MEETING **PENSION FUND COMMITTEE**
DATE AND TIME **TUESDAY 29TH JULY, 2014** **AT 7.00 PM**
VENUE **HENDON TOWN HALL, THE BURROUGHS, NW4 4BG**

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall

Councillors

Andreas Ioannidis	Daniel Seal	Peter Zinkin
Kitty Lyons	Jim Tierney	

Substitute Members

Dean Cohen	Adam Langleben	Pauline Coakley Webb
Anthony Finn	Alison Moore	Stephen Sowerby

You are requested to attend the above meeting for which an agenda is attached.

Andrew Nathan – Head of Governance

Governance Services contact: Maria Lugangira 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	
2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Members' Items (if any)	
6.	Barnet Council Pension Fund Performance for Quarter January to March 2014	1 - 32
7.	Pension Fund Annual Report and External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2013/14	33 - 130
8.	Statement of Investment Principles	131 - 144
9.	Update on Admitted Body Organisations	To Follow
10.	Report of the Monitoring Officer (if any)	
11.	Any item(s) that the Chairman decides is urgent	

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AGENDA ITEM 6

Pension Fund Committee

29 July 2014

Title	**Barnet Council Pension Fund Performance for Quarter January to March 2014**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 31 March 2014 Appendix B – JLT Image Report Quarterly Update 31 March Appendix C – WM Local Authority Universe Comparison to 31 March 2014
Officer Contact Details	Iain Millar, Head of Treasury Services iain.miller@barnet.gov.uk 0208 359 7126

Summary

This report summarises Pension Fund investment manager performance for the January to March quarter 2014.

Recommendations
1. That having considered the performance of the Pension Fund for the quarter to 31 March 2014, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the pension fund is being invested prudently and in accordance with the investment strategy.

2. REASONS FOR RECOMMENDATIONS

2.1 Not applicable

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

4.1 None

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities.

5.2 **Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 As administering authority for the London Borough of Barnet Pension Fund, the Council is required to invest any funds not required for the payment and administration of pension fund contributions and benefits.

5.2.2 The Pension Fund has appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and volatility of investment return is expected, though in the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield The Growth portfolio targets of the respective Diversified Growth Funds are Newton; LIBOR +4%, and Schroder; RPI+5%.

5.2.3 The total value of the pension fund's investments including internally managed cash was £828.484 million as at 31 March 2014, up from £814.876 million as at 30 December 2013. The total market value of externally managed investments rose by £13.61 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2007.

5.2.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced an absolute positive return of 1.5.0% and all the growth and bond funds produced positive absolute returns. However in relative terms the Fund underperformed against the liability benchmark by 1.0%.

5.2.5 Of the diversified growth funds only the Newton Real Return DGF outperformed, 1.4% return versus a benchmark return of 1.1% but .one year return was 1.4% compared to a benchmark return of 4.5% reflecting an ongoing defensive strategy. The Schroder Diversified Growth Fund underperformed for the quarter, 0.4% versus a benchmark return of 2.1%. One year return was 5.3.% versus the benchmark return of 7.6%. The Growth Portfolio, comprising the two DGF funds, outperformed the third benchmark the notional 60/40 global equity benchmark, by 1.0% over the quarter. It is usual to expect DGF funds to underperform equities in rising markets and to outperform in falling markets.

5.2.6 For the quarter, the Newton Corporate Bond portfolio marginally underperformed, returning 2.8% against its benchmark of 3.2% and over one year the Fund slightly outperformed the benchmark with a 1.5% return against a benchmark return of 1.2%. Schroder's Corporate Bond portfolio outperformed the benchmark for the quarter returning 3.0% against a benchmark return of 2.5%. Over the year the Schroder corporate bond return was 3.7% versus the benchmark return of 1.7%.

5.2.7 For Legal and General, overseas equities performed in line with its benchmark with an absolute return of 0.8% for the quarter and 7.7% for one year. The fixed interest performance of 2.5% marginally outperformed the benchmark of 2.4%. with a similar outperformance for one year return of 1.7% (benchmark 1.6%).

Investment Performance & Benchmark

5.2.8 The Fund's overall performance is measured against a liability benchmark return. Over the quarter the estimated funding position decreased by 1.3% to a 75.8 % funding level

5.2.9 The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund portfolios and is measured against a notional 60/40 global equity benchmark and underlying benchmarks of each fund for comparison.

5.2.10 The performance of the Fund including manager performance is outlined in Appendix B.

5.2.11 Fund Return compared with the WM Local Authority Universe over the quarter to 31 March 2013 for one, three and five years is set out in Appendix C.

5.3 **Legal and Constitutional References**

5.3.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009)made under the powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972.

5.3.2 Constitution – Responsibility for Council Functions, delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement

5.4 **Risk Management**

5.4.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT Investment Consulting, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

5.4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the sovereign debt crises in the Euro zone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. Both Newton's and Schroder's will attend this Committee to update on their approach in this context

5.5 **Equalities and Diversity**

5.5.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.5.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

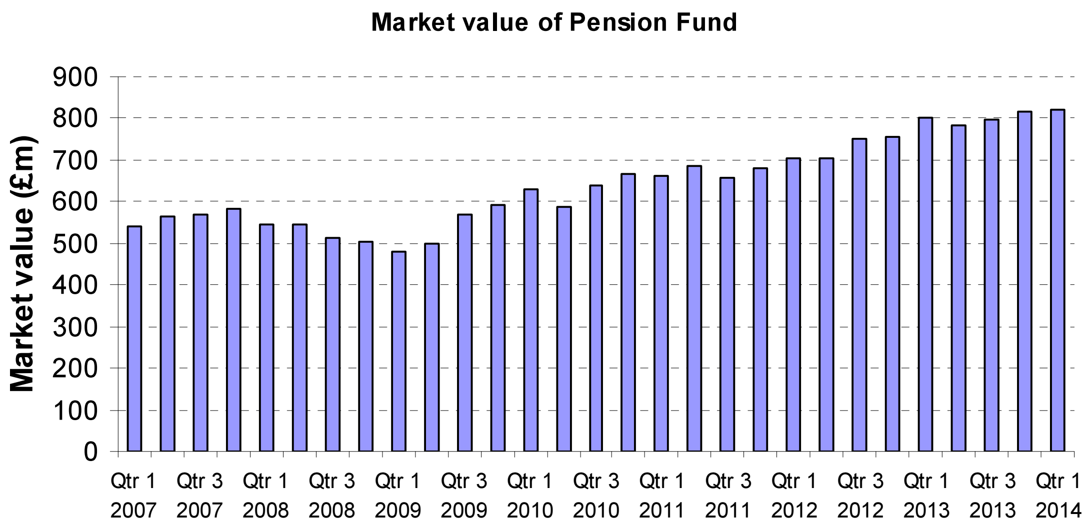
5.6 **Consultation and Engagement**

5.6.1 Not Applicable.

6. BACKGROUND PAPERS

6.1 None

Appendix A – Pension Fund Market Value of Investments as at 31 March 2014



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London Borough of Barnet Superannuation Fund

Quarterly update to 31 March 2014

Contents

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1 Market update

Introduction

The tables below summarise the various market returns to 31 March 2014, to relate the analysis of your Scheme's performance to the global economic and market background.

Market returns growth assets	3 mths %	1 yr. %	3 yrs. % p.a.
UK equities	-0.6	8.8	8.8
Overseas equities	0.7	6.8	7.6
USA	1.2	11.3	13.3
Europe	2.4	15.7	6.1
Japan	-6.0	-1.6	4.3
Asia Pacific (ex Japan)	0.4	-6.5	0.8
Emerging markets	-0.7	-10.8	-4.3
Property	3.9	14.0	7.6
Hedge fund	1.0	7.2	4.7
Commodities	2.3	-7.9	-4.7
High yield	2.2	-0.7	7.6
Emerging market debt	3.7	0.6	7.1
Senior secured loans	0.6	7.0	5.0
Cash	0.1	0.4	0.5

Market returns bond assets	3 mths %	1 yr. %	3 yrs. % p.a.
UK gilts (>15 yrs.)	3.4	-3.1	8.7
Index-linked gilts (>5 yrs.)	3.6	-4.4	9.0
Corporate bonds (>15 yrs. AA)	2.7	1.5	8.8
Non-gilts (>15 yrs.)	2.7	1.1	8.9

* Subject to 1 month's lag
Source: Thomson Reuters and Bloomberg

Change in sterling	3 mths %	1 yr. %	3 yrs. % p.a.
Against US dollar	0.7	9.8	1.3
Against euro	0.6	2.3	2.3
Against yen	-1.4	20.3	8.9

Absolute change in yields	3 mths %	1 yr. %	3 yrs. % p.a.
UK equities	0.13	0.06	0.45
UK gilts (>15 yrs.)	-0.15	0.41	-0.87
Index-linked gilts (>5 yrs.)	-0.13	0.33	-0.73
Corporate bonds (>15 yrs. AA)	-0.13	0.24	-1.24
Non-gilts (>15 yrs.)	-0.03	0.37	-0.93

Yields as at 31 March 2014	% p.a.
UK equities	3.41
UK gilts (>15 yrs.)	3.43
Real yield (>5 yrs. ILG)	-0.10
Corporate bonds (>15 yrs. AA)	4.29
Non-gilts (>15 yrs.)	4.60

Inflation indices	3 mths %	1 yr. %	3 yrs. % p.a.
Price inflation – RPI*	0.6	2.5	3.1
Price inflation – CPI*	0.1	1.6	2.6
Earnings inflation**	0.9	2.0	1.5

Yields and the absolute change in yields are shown to 2 decimal places to clearly show the changes.

What happened?		
Asset class	**Positive factors**	**Negative factors**
UK equities	■ According to the British Chambers of Commerce (BCC), measures of growth in services, export sales and orders hit their highest levels in Q1 since the survey was launched in 1989. Six key manufacturing balances, including investment plans, were also at all-time highs. ■ The release of detailed UK GDP for the fourth quarter showed a more balanced picture of growth. As a result, the Bank of England upgraded its expectations for 2014 growth to 3.4% from its previous forecasts of 2.8%. ■ The labour market continued to strengthen as unemployment fell to 7.2% in the latest reading. A faster than expected improvement prompted the BoE to expand the number of indicators it will consider before raising interest rates. The BoE had earlier pledged not to raise interest rates until unemployment falls below 7%.	■ After a 20.3% gain in 2013, the FTSE All-Share index got off to a muted start in 2014, falling 0.6% over the first quarter as corporate earnings were generally disappointing. Financials, led by banks, had the largest negative effect on returns during the quarter. ■ Equity dividends have enjoyed an impressive lead over bond yields for some time. But with gilts and investment grade bond yields starting to rise, UK equities might witness some amount of discomfort. ■ Fears of a bubble in the UK housing market grew as indicated by the monthly house price index published by Halifax which rose 2.4% in February versus a 0.7% consensus estimate.
Overseas equities		
North America	■ The US equity markets managed to eke out marginal gains for the quarter despite the Federal Reserve slowing its pace of asset purchases to USD 55 billion in March 2014 from USD 85 billion at the end of 2013. Markets gained comfort as the Fed abandoned its erstwhile threshold of 6.5% unemployment rate to raise interest rates. ■ Markets were boosted as the congress approved a deal to raise the debt ceiling for the government until March 2015. The agreement will ensure that there will be no repeat of a government shutdown like October 2013, in the near future. ■ From a valuations perspective, the S&P 500 still appears to be reasonably priced at a price-to-earnings ratio of 15.8x, with corporate earnings expected to grow by 8% for the year.	■ In February, the commerce department revised down the GDP growth for the fourth quarter in 2013 by 0.8% to 2.4% (annualised), driven by a slowdown in manufacturing activities and lower consumer spending growth. Severe weather conditions during the first quarter have also dampened the growth estimates to sub 2% for Q1 2014. ■ Disruptive weather during January and February led to revision of consensus corporate earnings estimates to a modest growth of 1% for the first quarter; down from initial estimates of 6%. ■ The Federal Reserve revised its median forecast for the Federal Funds rate to 1% and 2.25% from its previous forecast of 0.75% and 1.75% at the end of 2015 and 2016 respectively. A faster than expected rise in the interest rate in the economy is likely to be a headwind for the equities.

Asset class	Positive factors	Negative factors
	What happened?	
Europe	▪ Eurozone equities delivered positive returns for the first quarter of 2014, outpacing other regions, though gains were held back by the geo-political situation in Ukraine. ▪ The upturn in economic activity continued into 2014, with purchasing managers' indices (PMIs) still showing expansion. The flash reading of the eurozone composite PMI for March was 53.2, marking the ninth consecutive month of expansion. ▪ France saw its flash PMI for manufacturing rise above the breakeven level of 50 for the first time since July 2011, thereby toning down the persisting concern around the strong growth disparities.	▪ Inflation remained below target during the quarter with the preliminary reading for March at just 0.5% while February's reading was revised down to 0.7% from the preliminary reading of 0.8%. However, the ECB kept its monetary policy unchanged in its latest meet. ▪ Unemployment in the eurozone has remained close to record highs despite signs of economic recovery in the 18-nation currency bloc. The jobless rate remained at 11.9% in February, only marginally down from its peak of 12% for much of 2013.
Japan	▪ Japan's inflation rose for the ninth consecutive month in February. The consumer price index rose 1.3% year-on-year, in line with the Bank of Japan's expectations, suggesting that Tokyo's efforts to reverse the falling prices is gathering steam. ▪ Factory equipment orders surged to a 5-year high and the job availability rose for the 15th consecutive month in February. The unemployment rate hit a seven year low at 3.6%.	▪ The rise in consumption tax from 5% to 8% from April is expected to drain nearly Yen 6 trillion out of the economy. Though the government has passed an economic package of Yen 5 trillion in supplementary budget items plus another Yen 1 trillion in tax cuts to counter the outflow. However, these measures are still lower than last year's stimulus. ▪ GDP grew by 1% on an annualised basis in the three-month period to December, compared with market estimates for a 2.8% expansion. The disappointing result is a reflection of lower exports, as well as weaker private consumption and capital spending.
Asia Pacific	▪ South Korea's trade surplus widened by 25.7% year-on-year in March 2014, on the back of higher demand from the US and EU, which increased the overall exports by 5.2% year on year. ▪ Indonesian stocks surged as rupiah appreciated by 6.8%, its strongest quarter since June 2009, owing to a narrowing current account deficit, growth in foreign exchange reserves and slow inflation which attracted inflows in Southeast Asia's biggest economy. The rupiah has been a standout performer across Asia year-to-date.	▪ Asia ex. Japan equities have been underperforming the developed world for well over a year and valuations are now discounting a lot of bad news. Sentiment is almost universally negative. Until there is some news from China that is considered positive, markets are likely to languish.

