.5% (16.4% in 2016).

Individual employers' rates vary from the primary contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report on the Fund's website.

15. Actuarial Present Value of Promised Retirement Benefits

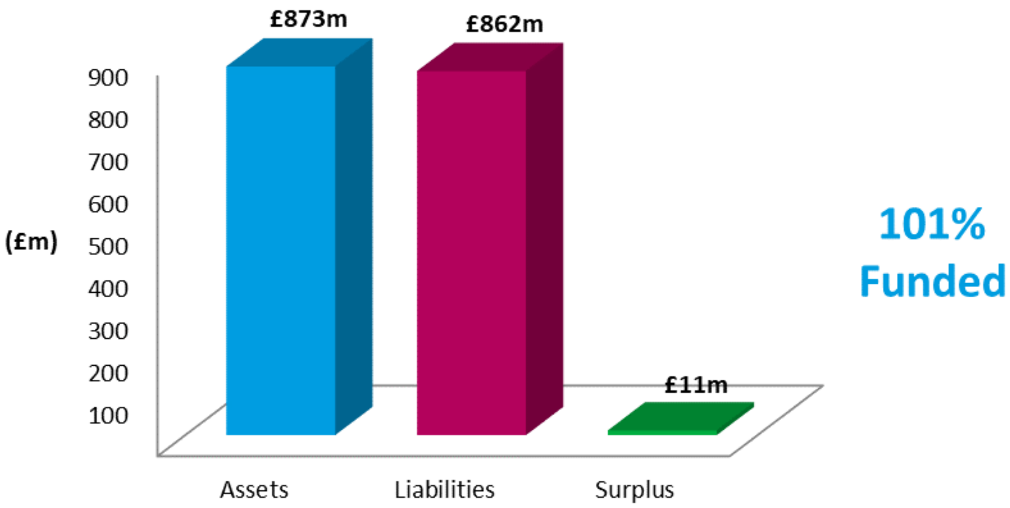
The actuary's statement for the year is shown below:-

LONDON BOROUGH OF BEXLEY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough Of Bexley Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.
On the basis of the assumptions adopted, the Fund’s assets of £873 million represented 101% of the Fund’s past service liabilities of £862 million (the “Solvency Funding Target”) at

the valuation date. The surplus at the valuation was therefore £11 million.



The valuation also showed that a Primary contribution rate of 18.5% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 10 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £1.1 million per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS) although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.
The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.65% per annum	4.40% per annum
Rate of pay increases (long term)*	3.90% per annum	3.90% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.40% per annum	2.40% per annum

* for certain employers, as agreed with the Administering Authority, allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.7% of Pensionable Pay per annum. Where an employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer over 2020/23 (and also within the Whole Fund average secondary rate of £1.1 million per annum shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases*	3.7% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year.

The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £1,111 million excluding the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£27 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£21 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of McCloud Judgment (about £10 million on IAS26 assumptions) and GMP Indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £77 million due to "actuarial gains" (i.e the effects of the *changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £1,082 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £5 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Michelle Doman

Fellow of the Institute and

Faculty of Actuaries

Paul Middleman

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

16. Current Assets

31 March 2019 £'000		31 March 2020 £'000
	Debtors	
173	Contributions due – employees	204
655	Contributions due – employers	622
828		826
181	Sundry debtors	253
1,009	**Total**	**1,079**
586	**Cash balances**	**540**
1,595		**1,619**

17. Liabilities

31 March 2019 £'000		31 March 2020 £'000
(233)	Sundry creditors	(510)
(63)	Benefits payable	(64)
(319)	Accrued expenses	(298)
(9,969)	Employer contributions prepayments	-
(10,584)	**Total**	**(872)**

18. Additional Voluntary Contributions

Market Value 31 March 2019 £'000		Market Value 31 March 2020 £'000
826	**Value of funds at end of year**	**937**