	What happened?	
Asset class	**Positive factors**	**Negative factors**
Emerging markets	▪ The People's Bank of China widened the daily trading band of Yuan to 2.0% from its previous target of 1.0%. The move is considered as a step towards making the Yuan a fully convertible currency and allowing for greater two-way trade. ▪ MSCI plans to include China's A-shares (Yuan-denominated mainland shares) in its emerging market equity index starting May 2015 as Asia's largest economy gradually opens up its domestic markets to foreign investors. This move would increase China's weight in the benchmark emerging market index to 19.9% from 18.9% currently. ▪ Indian equities hit record highs as foreign investors poured in nearly USD 2.8 billion during the quarter amidst a strengthening currency, shrinking current account deficit and stabilizing economy.	▪ The Chinese PMI slumped to 48.0 in March, the lowest reading since July 2013, as domestic and export demand weakened. This weakness indicates a reduction in discretionary consumer spending, which, if it persists, will make it more difficult for countries to export their way out of trade imbalances and also reinforces signs of a slowdown in the world's second largest economy. ▪ China witnessed its first corporate bond default when Shanghai Chaori Solar Energy failed to pay interest to its bondholders. In a change from previous behaviour rather than delivering a bailout or extended debt deadline, the Chinese Government refrained from doing either on this occasion. ▪ S&P downgraded Turkey's credit rating to negative from stable, citing growing risk of a hard economic lending and unpredicted policy environment. ▪ The Russian central bank raised its interest rates by 1.5% to 7.0% to defend its currency as foreign investors dumped stocks due to political turmoil in Ukraine.
Gilts	▪ The British economy recorded its fastest annual growth rate since the start of the financial crisis in 2013, with full-year growth rate up to 1.9% from just 0.3% in 2012. The IMF predicts that the UK GDP will grow at an annualised pace of 2.9% in 2014, fastest amongst the G7 economies. ▪ The Monetary Policy Committee (MPC) has removed the link between interest rates and unemployment after a sharp fall in the unemployment rate. Interest rates are likely to move only in the later part of the next year after the spare capacity in the economy is fully absorbed.	▪ UK productivity, measured by output per hour, is 21% below the average of G7 countries which is affecting the growth rate and real wages in the economy. The productivity gap of UK with its counterparts is at its widest in 20 years.
Index-linked gilts	▪ With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	▪ UK's inflation fell to 4 year low, reaching 1.7% in February 2014 from 1.9% in January 2014, affecting returns on index-linked instruments. ▪ In an environment where central banks are able to control inflation within a target range, there is limited upside to the return expectations on these instruments.

	What happened?	
Asset class	**Positive factors**	**Negative factors**
Corporate bonds	▪ Corporations continue to maintain healthy balance sheets as deleveraging continues in expectations of rising interest rates.	▪ The corporate bond market still suffers from liquidity constraints while poor productivity is pulling down the earnings growth.
Property	▪ In February 2014, the UK commercial property values registered the tenth consecutive month of rise in values. Prices remain nearly 33% below their 2007 peak levels. ▪ House prices are rising across the country with the fastest growth rate seen in London where prices are now 20% above the pre-crisis peak. ▪ The Construction PMI continues to be well above the 50 mark, with the latest reading being 62.5 in March 2014.	▪ Mortgage approval fell to 70,309 in February 2014 from 76,753 in January 2014; biggest drop in more than six years.

2 Total scheme performance

		Start of quarter			End of quarter	
Manager	**Fund**	**Value (£)**	**Proportion of total (%)**	**Net new money (£)**	**Value (£)**	**Proportion of total (%)**
Newton Investment Management Limited (Newton)	Real Return	254,254,170	31.2	-	257,735,581	31.4
Schroder Investment Management Limited (Schroder)	Diversified Growth	255,593,750	31.4	-	256,538,972	31.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	42,940,895	5.3	-	43,305,475	5.3
Newton	Corporate Bond	121,845,573	15.0	-	125,428,296	15.3
Schroder	All Maturities Corporate Bond	114,689,027	14.1	-	118,080,502	14.4
L&G	Active Corporate Bond – All Stocks	17,026,029	2.1	-	17,457,130	2.1
Newton	Cash	467,209	0.1	-	324,660	0.0
Schroders	Cash	612,773	0.1	-	649,502	0.1
Internal	Cash	7,446,621	0.9	-	154,584	0.0
Asset split						
Growth assets		560,848,209	68.8	-	558,384,115	68.1
Bond assets		254,027,838	31.2	-	261,290,588	31.9
Total		**814,876,047**	**100.0**	**-**	**819,674,702**	**100.0**

Source: Investment managers, bid value used for LGIM, NAV for Schroders and mid value used for Newton. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Cash from the Newton and Schroder portfolios has been shown separately. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Total may not sum due to rounding.

Total scheme performance

	Portfolio return Q1'14 (%)	Benchmark return Q1'14 (%)
Total scheme	1.5	2.5*
Growth portfolio		
Growth vs. global equity	0.9	-0.1
Growth vs. RPI+5% p.a.	0.9	2.1
Growth vs. LIBOR + 4% p.a.	0.9	1.1
Bond portfolio		
Bond vs. over 15 year gilts	2.9	3.4
Bond vs. index-linked gilts (> 5 yrs.)	2.9	3.6

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All-Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 18).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 18). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder Corporate Bond Portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

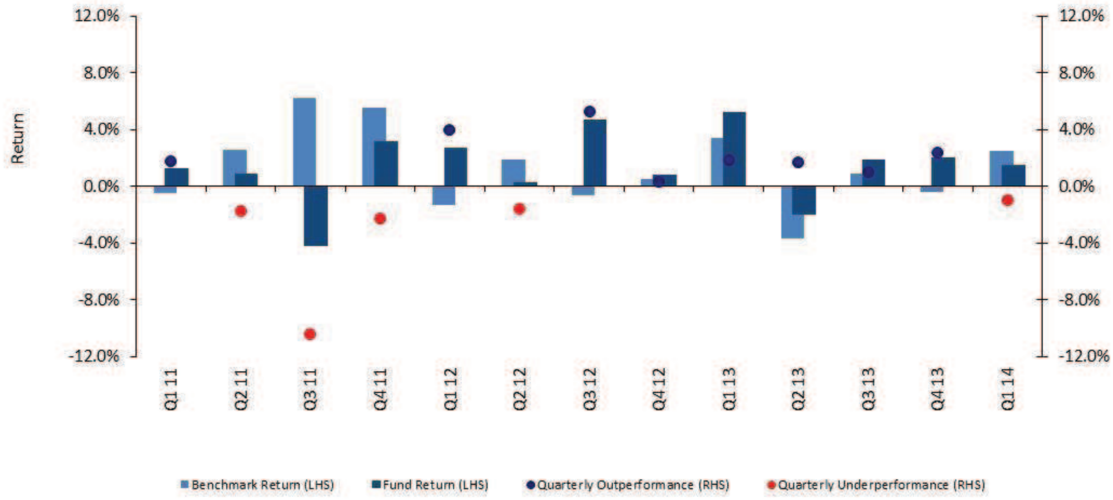
Individual manager performance

Manager/fund	Portfolio return Q1'14 (%)	Portfolio benchmark Q1 14 (%)
Newton real return	1.4	1.1
Schroder diversified growth	0.4	2.1
L&G – overseas equity	0.8	0.8
Newton corporate bond	2.8	3.2
Schroder corporate bond	3.0	2.5
L&G – corporate bond	2.5	2.4

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values for LGIM, NAV for Schroders and mid values for Newton.

The previous table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks.

Total scheme performance relative to liability benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 1.5% over the quarter and underperformed the liability benchmark return by 1.0%. The yields over the quarter have decreased which resulted in an increase in the estimated value of the liabilities.

The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The Schroder Corporate Bond Fund was the best performing fund in absolute terms, while on a relative basis, the Schroder Diversified Growth Fund was the worst performing fund which underperformed its benchmark return by 1.7%.

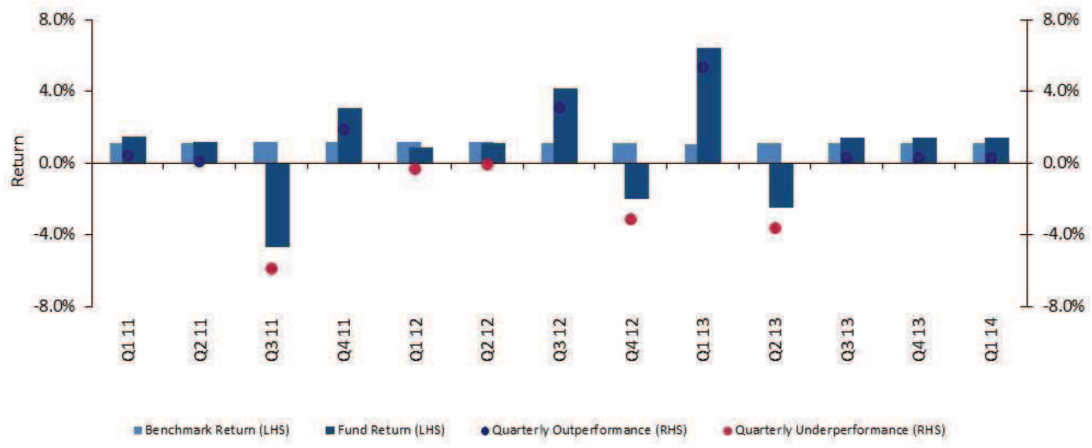
The Growth Portfolio, comprising the two DGF funds, outperformed the notional 60/40 global equity benchmark, by 1.0% over the quarter. It is usual to expect DGF funds to outperform equities in falling markets and conversely underperform in rising markets. The Growth portfolio, underperformed the RPI +5% and LIBOR +4% benchmarks over the same period. The Growth portfolio's positive absolute return over the quarter was driven by both the DGF Funds with the Newton Real Return performing significantly ahead of the Schroder DGF.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 0.5%) and the Over 5 Years Index Linked Gilts Index (by 0.7%).

3 Manager performance

3.1 Newton – Real Return Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 1.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the Fund outperformed by 1.5%.

The Real Return Fund outperformed its benchmark and target over the quarter, and also outperformed equities. Over the period, the largest contribution to the Fund's performance came from the holding in 30 year US Treasury bonds.

At the broad asset class level, the Fund's bond holdings provided the largest positive contribution over the quarter, followed by equities. Equity returns from Microsoft, United Utilities, Newcrest Mining, Merck and Roche were positive for the Fund. The main detractors from performance were holdings in Sprint, Syngenta, Citigroup and Bayer.

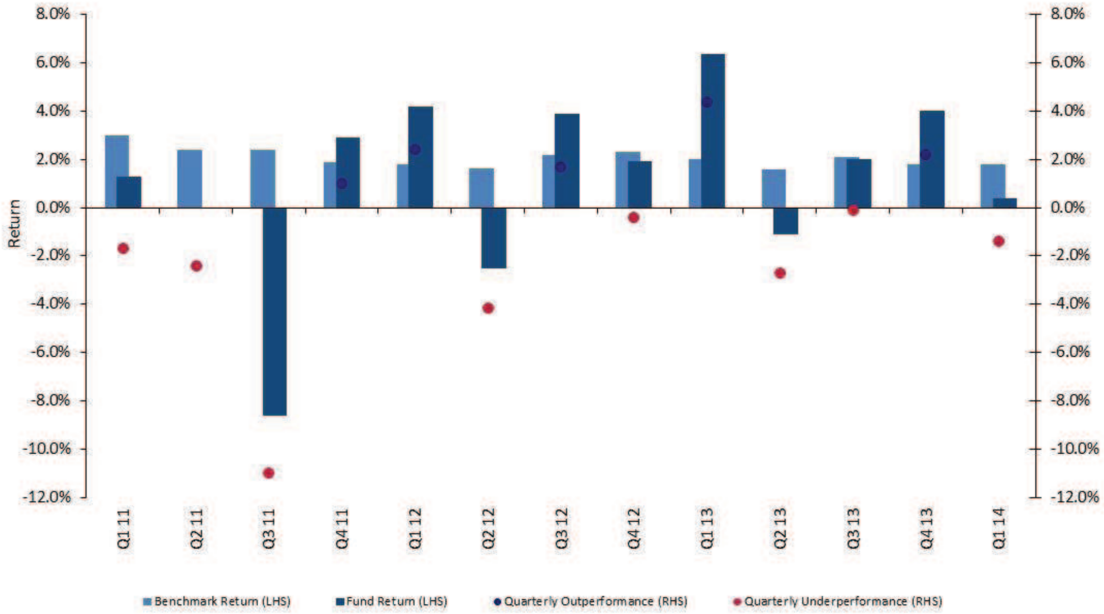
The Fund's exposure to physical gold provided a positive contribution, as gold rose over 6.4% in US dollar terms.

Going forward, the Fund continues to take a cautious approach. The broad allocation to equities was relatively unchanged over the quarter. Within the equity segment, the allocation continues to be skewed to those sectors which are, traditionally, more defensive, e.g. pharmaceuticals. The Fund's bond holdings are also similar to that at the end of the previous quarter. The largest holdings continue to be in US government bonds and large household names such as Microsoft and GlaxoSmithKline.

Over the 12 month period, the Fund returned 1.7% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 6.3%.

3.2 Schroder – Diversified Growth Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 0.4% compared to its RPI + 5% p.a. portfolio benchmark return of 2.1% and underperformed by 1.7%. The Fund outperformed the notional 60/40 global equity benchmark by 0.5% over the quarter.

The Fund's exposure to US equities, Global equities and High Yield Debt were the main drivers of performance. Most emerging markets finished the quarter in negative territory.

Allocations to UK Equities, Property, and EMD (Local Currency) also added to performance. The largest detractors from performance were the Fund's Currency, European and Japanese equity exposures.

Going forward, the Fund increased its North American equity exposure, adding over 3% in both US small cap and Canadian equities. The Fund added a holding in EURO STOXX 50, rotating out of UK equities, on the view that margins are currently depressed offering potential earnings growth. The Fund also turned more negative on Japanese equities and established a long position in the Japanese yen, after over a year of being short.

Over the 12 month period, the Fund returned a positive absolute return of 5.3% versus the benchmark return of 7.6%. In comparison to a notional 60/40 global equity benchmark return, the Fund underperformed by 2.7%.

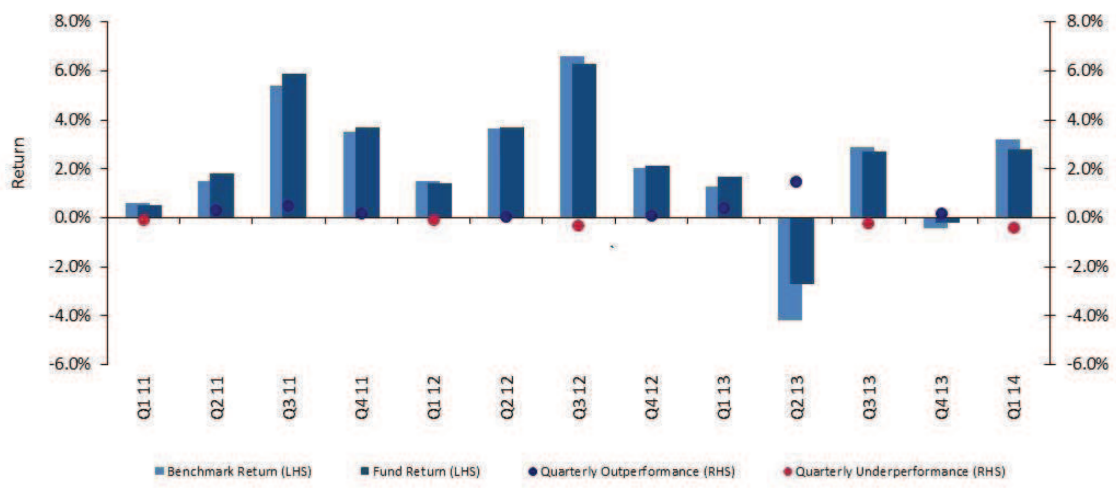
Asset allocation for growth managers: movement over the quarter

	Q1'14 Newton (%)	Q1'14 Schroder (%)	Q4'13 Newton (%)	Q4'13 Schroder (%)
UK equities	12.5	-1.6	14.2	2.2
Overseas equities	44.3	52.9	45.5	51.4
Fixed interest	17.9	-	17.2	-
Corporate bonds	10.0	1.8	10.2	3.7
High yield	-	7.0	-	11.4
Private equity	-	0.9	-	1.1
Commodities	2.8	3.3	2.6	2.8
Absolute return	-	13.5	-	7.5
Index-linked	1.2	3.0	1.2	-
Property	-	3.0	-	2.9
Cash/other	11.3	16.2	9.1	17.0
Total	100.0	100.0	100.0	100.0

Source: Investment managers.

3.3 Newton – Corporate Bond Portfolio

Performance relative to portfolio benchmark



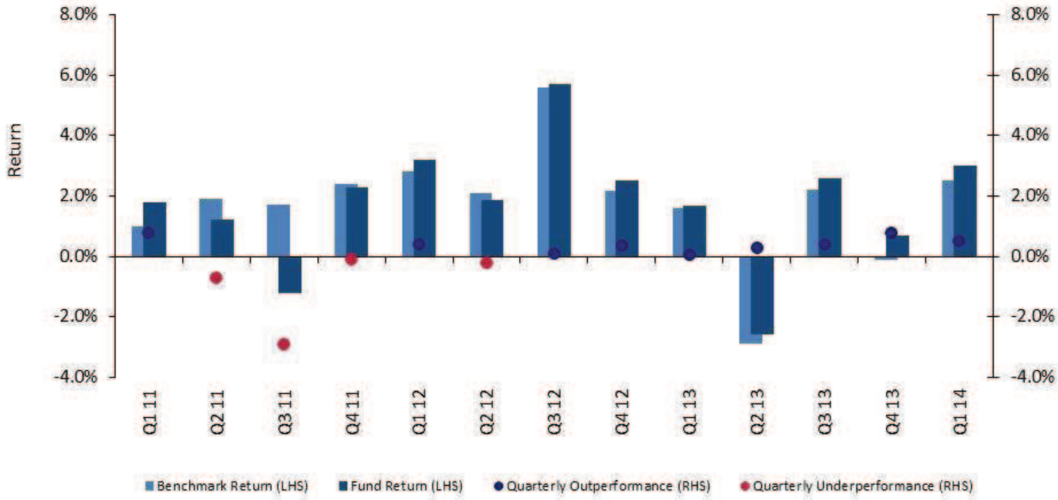
Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.4%; it returned 2.8% versus the benchmark return of 3.2%. An underweight allocation to utilities was a positive factor, however, the Fund's underweight position in peripheral European corporate bonds and hybrid bonds detracted from relative performance.

Over the 12 month period, the Fund returned 1.5% against the benchmark return of 1.2%.

3.4 Schroder – All Maturities Corporate Bond Portfolio

Performance relative to portfolio benchmark

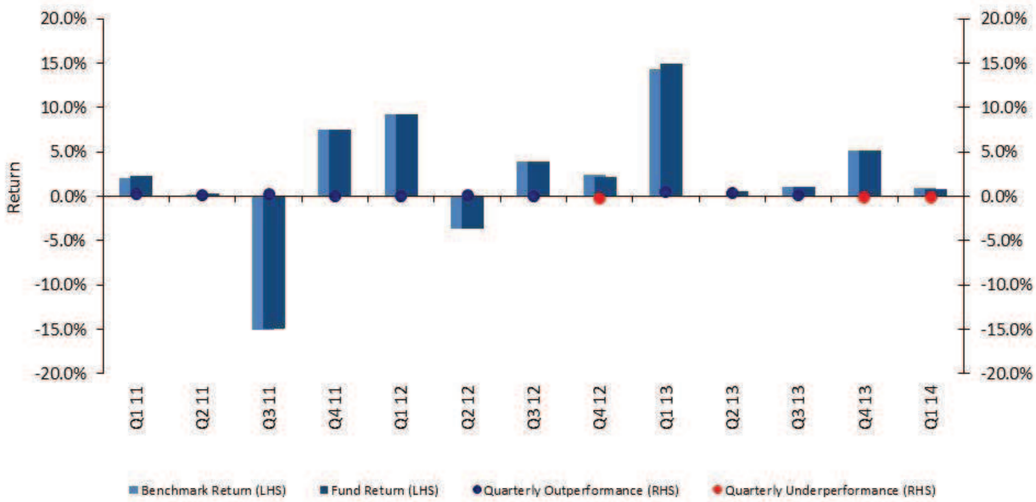


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.5%, returning 3.0% versus the benchmark return of 2.5%. Positive contributors to relative outperformance included an underweight to bonds exposed to emerging markets and an overweight to banks.

Over the 12 month period, the Fund returned 3.7% versus the benchmark return of 1.7%.

3.5 L&G – Overseas Equities



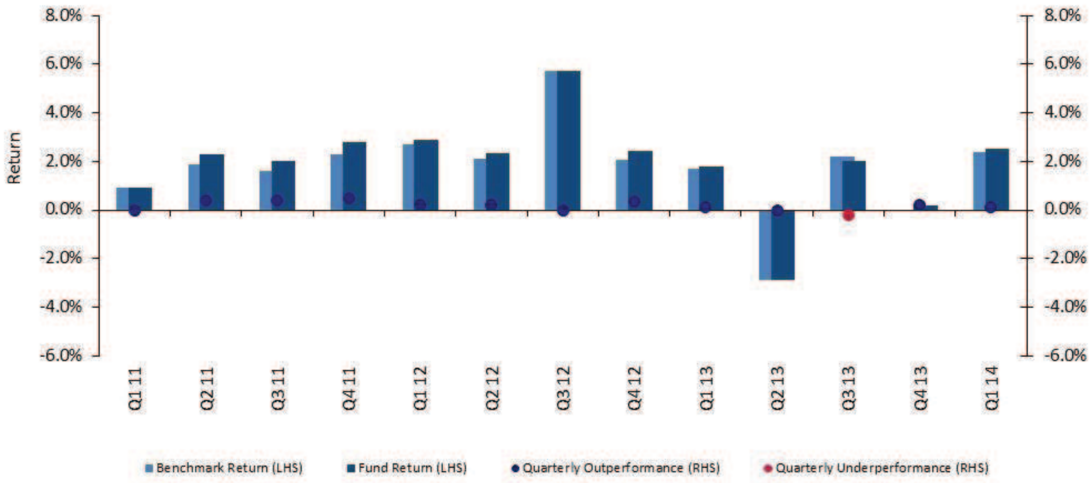
Source: Investment manager.

Over the first quarter of 2014, the Fund performed in line with its benchmark return and produced an absolute return of 0.8%.

The Fund generated an absolute return of 7.7% performing in line with its benchmarks over the 1 year period.

3.6 L&G – Active Corporate bond – All Stocks Fund

Performance relative to portfolio benchmark



Source: Investment manager.

Over the quarter, the Fund outperformed its benchmark marginally by 0.1% and produced an absolute return of 2.5% compared to benchmark return of 2.4%.

In general, returns were helped by positive effects from regional allocation, sector positioning and security selection.

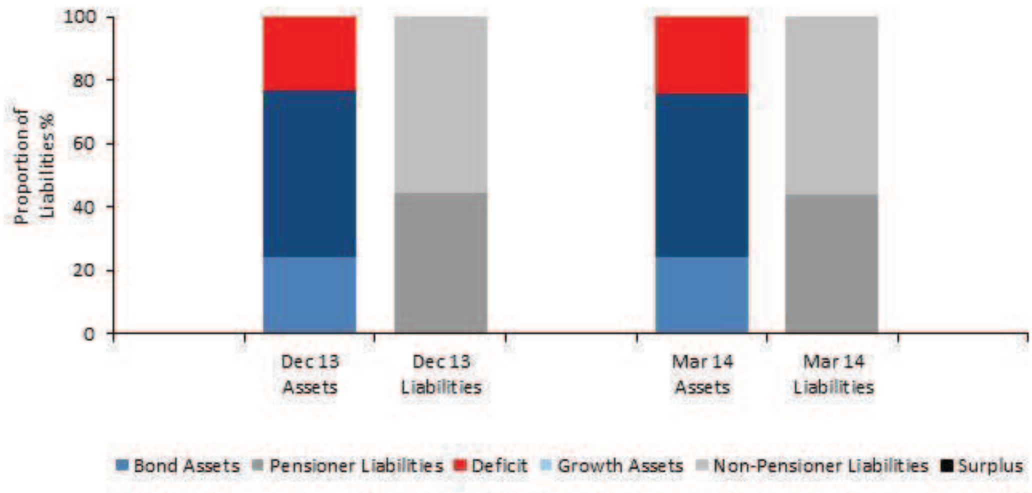
The Fund's off-benchmark allocation to US dollar denominated bonds contributed positively as these bonds performed relatively well. A driver of return within this sector was the strong fixed income demand by US pension funds caused by de-risking and locking in strong gains from the equity markets, by switching into longer dated US dollar bonds. The exposures to US dollar bonds were largely maintained over the quarter, although the fund took profits from Wells Fargo and Statoil after strong performance.

Over the 12 month period, the Fund has produced a return of 1.7% compared with the benchmark return of 1.6%.

4 Consideration of funding level

This section of the report considers the funding level of the Scheme. Firstly, it looks at the Scheme asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Allocation to bond and growth assets against estimated liability split

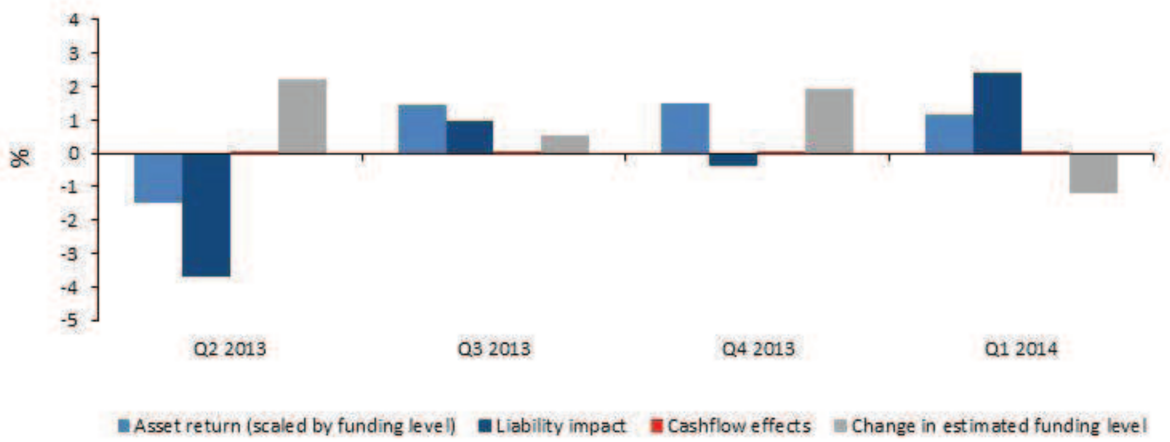


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 1. These calculations do not take account of unexpected changes to Scheme membership and should not be construed as an actuarial valuation. However, by showing approximations to these liabilities, this chart should assist the Panel in making informed decisions on asset allocation.