Additional voluntary contributions of £0.2m were paid during the year (2018/19: £0.2m). In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

19. Related Party Transactions

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

Information in respect of material transactions with related parties is disclosed elsewhere within the Fund accounts. Of particular note is the £345,710 recharge in 2019/20 from the London Borough of Bexley to the Fund included in administration and oversight and governance costs. (£306,968 in 2018/19)

The Director of Finance and Corporate Services allocates 5% of their time to the Fund and is the only officer that is regarded as holding a key management post in respect of the Fund. In 2019/20 costs relating to the Director of Finance post totalled £8,888 in respect of the allocation to the Fund (£10,510 in 2018/19). This includes employer pension fund contributions of £1,322 (£322 in 2018/19). The Director of Finance contributes 11.4% of their gross salary to the LGPS in employee contributions.

No Councillors of the London Borough of Bexley are members of the Local Government Pension Scheme. During the year, no Council Members or Designated Officers have undertaken any declarable transactions with the Fund. Each Member of the Pensions Committee is required to declare their interests at each meeting.

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

20. Contingent Liabilities and Contractual Commitments

The Fund has a commitment to contribute a further £34.7m to the fund of private equity funds (£38.2m as at 31 March 2019), and a further £49.8m into infrastructure funds. These contributions will be financed from sales of existing investments. The timing for paying over these commitments over the next few years is uncertain. The overall amount invested in private equity is not expected to change significantly as new drawdowns are likely to be offset by increased distributions.

There were no other material contingent liabilities or contractual commitments at 31 March 2020, or material non-adjusting events subsequent to this.

21. External Audit Cost

2018/19 £'000		2019/20 £'000
21	External Audit fees	16
-	Refund in respect of 2018/19 fees	(2)
21	**Total**	**14**

22. Post Balance Sheet Events

In December 2018 the Court of Appeal ruled that transitional provisions which were put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. Although this ruling did not relate directly to the LGPS, the LGPS also put in place protections for older members as part of the reforms which came into effect from 2014. The UK Government confirmed on 15 July 2019 that, alongside the process to remedy the Fire and Judiciary schemes, it will also bring forward proposals to address the issue for the other public service pension schemes, including the LGPS. It is unclear at this stage what the exact extent will be of the required changes to the LGPS but it is estimated that it could lead to an increase in past service liabilities of broadly £7m (2018/19: £10m) and an increase in the Primary Contribution rate of 0.7% (2018/19: 1.0%) of Pensionable Pay per annum

On 11th March 2019 the World Health Organisation declared that the spread of the COVID-19 virus had become a pandemic. In response governments around the world brought in measures to contain the virus which included social distancing and the closure of businesses. These measures led to big falls in global markets, market volatility and socioeconomic uncertainty. Governments and Central Banks around the world have introduced unprecedented fiscal and monetary action to stabilise economies leading to a sharp increase in government borrowing.

Employer contributions have not been revisited but the situation is being kept under review and all stakeholders will be nformed of any potential implications so that the outcome can be managed effectively

The sensitivity of the Funds investments to market movements is shown in note 14. The Fund has a long-term time horizon and its strategic asset allocation reflects this. Disciplined, policy-oriented rebalancing will be used where needed to ensure that market volatility doesn't lead to the Fund straying from its long-term investment objectives.

Following the 2019 valuation of the Fund the Pensions Committee reviewed the investment strategy and agreed a revised strategic asset allocation at its March 2019 Committee meeting. The revised strategy includes a 10% reduction in the allocation to equities and selling out of the Absolute Return Fund whilst increasing the allocation to bonds and cash.

Global Credit spreads significantly widened following the COVID-19 pandemic and the opportunity was taken to enact the first part of the revised strategic asset allocation. Therefore in May 2020 the Fund sold its LCIV Absolute Return Fund holdings. £42m of the proceeds were used to increase the Funds holdings in the LCIV Global Bond Fund and the remainder was taken in cash.