Over the quarter, the expected funding position decreased by 1.3%, due to an increase in expected liabilities which was partially offset by an increase in assets. The Scheme was approximately 75.8% funded as at 31 March 2014.

The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities (circa £475m at 31 March 2014); a mismatch that leaves the Scheme exposed to interest rate risk.

Scheme performance relative to estimated liabilities



The above chart shows, for each quarter, how changes in the value of the assets and the liabilities, combined with the cashflow of the Scheme, have affected the funding level. As detailed earlier, the value of the liabilities has been estimated with reference to changes in the gilt yields underlying the Scheme Actuary's calculation of liabilities, as shown in the Market Statistics table.

Over the quarter, the estimated funding level decreased by 1.3% due to an increase in expected liabilities which was partially offset by an increase in assets.

Overall, Q1 2014 has been a negative quarter for the Scheme in terms of the funding level.

5 Summary

Overall this has been a mixed quarter for the Scheme as the assets grew whilst the funding level decreased by 1.3%.

In absolute terms, the Scheme's assets produced a return of 1.5% over the quarter. All the underlying funds of the Growth and Bond portfolios produced positive absolute returns.

In relative terms, the Scheme underperformed the liability benchmark return (see page 19) by 1.0%. All of the underlying funds outperformed their respective benchmarks except for the Schroder Diversified Growth Fund which significantly underperformed, the Newton Corporate Bond Fund which underperformed and the L&G Overseas Equity which met its benchmark.

The combined Growth portfolio outperformed a notional 60/40 global equity return producing a positive absolute return of 0.9%.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 0.5% and the Over 5 Years Index Linked Gilts Index by 0.7%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a negative impact on the Scheme's estimated funding level which was 75.8% as at 31 March 2014.

Appendix 1:

Summary of current funds

Manager	Fund	Date of appointment	Management style	Monitoring benchmark	Target
Newton Investment Management Limited (Newton)	Real return	December 2010	Active, pooled	1 month LIBOR plus 4% p.a.	To achieve significant real rates of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years.
Newton	Corporate bond	December 2010	Active, pooled	Merrill Lynch Sterling Non Gilt Over 10 Years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years.
Schroder Investment Management Limited (Schroder)	Diversified growth	December 2010	Active, pooled	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years).
Schroder	All maturities corporate bond	December 2010	Active, pooled	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years.
Legal and General Investment Management (L&G)	World (ex. UK) Equity Index Fund	September 2008	Passive, pooled	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3.

Manager	Fund	Date of appointment	Management style	Monitoring benchmark	Target
L&G	Active Corporate Bond – All Stocks	December 2008	Active, pooled	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years.
Internal	Property	n/a	Active, property unit trust portfolio	UK IPD Property Index	Outperform the index.
Newton Investment Management Limited (Newton)	Balanced	April 2006	Active, segregated	WM Local Authority Weighted Average	Outperform by 1% p.a. over rolling 3 years, and not to underperform by 3% in any rolling 12 month period.
Schroder Investment Management Limited (Schroder)	Balanced	1994	Active, segregated	WM Local Authority Weighted Average ex property, Japan and other international equities	Outperform by 1% p.a. over rolling 3 years, and not to underperform by 3% in any rolling 12 month period.

Liability benchmarking

An assessment of Scheme liabilities and how they change would require details of membership changes and actuarial valuation calculations to be carried out. However, by considering the changes in value of a suitable notional portfolio, based on your own liabilities, we can obtain an approximation to the changes in liabilities which will have occurred as a result of investment factors. In this report, when we refer to "liabilities" we mean the notional portfolio representing the actuarial liabilities disclosed in the actuarial valuation report dated 31 March 2010, adjusted approximately to reflect changes in investment factors. This will, therefore, not reflect any unanticipated member movements since the actuarial valuation. However, as a broad approximation it will allow more informed decisions on investment strategy. When we refer to the "liability benchmark" we mean the estimated impact on the liabilities (as referred to above) based on market movements alone.

Glossary of terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
Market statistics indices	The following indices are used for asset returns: ▪ UK Equities: FTSE All-Share Index ▪ Overseas Equities: FTSE World Index Series (and regional sub-indices) ▪ UK Gilts: FTSE-A Gilt >15 Yrs Index ▪ Index Linked Gilts: FTSE-A ILG >5 Yrs Index ▪ Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index ▪ Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index ▪ Property: IPD Property Index ▪ High Yield: ML Global High Yield Index ▪ Commodities: S&P GSCI GBP Index ▪ Hedge Funds: CSFB/Tremont Hedge Fund Index ▪ Cash: 7 day London Interbank Middle Rate ▪ Price Inflation: Retail Price Index (excluding mortgages), RPIX ▪ Earnings Inflation: Average Earnings Index
Market volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Portfolio benchmark	The benchmark return of the each manager/fund.

Term	Definition
Relative return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: return on fund less return on index or benchmark.
Scheme investments	Refers only to the invested assets, including cash, held by your investment managers.
Standard deviation	A statistical measure of volatility. We expect returns to be within one standard deviation of the benchmark 2 years in every 3. Hence as the standard deviation increases so does the risk.
Surplus/deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Time weighted rate of return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (gross redemption yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the discounted value of future cashflows.
Three year return	The total return on the fund over a three year period expressed in percent per annum.

JLT Manager Research Tier Rating System

Tier	Definition
Buy	Significant probability that the manager will meet the client's objectives.
Hold	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
Review	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
Sell	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

JLT Employee Benefits

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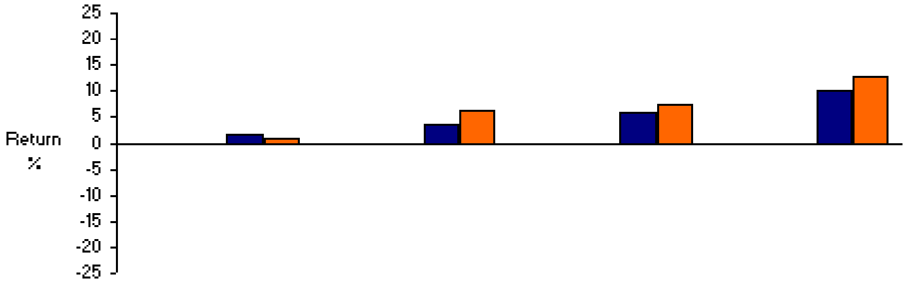
Appendix C – WM Local Authority Universe Comparison to 31 March 2014

Fund Returns

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	1.5	3.6	5.8	10.2
Benchmark	0.9	6.3	7.5	12.7
Relative Return	0.7	-2.6	-1.6	-2.2



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	AGENDA ITEM 7 **Pension Fund Committee** **29 July 2014**
Title	**Pension Fund Annual Report and External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2013/14**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Appendix A – ISA 260 report Appendix B – Grant Thornton LB Barnet Pension Fund Audit Plan Appendix C – Pension Fund Annual Report 2013/14 (including pension fund accounts)
Officer Contact Details	Iain Millar, Head of Treasury Services iain.miller@barnet.gov.uk 0208 359 7126

Summary

This report considers the detailed report from the external auditors on matters arising from the audit of the 2013/14 pension fund accounts and annual report.

Recommendations
1. That the Committee note the audit approach set out in Annex 1.
2. That the Committee approve the Annual Report 2013/14.
3. That the matters raised by the external auditor relating to detailed aspects of the 2013/14 accounts audit, including the pension fund accounts and officers responses to matters raised be noted
4. That the Committee consider whether there are any areas on which they require additional information or action

1. WHY THIS REPORT IS NEEDED

1.1 Under Section 151 Local Government Act 1972- “every local authority shall make arrangements for the proper administration of their financial affairs. Additionally in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council’s accounts and pension fund accounts. The final report of the auditors will be provided at the meeting.

2. REASONS FOR RECOMMENDATIONS

2.1 So that the Council can meet its obligations as set out in paragraph 1 above..

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

4.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Review of reports made under the International Standard on Auditing (ISA) 260 are an integral part of corporate governance. This is in line with Barnet’s Corporate Plan within “Better services with less money.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 This report sets out the framework for the assessment of the Pension Fund’s financial reporting and management as well as value for money.

5.2.2 The revised external audit fees for 2013-14 are £25,500 and were £29,776 in 2012-13.

5.2.3 The audit identified the requirement for off site testing of member and a delay in the preparation of some pension fund working papers which increased the cost of auditing the fund statements by £4,500.

5.2.4 In accordance with International Standard on Auditing (ISA) 260, the External Auditor is required to issue detailed reports on matters arising from the audit of the Council accounts and pension fund accounts.

5.2.5 The ISA 260 report has to be considered by “those charged with governance” before the External Auditor can sign the accounts, which legally has to be done by 30 September 2013.

5.2.6 The External Auditor, Grant Thornton (GT) was presented with the draft financial statements in June 2013.

5.2.7 It is an anticipated that there will be an unmodified opinion on the accounts

5.3 **Legal and Constitutional References**

5.3.1 Constitution –Responsibility for Functions Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement Paragraph 2.2.3 of the Statement lists one of the responsibilities of the Committee as ‘To receive and approve the Pension Fund Annual Report’

5.4 **Risk Management**

5.4.1 A positive external audit opinion on the Pension Fund’s Annual Report plays an essential and key role in providing assurance that Barnet’s financial risks are managed in an environment of sound stewardship and control.

5.5 **Equalities and Diversity**

5.5.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met

5.6 **Consultation and Engagement**

5.6.1 Not Applicable

6. BACKGROUND PAPERS

6.1 None

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Grant Thornton

The Audit Findings
London Borough of Barnet Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

3 July 2014

Updated 16 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Barnet Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

During the year, Barnet Council awarded to Capita plc the contract for the running of the council's back office services including the administration of the Council's pension fund. The change had an impact on our audit arrangements which was not envisaged in the scale fee. Specifically, the Borough had used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. This member database which is managed off site contributes to the information within the pension fund year end statements. In response, we documented our understanding of the nature and significance of the services provided by Capita and their effect on your internal controls, sufficient to identify and assess the risks of material misstatement. We designed and performed audit procedures as part of our testing of the financial statements and the results are set out in section 2 of this report.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt of direct bank account confirmations
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and some of the accompanying working papers at the start of our audit. The pension fund annual report and journal listings was only made available a few days before our fieldwork was due to end. Evidence to support our sample of pension strain (early retirees contributions) included within Note 3 is outstanding as at the start of July 2014. We commented on a similar issue in last year's Audit Findings report. We have completed our testing of the pension strain balance and the results are summarised within this updated report.

Overall, the quality of the working papers has improved from last year, however delays in production, gaps in working papers such as the pension strain and testing of member data off site have contributed to the increased the cost of auditing the Fund statement.

Key issues arising from our audit

Financial statements opinion

Our audit is substantially complete although we are yet to complete out review of the pension strain balance (early retirees contributions) included in Note 3

Our review identified one non trivial error within the notes to the Pension Fund Account statements which management agreed to amend:

- investment sales and purchases were overstated by an equal value within unrealised gains.

We also identified one non-trivial error and a trivial error within the Pension Fund Account and Net Assets statements respectively which management have decided not to amend:

- pension strain difference of £136k included within Contribution Receivable, and
- benefit payment accrual overstated by £227k.

Further details are set out in section 2 of this report.

We identified some disclosure and trivial classification errors within the notes to the Fund Accounts which officers have agreed to amend.

The draft financial statements recorded net assets carried forward of £829,782k which remains unchanged post audit.

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion confirming the Pension Fund account give a true and fair view of the transactions of the fund for the year ended 31 March 2014.

We will update this report on conclusion of our work. The updated report will be presented to the Audit Committee on 24 July 2014 showing the outcome of remaining tests before the accounts are approved.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the Capita team and other staff during our audit.

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 29 April 2014.

Audit opinion

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	We have rebutted this presumption as we do not consider this to be a significant risk for the London Borough of Barnet Pension Fund since: • the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions • the split of responsibilities between the Pension Fund, your fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income • revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely • transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	We reviewed the reconciliation between information provided by the fund managers, the custodian and the Fund's own records, seeking explanations for any variances. We selected a sample of the individual investments held by the fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value The existence of investments was confirmed directly to relevant documentation. We tested a sample of purchases and sales during the year back to information provided by the fund managers and/or custodians.	Our work is substantially complete. We identified non trivial error where Fund Manager Schroder's investment sales and purchases were overstated by an equal value within unrealised gains. You have agreed to amend disclosure Note 9 Investments.
Benefit Payments	Benefits improperly calculated/claims liability understated	We confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we also tested key controls identified in these areas. We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to member files. We reviewed pensions paid with reference to changes in pensioner numbers and increases applied in the year. We also compared pensions paid on a monthly basis to ensure that any unusual trends were satisfactorily explained.	Our work is complete, there are no significant issues to bring to your attention. We note within benefit payments the following: • accrued in 2012/13 of £433k had not been reversed out in 2013/14, and • payments of £206k received in 2014/15 relating to 2013/14 which should have been accrued. The value of accruals individually or in aggregate was not material. We have made a recommendation to strengthen your controls around your accruals.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct	We confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from admitted and scheduled bodies. We also substantively tested a sample of contributions from admitted and scheduled bodies. We substantively tested contributions from the Administering Authority. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends were satisfactorily explained.	Our work is substantially complete. Pension strain difference of £136k included within Contribution Receivable could not be reconciled to supporting evidence from pension admin.
Membership Data	Member data not correct	We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing, we also tested the key controls identified in these areas.	Our work is substantially complete. We are awaiting your reconciliation of membership data as at 31 March 2014.

Other issues

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description	Work completed	Assurance gained & issues arising
Pension fund administration	During the financial year, Capita was awarded the contract to manage the administration of pension fund. Some former LB Barnet pension fund staff transferred to Capita whilst others took redundancy.	• We have held planning meetings with Capita team responsible for managing the pension fund closedown.	• We held meetings with Capita and provided them with our working paper requirements for the audit of the financial statements.
Member data transfer from Axis to Hartlink	The Borough used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. The database is managed off site. Member data contributes to the information within the pension fund year end statements.	• The testing of the completeness of pension fund data migration to the new systems as part of our IT review was undertaken in April 2014.	• Our specialist IT team undertook a review of the Member data transferred from Axis to Hartlink. There are no issues arising. • We also tested individual pension contributions to member data as part of the financial statements testing.
Pension Fund Annual Report	Review of the Annual Report to confirm that it is consistent with the financial statements.	• We confirmed that pension fund annual report has no apparent factual inaccuracies, misstatements or items inconsistent with the financial statements.	• There are no significant issues to bring to your attention. We made some good practice recommendations to enhance the reporting of Fund performance. Your Pension Fund Annual Report has been amended in line with our recommendations. • We expect to issue a statement confirming 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.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Council's policy for major sources of revenues (contribution income and Investment income) are set out in detail within Note 2 Accounting Policies	Your revenue recognition policy is consistent with our audit of the pension fund financial statements.	● **Green**
Judgements and estimates	• Key estimates and judgements disclosed in the notes to the accounts [Notes 2 and 20] include: - pension fund valuations and settlements - investment valuation.	We reviewed key estimates and judgements made by management within the notes to the accounts. For the disclosures listed, we concluded they were consistent with guidance set out in the Code of Practice of Local Authority Accounting.	● **Green**
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues. We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note (Note 2). Additional disclosure has been made to the revised statements.	● **Amber**

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate and disclosures sufficient
● Accounting policy appropriate but scope for improved disclosure

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	n/a	Note 9 Investments	Investment sales and purchases were overstated by an equal value within unrealised gains. Note 9 has been amended.
2	Disclosure	n/a	Note 15 Related parties	The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in the main statements. The additional disclosure has been made to the revised statements.
3	Disclosure	n/a	Note 2 Accounting Policies	We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note. The additional disclosure has been made to the revised statements.
4	Disclosure	n/a	Annual Report 3.1 Fund Performance	We made some good practice recommendations to enhance the reporting of Fund performance. Your Pension Fund Annual Report has been amended accordingly.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Pension Fund Account £'000	Net Assets £'000	Reason for not adjusting
1	**Pension Fund Account** Pension strain balance included within Contribution Receivable does not reconcile to supporting evidence from pension admin	(136)	n/a	The Council has reconciled the Pension strain balance on SAP to pension administration and payroll data included in the Pension Fund Account. There is a non trivial residual balance which management are continuing to review.
2	**Net assets statement (current liabilities)** Benefit payment accruals from 2012/13 not reversed out in 2013/14 Benefit payment received in 2014/15 relating to 2013/14 which should have been accrued.	n/a	433 (206)	This a trivial balance which will be reversed in 2014/15
	Overall impact	**(136)**	**227**	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendation
1.	Amber	**IT controls** As part of our review of general IT controls, we identified a number of minor points in relation to the SAP system. As part of our 2014/15 audit work we will be monitoring and reviewing implementation of the new Integra system, which will include consideration of the minor points identified.	The agreed recommendation with managements comment is set out in full within the financial statements Audit Findings Report.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation for the Council and its pension fund audit will be requested from the Fund at the conclusion of our audit.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	21,000	*25,500
Total audit fees	**21,000**	**25,500**

The Audit Commission defines the scale audit fee as "the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate statements with supporting working papers within agreed timeframes."

* Some of these assumptions underpinning the scale fee were not met in respect of the Fund account audit. We will discuss the impact of this on the fee with the Deputy Chief Operating Officer. We estimate that additional fees will be approximately £4k to £5k.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
Significant deficiency – risk of significant misstatement
Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Pension strain** Ensure pension strain Integra balances are reconciled to member data on Hartlink monthly. Differences should be investigated and cleared.	High	Agreed. Processes for accounting for pension strain/ added years on Integra to be reviewed to ensure employer invoices supporting documentation reconciles to member data on Hartlink.	30th September 2014 Head of Treasury Capita CSG Service Delivery Manager Capita Employee Benefits
2	**Membership of the Pension Fund** Retain a screen print from the Hartlink system as at 31 March 2015 as evidence supporting your disclosure of a) number of employees contributing to the fund; b) number of pensioners; and c) number of deferred pensioners. We made a similar recommendation in our Findings report last year.	Medium	Agreed. Head of Treasury, CSG and Service Delivery Manager, CEB to agree year-end reporting requirements and delivery timetable for 2014-15 accounts and annual report, to include fund membership and supporting documentation as at 31 March 2015.	30th September 2014 Head of Treasury Capita CSG Service Delivery Manager Capita Employee Benefits
3	**Benefit payments accruals** Ensure accruals are appropriately reversed in the next accounting period. Reverse prior years benefit payments accruals are reversed in the current financial year.	Medium	Agreed. Year-end accruals were reversed in the first accounting period of 13-14 with the exception of the prior year benefit payment accruals. This will be adjusted on Integra in 14-15.	30th July 2014 Head of Treasury Capita CSG

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BARNET

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Barnet for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Barnet in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Operating Officer and auditor

As explained more fully in the Statement of the Chief Operating Officer Responsibilities, the Chief Operating Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

In addition, we read all the financial and non-financial information in the introduction to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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London
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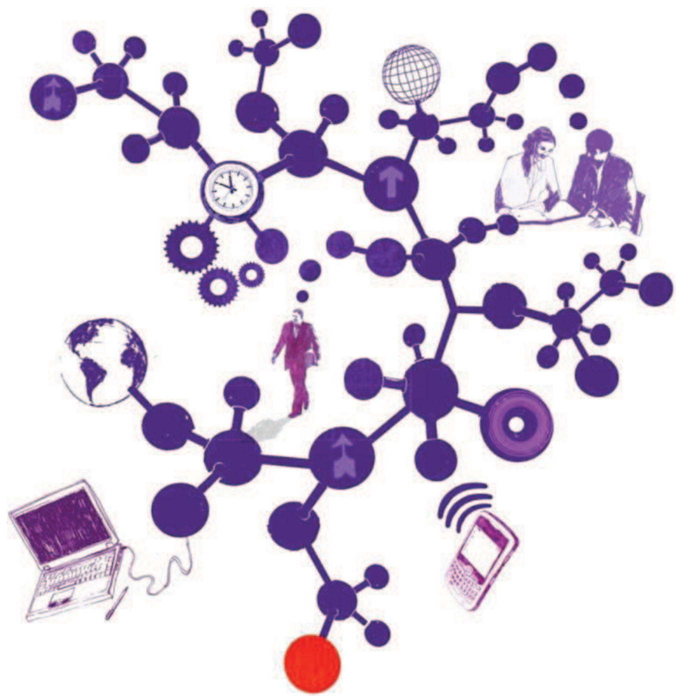
Grant Thornton

The Audit Plan
London Borough of Barnet Pension Fund

Year ended 31 March 2014

April 2014



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Introduction

Purpose

This Audit Plan highlights the key elements of our 2013/14 external audit strategy for the London Borough of Barnet Pension Fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Audit Committee for consideration in accordance with International Standard on Auditing (UK & Ireland) 260.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK & Ireland), and to give an opinion on the Pension Fund financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Communicating the results of audit work

The findings from our interim work are communicated in this plan, and any findings from the final accounts audit will be reported following the completion of the final accounts work. Page 12 of this plan includes the timescale for the audit and audit reporting.

We look forward to working with the Pension Fund officers during this year's audit.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. LGPS 2014
- The Public Service Pensions Act 2013 (the Act) and associated regulations, alongside other important provisions, replace the current final salary scheme with a career average revalued earnings scheme (LGPS 2014).
- The new scheme will be more complex, requiring changes to systems and processes.

2. New governance arrangements
- The Act introduces an increased governance regime requiring that each scheme appoint a Scheme Manager who will be assisted by a Pension Board.
- The CLG has consulted on these and regulations are expected in 2014 with implementation expected by April 2015 at the latest.

3. The Pensions Regulator
- The Act also provides for The Pensions Regulator (TPR) to oversee the operation of LGPS schemes and set standards of governance and administration.
- The Fund will need to monitor compliance with requirements set by TPR.

4. Administration costs/ structural change
- Call for evidence on the future structure of the LGPS signalled the CLG's intention to consult on the future structure of the LGPS to improve efficiency and performance.
- LGPS management expenses are increasingly under scrutiny – in response CIPFA intend to issue guidance on reporting these in 2014.

5. Local government restructuring and outsourcing
- With increased outsourcing of services and Directions which require equivalent pensions to be provided to transferred staff, LGPS funds are admitting more private companies.
- The increased number of admitted bodies may increase risks for the Fund in the event of those companies failing.

Our response

1. LGPS 2014
- We will discuss with officers progress and implementation of LGPS 2014. Where appropriate, we will report any observations on implementation from 1 April 2014.
- As part of our 2014/15 audit we will consider changes to the pensions administration control environment in response to LGPS 2014 data requirements.

2. New governance arrangements
- We will consider Fund's revised governance arrangements as they develop and share good practice on emerging new arrangements.

3. The Pensions Regulator
- Where useful, we will share our experience of working with TPR as the Fund prepares for the new regulatory regime.
- From 1 April 2015, we will consider our reporting responsibilities to TPR. We will discuss any report with officers and the Pension Fund Committee.

4. Administration costs/ structural change
- We will share good practice in reducing administration costs through collaboration or other initiatives.
- Once issued, we will consider the CIPFA guidance and discuss with officers.
- We will discuss any proposals for structural change and their impact on the Fund with officers.

5. Local government restructuring and outsourcing
- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Fund.

Developments relevant to your Pension Fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014.

2. LGPS 2014

Planning and implementing of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside, further developments in relation to governance may impact on the capacity to respond to audit queries.

3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

4. Financial Pressures – Pension fund

Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

Our response

1. We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

2. We will discuss the impact of the changes through our regular meetings with management.

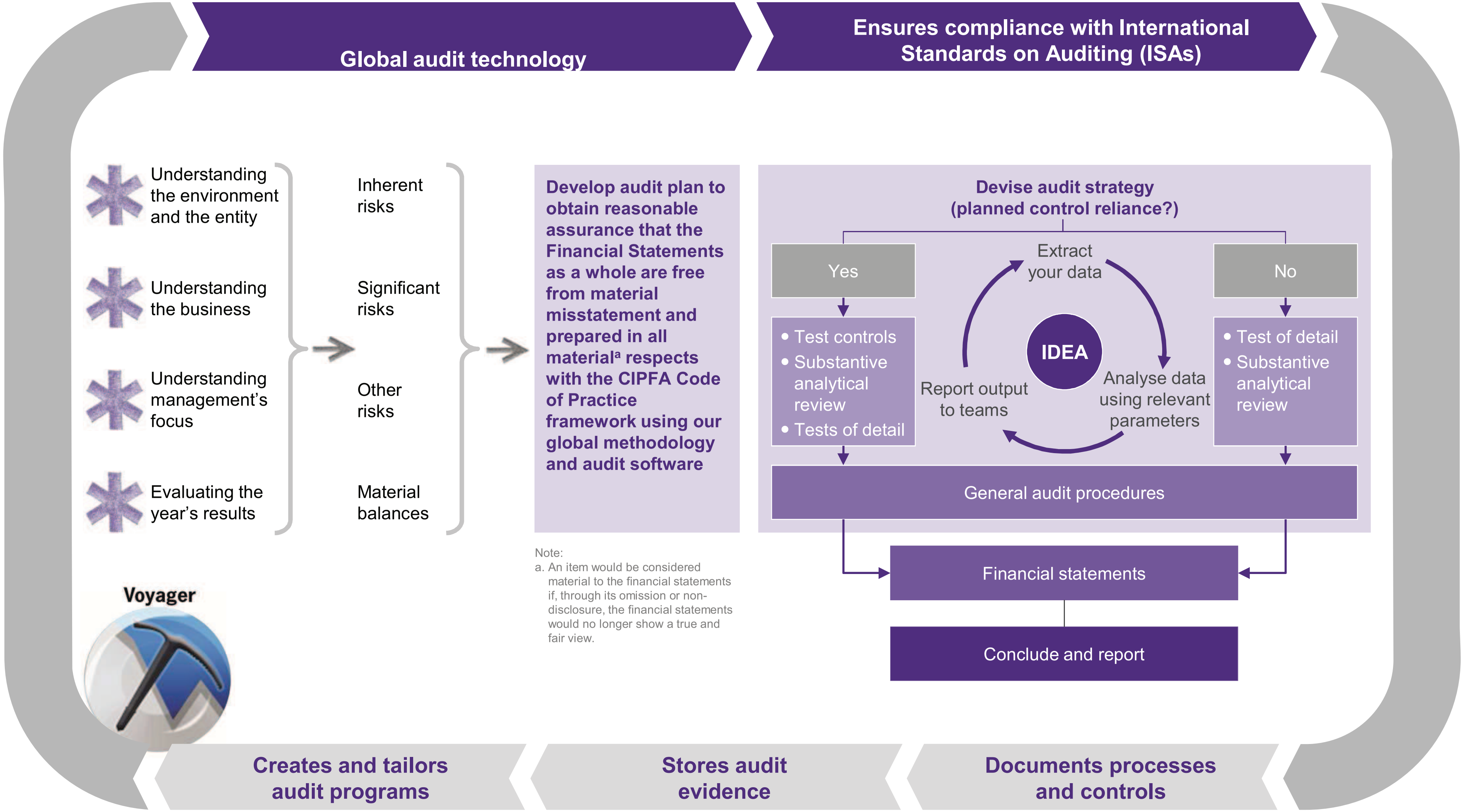
We will plan our audit and agree timetables with officers to ensure that the audit of the Fund causes minimal disruption to officers.

3. We will maintain regular dialogue with management to assess the impact this has on the administration of the pension fund and any required disclosures in the 2013/14 financial statements.

4. We will monitor the changes being made to the Fund investment strategy through our regular discussions with management.

We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have rebutted this presumption and therefore do not consider this to be a significant risk for the London Borough of Barnet Pension Fund since: • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgements and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions.

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	We will review the reconciliation between information provided by the fund managers, the custodian and the Fund's own records and seek explanations for any variances. For unquoted investments we will critically assess the assumptions used in the valuation and check valuations to the latest audited financial statements of the respective investment fund. The existence of investments will be confirmed directly to relevant documentation. We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.
Benefit Payments	Benefits improperly calculated/claims liability understated	We have confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we will then test the key controls identified in these areas. We will then select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and test them by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.
Contributions	Recorded contributions not correct	We have confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies. We will substantively test contributions deductions. We will substantively test contributions deductions from the Administering Authority. We will also review contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.
Membership Data	Member data not correct	We have confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records up to month 10. With a view to reducing the level of substantive testing required, we will then test the key controls identified in these areas.

Other issues

In this section we outline the other issues which we have identified as a result of our planning.

Other issues	Description	Work Completed	Further work planned
Pension fund administration	During the financial year, Capita was awarded the contract to manage the administration of pension fund. Some former LB Barnet pension fund staff transferred to Capita whilst others took redundancy.	• We have held planning meetings with Capita team responsible for managing the pension fund closedown.	• We will continue to discuss the impact of the staff changes on your year end pension fund accounts, Annual Report processes and your ability to respond to audit queries through our regular meetings with senior management.
Member data transfer from Axis to Hartlink	The Borough used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. The database is managed off site. Member data contributes to the information within the pension fund year end statements. Other system changes are imminent in the next financial year.	• The testing of the completeness of pension fund data migration to the new systems as part of our IT review will be undertaken in April. We will discuss any potential impact on fees with you through our regular meetings with senior management.	• We will document our understanding of the nature and significance of the services provided by the service organisation Capita and their effect on your internal controls, sufficient to identify and assess the risks of material misstatement, and then design and perform audit procedures as part of our testing of the financial statements. • Our testing of member eligibility on Hartlink will take place at a local Capita office. We will discuss any potential impact on fees with you through our regular meetings with senior management. • As part of our 2014/15 audit we will consider the impact of the other planned system changes to the pensions administration control environment.

Results of interim audit work

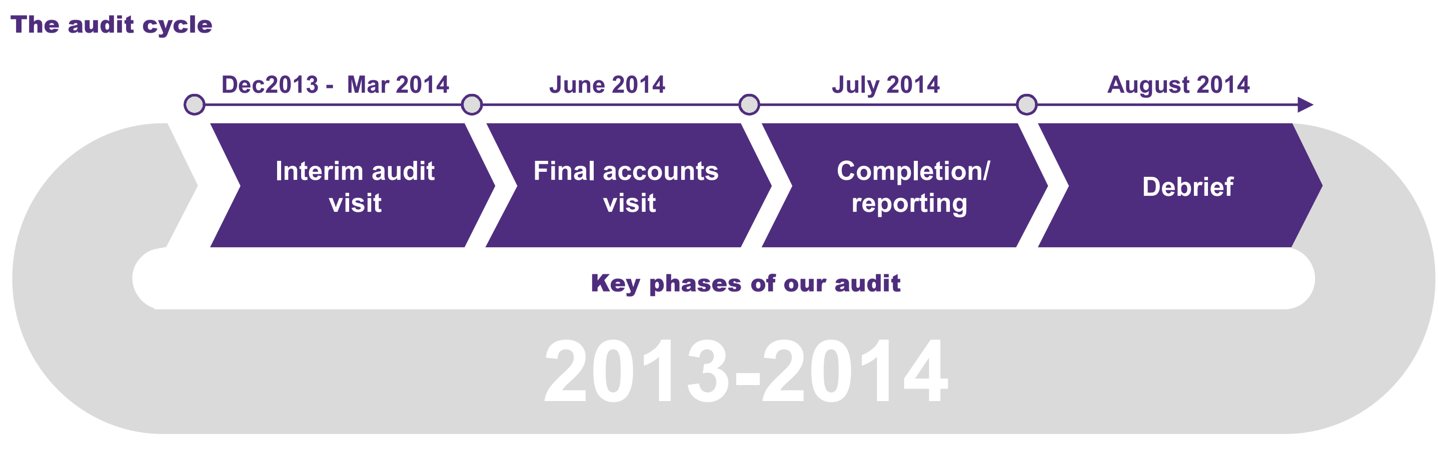
Scope

As part of the interim audit work, and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension Fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work to be performed	Conclusion/ Summary
Internal audit	We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.	Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Fund and that we can take assurance from their work in contributing to an effective internal control environment at the Fund. Our review of internal audit reports to date has not identified any weaknesses which impact on our approach.
Walkthrough testing	We have completed walkthrough tests of controls in areas where we consider that there is a risk of material misstatement to the financial statements. This includes membership data up to month 10. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Review of information technology (IT) controls	As part of the overall review of the internal controls system, our information systems specialist has performed a high level review of the general IT control environment, including a follow up of any issues identified in the previous year. The review was undertaken as part of the main financial statements audit.	This work is currently in progress. Should any issues arise from this work, we will discuss these with management and report our findings in the Audit Findings Report.
Journal entry controls	We will review the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will obtain a list of all pension fund journals raised during 2013/14 and test any 'unusual' and large journal entries.	Our work will be undertaken as part of our testing of the financial statements. The results of which will be reported to the Audit Committee in July 2014.

Logistics and our team



Date	Activity
December 2013	Planning meeting
Dec 2013 Feb 2014	Interim site work
Apr 2014	The Audit Plan presented to the Audit Committee
June 2014	Year end fieldwork commences
July 2014	Audit findings clearance meeting
July 2014	Findings reported to the Audit Committee
July 2014	Issue audit opinion on the Pension Fund financial statements
August 2014	Audit debrief

Our team

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Fees and independence

Fees

	£
Pension Fund audit	**21,000**

Fees for other services

Service	£
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension Fund and its activities have not changed significantly
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension Fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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The London Borough of Barnet Pension Fund

Draft
Annual Report

For the year ended 31 March 2014

Contents

1. Trustee's Report

1.1 History of the Local Government Pension Scheme

In the public sector, the individual legal provisions covering many pension schemes were brought together under one Act of Parliament (The Superannuation Act 1972). This Act provides the framework that covers the Local Superannuation Act (1972). The regulations appoint major authorities, such as the London Borough of Barnet, to the role of "administering authorities" to manage the Scheme at a local level.

A major re-drafting exercise took place in 1997, which effectively produced two separate sets of regulations, one dealing with the administration aspects and the other with the investment issues covering pension funds. The regulations that govern how the scheme is now run are covered by The Local Government Pension Scheme Regulations 1997.

The regulations governing the Fund are The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

The Local Government Pension Scheme (LGPS) is a statutory pension scheme. As such, it is secure because its benefits are set by law and paid out of a fund which is managed professionally. Under the LGPS we have to run a pension fund for employees of the local authority and other eligible organisations. However, as the benefits are guaranteed by law, and the employees' contribution is fixed, the employers' contribution rate is determined by the funding level of the pension fund. If the fund has a deficit then the employer is required to make larger contributions and this can have adverse effects on the overall Council budget.

Employees and employers pay into the Fund to meet the cost of paying pensions at a later date. The Fund builds up assets at the same time as paying out pensions. Based on the assumptions of the actuary, there should be enough assets in the Fund to pay, on the day the employee retires, all potential future costs.

Since the LGPS was introduced in 1972, pensions have changed considerably. People now live longer, and this has put increasing strain on pension funds for the future. Public-Sector pension funds face similar demands to the private sector. To respond to these changes, the Government introduced a new look LGPS that took effect from 1st April 2008.

In 2010, the Government commissioned a Public Sector Pensions Review chaired by Lord Hutton of Furness who was asked to produce an interim report by October 2010 on how to make short-term savings to public sector pension schemes and a final report before the March 2011 budget. The Government accepted Lord Hutton's interim report recommendations to increase employee contributions and proposed saving £2.8 billion per year by 2014/15 by increasing employee contributions across the major public sector pension schemes with an undertaking to afford some protection to the low paid. Lord Hutton's final report was published in March 2011.

The Government accepted the long term recommendations; to move from a final salary scheme to a career average pension scheme for future service, protecting accrued rights on the final salary scheme and ensuring normal retirement age is in line with the state pension age. Individual consultations have taken place on the design of each public sector scheme. The changes to the scheme take effect from April 2014.

To help people save more for their retirement, the Government requires employers to enrol their workers into a workplace pension scheme

This legislation is separate from the Local Government Pension Scheme (LGPS) Regulations and applies to those employees that are not members of the Local Government Pension Scheme, including those who have previously opted out.

The automatic enrolment of our workers into the LGPS came into effect from 1 June 2013.

1.2 Administration of the London Borough of Barnet Pension Fund

The Council is the administering authority for the pension fund. The Pension Fund Committee is responsible for discharging the Council's leadership and strategic management responsibilities regarding the Pension Fund. The Pension Fund Committee is responsible for:

- Setting the investment policy for the fund
- Appointing Investment Managers, advisors and custodians
- Reviewing the performance of the Investment Managers and the Investments held in the fund, and
- Approving the statement of investment principles, funding strategy statement, governance compliance statement, communication policy statement and the pension administration statement. These documents are reviewed at least triennially or more frequently if required.

After running a competitive procurement process, Barnet Council awarded Capita the contract to run the council's back office services, the Customer and Support Group (CSG). The contract with Capita was signed on 5 August 2013 and the service commenced in September 2013. This includes Pension Financial Management and Pension Administration.

1.3 Management Structure

Administrating Authority
London Borough of Barnet

Pension Fund Committee Members

Chairman:	Mark Shooter
Vice-Chairman	John Marshall
Members:	Andreas Ioannidis
	Kitty Lyons
	Arjun Mittra
	Daniel Seal
	Peter Zinkin
Substitutes:	Anthony Finn
	Adam Langleben
	Alison Moore
	Gabriel Rozenberg

Officers

LB Barnet

Andrew Travers,	Chief Executive
Chris Naylor,	Chief Operating Officer
John Hooton,	Deputy Chief Operating Officer

Capita CSG (Customer and Support Group)

Phil Brown	Assistant Director of Finance
Iain Millar,	Head of Treasury, Capita CSG Barnet

Observers

John Burgess, Unison
David Woodcock, Middlesex University

Actuary

Barnett Waddingham

Investment Advisors

JLT Benefit Solutions (formally HSBC Actuaries and Consultants)

Auditor

Grant Thornton UK LLP

Performance Monitoring

JLT Benefit Solutions (formally HSBC Actuaries and Consultants)
WM Company

Custodians

JP Morgan
The Bank of New York

Pensions Administration Manager

Karen Scott
Service Delivery Manager (Pensions) Capita Employee Benefits

Employee Benefits
Capita, PO Box 215, Mowden Hall, Darlington, DL3 9GT

2. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the fund's assets is delegated to investment managers who are regulated by the Financial Services Authority.

The investment managers manage the assets of the fund by buying and selling investments in order to achieve their specific objectives agreed with the Pension Fund Committee. In choosing investments, the investment managers must have regard to the overall suitability of investments to the fund according to principles laid out in the terms and conditions of their contract. This section provides a summary of the current arrangements for investment of Barnet's pension fund.

The Fund

On 4 February 2010, the Pension Fund Committee agreed a new investment strategy of 70% diversified growth portfolio and 30% bonds using the two incumbent managers Schroders Investment Management and Newton Investment Management. The strategy aims to reduce the level of risk whilst maintaining the same level of return. The new strategy was fully implemented in December 2010.

Benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation.

Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

Manager	Fund	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years	To outperform the benchmark by 1% p.a. over rolling 5 years

		Investment Grade Index	
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years

Investment Ranges

There are statutory restrictions and parameters for investments as per the Local Government Pensions (Management and Investment of Funds) 1998 and subsequent amendments. The restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits may be increased, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.
The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed below.

Investment		Limits Adopted
1.	Any single sub-underwriting contract	1%
2.	All contributions to any single partnership	2%
3.	All contributions to partnerships	5%
4.	The sum of all loans and any deposits with – • Any local authority, or	10%

• Any body with power to issue a precept or requisition to a local authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	35%
10. 10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Independent Advisor

The Chief Operating Officer and Council Officers received investment advice from the independent advisor to the fund. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

1. Investment Strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. The property unit trust portfolio
5. Corporate governance issues, including socially responsible investment and the Council's statement of investment principals
6. Pension fund related legislation
7. Investment management performance monitoring
8. Assistance in the selection of Investment Managers, custodians and actuaries
9. Review and advise on alternative benchmarks and setting of performance targets
10. Other ad-hoc advice.

Actuary

The actuary to the fund is Barnett Waddingham; the actuary's role is to place a value on the fund's accumulated pension promises. A formal valuation of the fund is required legally every three years; the last valuation of the fund took place as at the 31st of March 2013. .

Custodian

Custodians are usually banks or other regulated institutions who offer not only custody of documents (safeguarding and administering of investments) but also a range of services such as income collection, tax recovery, cash management, securities settlement, foreign exchange and stock lending. JP Morgan acts as the custodian for the assets managed by Schroders Investment Managers and the Bank of New York act as an internal custodian for assets managed by Newton Investment Managers.

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the fund's corporate governance and proxy voting policy. Details of this policy can be found by using the link below.
http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010 (to be updated July 2014)

3 Management and Financial Performance of the fund for the Year 2013-2014

3.1 Fund Performance

Until December 2010, the fund subscribed to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other Local Authority Pension Funds which operate under the same regulations. This service is provided by WM Company Limited.

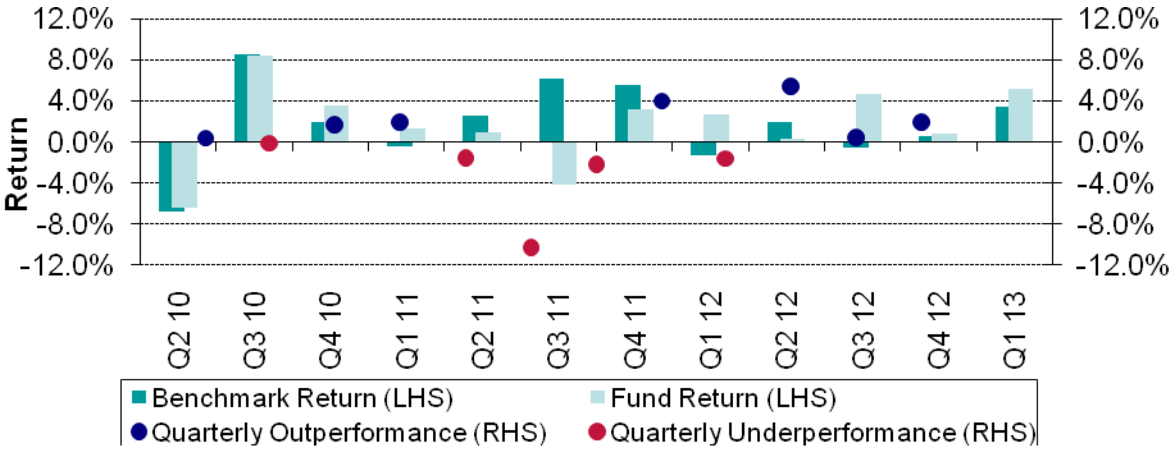
Following implementation of the new investment strategy in December 2010, the total scheme return is measured against the liability benchmark return, and includes the internal property fund. The Growth portfolio return is the combined Newton and Schroder

Diversified Growth Fund (DGF) portfolios and is measured against a notional 60/40 global equity benchmark and the underlying benchmarks of each for comparison purposes. The bond portfolio is the combined Newton and Schroder corporate bond portfolios and is benchmarked against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

The results of the 2013 actuarial valuation showed that the Fund had a funding level of 79%, i.e. the assets were 79% of the value that they would have needed to be, to pay for the benefits accrued to that date, based on the assumptions used. A total common contribution rate of 24.0% of pensionable salaries is required to cover the cost of new benefits building up for current members of the Fund, and to also pay off the deficit over a period of 15 years.

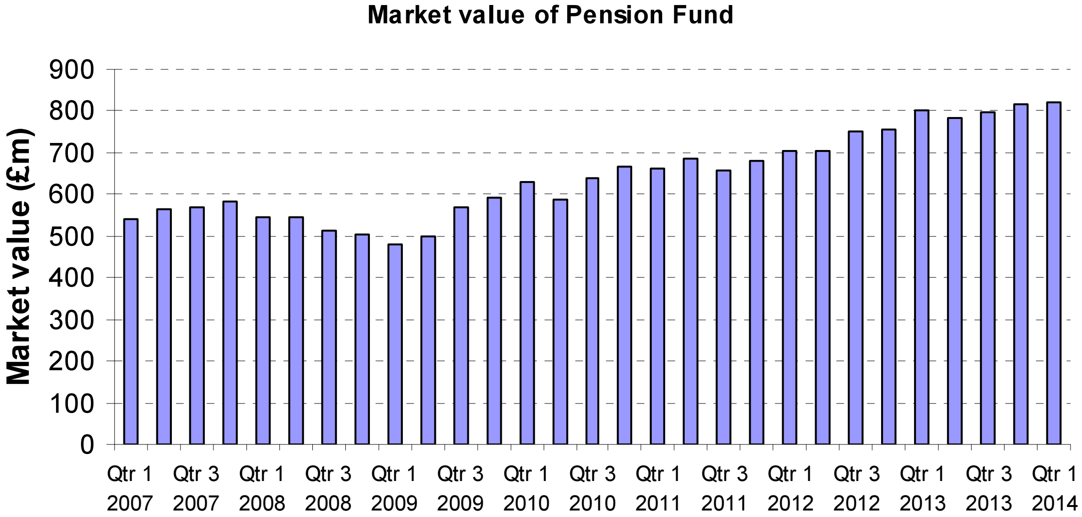
The chart below shows the fund's historical returns against the WM Universe and the new portfolio against the liability benchmark:

Total Fund – performance relative to benchmark



3.2 Market Value of the Fund

The following chart shows the movement in the market value of the fund from 1 January 2007 to 31 March 2014. **Market Value of**



3.3 Investment Report

With regard to investment performance, the Pension Fund Committee recognises that a superior and stable investment return adds towards keeping the contribution rate as low as possible.

The Council seeks to achieve its investment objectives through investing in a suitable mix of real (e.g. equities) and fixed interest assets (e.g. bonds and cash). The returns from growth assets are likely to be volatile; however, over the long term, this volatility is compensated by higher returns than those available from fixed interest assets. The profile of the Pension Fund allows the Council to take a long-term approach with respect to its investments.

The Council believes that its recently revised investment strategy will provide the most efficient diversification of assets with no loss in expected return. The Fund's revised investment strategy utilises 'diversified growth' investments that aim to provide equity-like return with reduced volatility. These growth investments are complemented by an allocation to corporate bonds, in order to provide interest rate sensitivity between the Fund's assets and liabilities. This allocation will protect the Fund from sharp movements in its liabilities due to interest rate changes.

The revised asset allocation was the result of the ongoing consultation the Fund has with its investment advisors. After a review of the available diversified growth market the Fund has retained the services of its two investment managers, Schroder Investment Management and Newton Investment Management, for the efficient implementation of the revised asset allocation. It has also retained pooled funds with Legal and General.

Over the 12 months to 31 March 2014, the total Scheme return (ex property) was 5.3% versus the liability benchmark return of 7.6%.

3.4 Scheme Administration

The administration of the Pension Scheme is provided by the Pensions Office. The performance table below shows the range of work undertaken . This information will be provided in July 2014

Performance Indicator *(from point at which all required information has been received)*	**Local Government Pension Committee Target**	**Authority Target**	**Achieved (%)**
Letter detailing transfer ***in*** quote	10 days	10	79.6%
Letter detailing transfer ***out*** quote	10 days	10	90.2%
Process and pay refund	5 days	5	92.4%
Letter notifying estimate of retirement benefits	10 days	10	95.7%
Letter notifying actual retirement benefits	5 days	5	97.8%
Process and pay lump sum retirement grant	5 days	5	97.8%
Initial letter acknowledging death of active/deferred/pensioner member	5 days	5	62.2%
Letter notifying amount of dependant's benefits	5 days	5	97.1%
Calculate and notify deferred benefits	10 days	10	83.4%

Barnet Pension Fund Membership Movement Analysis 2013-14

		2013/14
Employees		
Number of Employees at 31/03/2013		6,660
Employees joining during the year		1,916
Members leaving during the year:		
Normal retirements	113	
Ill-health retirements	8	
Deaths in service	8	
Refunds of Contributions	47	
Deferred pensions	598	-774
Number of Employees at end of year		**7,802**
Pensioners		
Number of Pensioners at start of year		6,772
New pensioners during the year:		
Normal retirements	154	
Ill-health retirements	0	
Dependants' pensions	64	
Deferred pensions becoming payable	101	319
Deaths/dependants ceasing to be eligible		-364
Number of Pensioners at end of year		**6,727**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		7,977
New deferred pensioners during the year:		637
Deferred Pensioners leaving the fund during the year		
Normal retirements	95	
Ill-health retirements	0	
Transferred	78	
Back to active status	0	
Deaths	14	
Number of Deferred Pensioners at end of year		**8,427**
Total Membership at 31 March 2014		**22,956**

4. Governance Compliance Statement

The Governance compliance statement for the Barnet Pension Fund is set out below

Principle	Compliance Status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined.
Representation	Partial Compliance	Main employers and scheme members represented on the committee. However no individual representation for admitted bodies.
Selection/ role of lay members	Partial Compliant	Lay members observer role.
Voting	Partial Compliance	Voting rights have not been extended to employer and member representatives.
Training/Facility time/ Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	Pension Investment Panel terms of reference investment related
Publicity	Compliant	All statutory documents are made available to members.

5. Funding Strategy Statement

The funding strategy statement for the Barnet fund can be found on the Barnet website at http://www.barnet.gov.uk/downloads/file/147/funding_strategy_statement

6. Statement of Investment Principles

The authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, updated in June 2011, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

7. Communication Policy Statement

An effective communications strategy is vital for the Pensions Office in its aims to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the Pensions Office will communicate with:-

- Fund members and their representatives
- Prospective Fund members and their representatives
- Fund employers

Set out in this statement are the mechanisms which are used to meet those communication needs.

It identified the format, frequency and method of distributing of distributing information and publicity.

The Pensions Office aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

- **Pensions Office:** for day-to-day contact and visits between the hours of 9am and 5pm.

- **Correspondence:** the Fund utilises both surface mail and e-mail to receive and send correspondence.

- **Telephone:** The Pensions team, operates a telephone help line for Scheme members and is widely published in Scheme literature.

- **Website:** The members website will be available from 1 August 2014, other information is available on the national websites at http://www.lgps.org.uk/lge/core/page.do?pageId=97977

- **Member Self-Service** as above

- **Annual Benefits:** An Annual Benefits Statement is sent direct to the home addresses of deferred members where a current address is known and will be available online for active members, a hard copy will be issued in 2014

- **Pensions Roadshows:** The Pensions team also stages ad hoc Roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.

- **Existence Validation – Pensioners Living Abroad:** The Pensions team undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

- **All Employer Meetings:** Periodical meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation and triennial valuation matters.

Comments

We welcome and value your comments on the standards of service we provide. If you have any comments please contact us.

barnetpensions@capita.co.uk
Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ
Telephone: 01325 746010/11/12/13/14

On behalf of the Pension Fund Committee

Councillor Mark Shooter
Chairman of the Pension Fund Committee
London Borough of Barnet Pension Fund

London Borough of Barnet Pension Fund

Actuary’s Statement as at 31 March 2014

Barnett Waddingham
Public Sector Consulting

Introduction

The last full triennial valuation of the London Borough of Barnet Pension Fund (the "Fund") was carried out as at 31 March 2013 in accordance with current Regulations and the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement also gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to any change since the full valuation.

The estimated funding position in this statement as at 31 March 2014 is based on financial market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows

- The Fund had a funding level of 79% i.e. the assets were 79% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £211m.
- To cover the cost of new benefits, building up for current members of the Fund, and to also pay off the deficit over a period of 15 years, a total contribution rate of 24.0% of pensionable salaries is required.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit reflecting the employer's experience within the Fund.

Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	2.8% until 31 March 2015 then 4.6% p.a.
Mortality	110% of the S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	

Commutation	Members will convert 50% of the maximum possible amount of pension into cash

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date, therefore the smoothed asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the smoothed value of the assets used was £789m and this has increased over the year to an estimated £836m.

Updated funding position

The estimated funding position at 31 March 2014 is a funding level of 80% which is an improvement on the position at 31 March 2013.

The assets have given a return of 4% over the year, which was lower than that assumed at the 2013 valuation.

A combination of payment of deficit contributions during 2013/14 in line with agreed contribution schedules and changes in the financial assumptions, reflecting more recent market conditions and consistent with the 2013 triennial valuation funding model, used to value the liabilities between 31 March 2013 and 31 March 2014, have been estimated to improve the funding position.

The next full triennial valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

Auditors Report to follow

Pension Fund Account

	Note	2013/14		2012/13	
		£000's	£000's	£000's	£000's
Contributions and Benefits					
Contributions Receivable	3	**52,207**		53,999	
Transfer in	4	**2,591**		2,670	
Other income		**24**			
		54,822	**54,822**	56,669	56,669
Benefits Payable Account	5	**44,874**		43,648	
Payments to and on behalf of Leavers	6	**3,818**		2,636	
Administrative Expenses	7	**1,088**		1,023	
		49,780	**49,780**	47,307	47,307
Net additions from dealings with members			**5,042**		9,362
Return on investments					
Investment income	8	**58**		68	
Change in market value of investments	9	**27,963**		78,273	
Investment management expenses	11	**(1,620)**		(1,851)	
Net returns on investments		**26,402**	**26,402**	76,490	76,490
Net increase in the fund during the year			**31,444**		85,852

Net Assets of the Scheme	2013/14 £000's	2012/13 £000's
At 1 April	**798,337**	712,485
At 31 March	**829,782**	798,337

Net Assets Statement	Note	2013/14	2012/13
		£000's	£000's
Investment assets	9	**819,561**	791,598
Current assets	12	**12,990**	13,788
Current liabilities	13	**(2,769)**	(7,049)
		829,782	798,337

Notes to the Pension Fund Accounts for the year ended 31 March 2014

1. Introduction

The London Borough of Barnet Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by the London Borough of Barnet (LBB) and the Council is the reporting entity for the Fund.

The day to day administration of the fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer and Director of Finance of the Council.

Further details of the management, operation and investment objectives of the fund are provided in the Fund's Annual Report for 2013/14, the Actuary's report (contained in Appendix 2 to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the underlying statutory powers underpinning the scheme.

General

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of LBB and those bodies admitted to the Fund referred to as "members". The benefits include not only retirement pensions, but also widows pensions, death grants and lump sum payments.

The Fund is financed by contributions form members, employees and the interest and dividends from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

The Funds accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements (except teachers, who have a separate scheme). Organisations participating in the Fund are set out below and are classed as admitted and scheduled bodies:

Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation; these include organisations undertaking a local authority function following the outsourcing of that service:

BEAT (The Music Service)
Birkin Services
Birkin - St. James
Blue 9 Security
Fremantle Trust (2)
Friends Moat Mount
Capita CSG (customer support)
Capita RE(Regional Enterprise)

Go Plant Hire
Housing 21 (2)

London Care
Mears Group
NSL Ltd

Personnel and Care Bank
Viridian Housing

(employers with deferred members and pensioners but no active members)

Barnet Voluntary Service Council
Enterprise Cleaning
Barnet MENCAP
KGB Cleaning Services Ltd.

Scheduled Bodies –local authorities and similar bodies whose staff are automatically entitled to be members of the Fund:

Alma Primary
Archer Academy
Ashmole
LB Barnet
Barnet College
Barnet Homes
Barnfield School
Bishop Douglass
Broadfields Primary
Christ Church
Christ College
Compton School (Academy)
Copthall School (Academy)
Danegrove School
Deansbrook Junior
Dollis Junior
East Barnet School
Etz Chaim Jewish Primary
Fairway School
Finchley Catholic
Friern Barnet School
Gravesnor Avenue Primary (Academy)
Hasmonean High
Hendon School
Henrietta Barnett
Independent Jewish Day School
London Academy
Mapledown School
Martin Primary School
Mathilda Marks
Menorah Foundation
Middlesex University
Mill Hill County School
Monkfrith School
Osidge School
Parkfield Primary School
Queen Elizabeth Boys
Queen Elizabeth Girls
Rimon Jewish Primary
Rosh Pinah
St. Andrew the Apostle School
St James' Catholic High School
St John's & St Mary's Primary
St Michael's Grammar
The Hyde
Totteridge Academy
Underhill Infant
Whitefield School
Woodhouse College
Wren Academy
Your Choice Barnet Ltd

Contributions made by employees are tiered, related to salary and they range from 5.5% to 7.5%. These rates are applicable to all employees including manual workers.

The number of employees contributing to the fund increased during the year from 6,660 to 7,802 at 31 March 2014*. During the same period the number of pensioners decreased from 6,772 to 6,727 and the number of deferred pensioners increased from 7,977 to 8,427.

*The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2014; including the comparative figures. An analysis of membership movement in the year is provided in note 19 of these accounts.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

2. Accounting Policies

Accounting Standards

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes supported by International Financial Reporting Standards (IFRS).

Basis of Preparation

Accruals Concept

The financial statements are prepared on an accruals basis except in the case of transfer values, which are debited or credited in the year of payment or receipt in accordance with recommended practice. Investment income is taken into account where dividends are declared but not paid at the financial year end.

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 16 and these financial statements should be read in conjunction with them.

Investments are shown in the Net Asset Statement at Fair Value. Fair Value has been determined as:

a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2013.
b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2013.
c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2013.
d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

Sale and Purchase of Investments

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading (the costs of acquiring investments are included in the value of the assets). The main fund managers are: Schroder Investment Management, Newton with the remaining funds held with Legal and General.

Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund managers analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. The fund does not participate in stock lending arrangements.

Administration Expenses

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

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 fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classified as a current financial asset.

Investment Income

i. Interest Income: Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination. Income includes the amount of any 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: 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. Distribution from pooled funds: 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. Movement in the net market value of investments: Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

Cash and cash equivalents accounting policy

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Related party disclosure

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

Taxation

The Fund is an exempt approved fund and therefore not liable for UK income tax or capital gains tax. As the London Borough of Barnet is the administrating authority of the fund, VAT input tax is recoverable on all fund activities.

Taxation agreements exist between Britain and a number of countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. The proportion reclaimable varies from country to country. Non-recoverable deductions are classified as withholding tax.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. 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 decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included in investment management expenses.

Assumptions made about the future and other major sources of uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors .However as balances cannot be determined with certainty, actual result could be materially different as follows:

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 rte at which salaries are protected 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 managers with expert advice about the assumptions to be applied

3. Contributions Receivable

	2013/14	2012/13
Employers	**£000's**	£000's
Council	**22,759**	22,654
Scheduled bodies	**16,493**	16,968
Admitted bodies	**2,930**	4,729
	42,182	44,351
Members		
Council	**5,110**	5,581
Scheduled bodies	**3,988**	3,713
Admitted bodies	**927**	354
	10,025	9,648
Total Contributions	**52,207**	53,999

4. Transfers In

	2013/14	2012/13
	£000's	£000's
Individual transfers in from other schemes	**2,591**	2,670

5. Benefits Payable

	2013/14	2012/13
	£000's	£000's
Pensions	**38,106**	36,364

Commutations and lump sum payments	**5,783**	6,361
Lump sum death benefits	**985**	923
	44,874	43,648

6. Payments to and on Account of Leavers

	2013/14 £000's	2012/13 £000's
Refunds to members leaving service	**8**	13
Group transfers to other schemes	**-**	-
Individual transfers to other schemes	**3,810**	2,623
	3,818	2,636

7. Administrative Expenses

	2013/14 £000's	2012/13 £000's
Administration and processing	**957**	923
Actuarial fees	**100**	66
Audit fees	**31**	20
	1,088	1,009

All other costs of administration are borne by the London Borough of Barnet.

8. Investment Income

	2013/14 £000's	2012/13 £000's
Income from property unit trusts	**-**	-
Interest on cash deposits	**25**	26
Other income	**33**	42
	58	68
Irrecoverable withholding tax	**-**	-
Total investment income	**58**	68

9. Investments

2013/14	**Value at 1/4/2013**	**Purchases at Cost**	**Sales Proceeds**	**Unrealis -ed gain**	**Change in Market Value**	**Value at 31/3/2014**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Pooled investment vehicles	**790,106**	**6,887**	**(6,300)**	**68**	**27,963**	**818,587**
	790,106	**6,887**	**(6,300)**	**68**	**27,963**	**818,587**
Cash Deposits	**1,492**					**974**
	791,598					**819,561**

2012/13	Value at	Purchases	Sales	Unrealis-	Change in	Value at

	1/4/2012	at Cost	Proceeds	ed losses	Market Value	31/3/2013
	£000's	£000's	£000's	£000's	£000's	£000's
Pooled investment vehicles	702,409	23,033	(13,136)	(473)	78,273	790,106
	702,409	23,033	(13,136)	(473)	78,273	790,106
Cash Deposits	1,221					1,492
	703,630					791,598

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year as any income attributed to the unitised funds are reinvested and accounted for as a change in market value as opposed to income.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. There are also transaction costs incurred on behalf of the unitised funds, but these are reflected in the unit cost. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund’s investment managers at year end including cash deposits totalled £819.561 million. This was split as follows:

	2013/14	
Investment Portfolio	**£000's**	**%**
Schroder Investment Management	**375,269**	**45.8**
Newton Investment Management	**383,452**	**46.8**
Legal & General	**60,840**	**7.4**
	819,561	**100.0**

Major Investments

The fund investments are all held in pooled funds. The following investments represent more than 5% of the net assets of the scheme:

Value	2012/13		**Value**	**2013/14**
£000's	as % of investment assets		**£000's**	**as % of investment assets**
252,864	**31.94**	Newton Real Return Fund	**257,787**	**31.45**
118,908	**15.02**	Newton Long Corporate Bond Fund	**120,499**	**14.7**
243,716	**30.79**	Schroder Life Diversified Growth Fund	**256,539**	**31.3**

113,904	**14.39**	Schroder All Maturities Corporate Bond Fund	**118,081**	**14.41**
40,214	**5.08**	Legal and General Index Linked Tracker Fund	**43,305**	**5.28**
769,606			**796,211**	**97.14**

Pooled investment Vehicles	**2013/14 £000's**	2012/13 £000's
UK Managed funds	**757,747**	732,734
UK Unit Trusts	**60,840**	57,372
	818,587	790,106
Cash Deposits		
Sterling	**974**	1,492
	819,561	791,598

Pooled Investment Vehicles

Both Schroders and Newton run their portfolios on a unitised or pooled basis, the underlying economic exposure to asset classes for each manager are detailed below:

Newton as at 31 March 2014	**Long Corporate Bond**	**Long Gilt**	**Index-Linked Gilt**	**Global Dynamic Bond**	**Real Return**
EQUITIES					
UK	-	-	-	-	14.7
North America	-	-	-	0.01	17.32
Europe ex UK	-	-	-	-	21.94
Japan	-	-	-	-	1.67
Asia ex Japan	-	-	-	0.11	2.59
Other	-	-	-	0.09	2.03

Total Equities	0	0	0	0.21	60.25
FIXED INTEREST					
UK Gilts		91.66	93.21	3.89	0.95
UK Index Linked Gilts	-	-	-	4.05	1.23
UK Corporate Bonds	59.32	2.3	3.99	18.16	1.98
Overseas Government Bonds		1.87		26.6	14.79
Overseas Corporate Bonds	37.49	2.27	1.13	40.65	9.54
Overseas Index Linked Corporate Bonds		1.9	1.13		0.44
Total Fixed Interest	96.81	100	99.46	93.35	28.93
OTHER ASSETS					
Commodities	-	-	-	-	2.82
Derivatives	-	-	-	-9.49	0.05
Other assets	-	-	-	-	-
Cash	3.19	-	0.54	15.93	7.95
Total Other Assets	3.19	0	0.54	6.44	10.82
Total Assets	100	100	100	100	100

	Schroder Diversified Growth Fund	**Schroder All Maturities Corporate Bond**
Equities		
Schroder QEP Global Dynamic Blend Portfolio	17.6	-
Quality Yield Equity Basket	3.2	-
Shareholder Focus Basket	2	-
Schroder European Alpha Plus Fund	3	-
Schroder ISF Asian Equity Yield	2.3	-
Passive Equities	23.2	-
	51.3	-
	8	

Commodities		
ETF Gold	1.9	-
Schroder ISF Global Energy	1.4	-
	3.3	-
High Yield Debt		
Schroder ISF Global High Yield	4.4	-
Schroder High Yield Portfolio	2.6	-
	7	-
Emerging Market Bonds		
Stone Harbor Emerging Debt Fund	1	-
Stone Harbor Emerging Local Debt Fund	0.8	-
	1.8	-
Property		-
Schroder UK Property Fund	3	-
Absolute Return		
Schroder ISF Emerging Market Debt	5	-
Schroder GAIA Sirios US Equity	2	-
Bespoke Hedge Fund Portfolio	1.9	-
Diversified Trend Strategy	1.8	-
Gam Star Global Rates	1	-
Henderson UK Absolute Return Fund	1	-
Brevan Howard Macro	0.7	-
	13.4	-
Infrastructure		
John Laing Infrastructure Limited	1.5	-
International Public Partnerships Ltd	1.2	-
HICL Infrastructure Company Limited	0.7	-
Bilfinger Berger Global infrastructure	0.5	-
	3.9	-
Other Assets		
Private Equity	0.9	-
Asset Backed Securities Portfolio	3.9	-
RWC Global Convertibles Fund	1.9	-
M & G European Loan Fund	0.4	-
Invesco US Senior Loan Fund	0.5	-
Insurance-Linked Securities	3	-
Cash	5.7	-
Securitised		14.77

Government Related		8.64
Corporate		57.38
Cash		19.21
Total	100.00	100.00

10. AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC).

Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

2013/14 AVC Investments	2012/13 £000's	Contributions £000's	Income £000's	Expenditure £000's	2013/14 £000's
Aviva /Norwich Union	**681**	**15**	**21**		**717**
Prudential					
With Profits	**532**	**79**	**25**	**(77)**	**559**
Deposit	**325**	**82**	**2**	**(19)**	**390**
Unit Linked	**665**	**120**	**26**	**(48)**	**763**
Total Prudential AVCs	**1,522**	**281**	**53**	**(144)**	**1,712**
Total AVC's	**2,203**	**296**	**74**	**(144)**	**2,429**

2012/13 AVC Investments	2011/12 £000's	Contributions £000's	Income £000's	Expenditure £000's	2012/13 £000's
Aviva /Norwich Union	648	20	13		681
Prudential					
With Profits	507	84	26	(85)	532
Deposit	289	63	2	(29)	325
Unit Linked	448	99	131	(13)	665
Total Prudential AVCs	1,244	246	159	(127)	1,522
Total AVC's	1,892	266	172	(127)	2,203

The Aviva Additional Voluntary contributions in respect of 2013/14 are partly estimates pending the provision of final valuations by the provider based on 2012/13 actuals.

11. Investment Management Expenses

	2013/14 £000's	2012/13 £000's
Administration, management and custody	**1,547**	**1,796**
Performance Measurement Services	**8**	**11**
Other advisory fees	**65**	**44**
	1,620	**1,851**

12. Current Assets

	2013/14 £000's	2012/13 £000's
Contributions due from employers in respect of		
Employer contributions	**1,292**	1,121
Member contributions	**354**	225
Sundry Debtors	**2,180**	2,348
Cash Balances	**9,164**	10,095
	12,990	13,789

13. Current Liabilities

	2013/14 £000's	2012/13 £000's
Unpaid Benefits	**369**	794
Unsettled Purchases	**-**	27
Accrued Expenses	**2,400**	6,214
	2,769	7,035

14. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2010 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at:

https://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

15. Related Party Transactions

Fund administration expenses payable to the administrating authority, the London Borough of Barnet are outlined below

	2013/14 £000's	2012/13 £000's
Human Resources	**580**	451
Accountancy Administration	**352**	401
	932	852

The costs of payroll support are included in the Human Resources Recharge. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

16. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit credit method".

The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

Assumption	Rate
Future pension increases	2.8%
Future salary increases	4.6%
Price inflation	3.5%
Risk adjusted discount rate	6.1%

The 2013 valuation actuarially assessed the value of the Fund's assets as, being sufficient to meet 79% of the Fund's liabilities. This corresponded to a deficit of £211 million. The latest valuation as at 31st March 2014 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31st March 2013, and are given for comparison;

Assumption	Rate
Assumed retail price inflation (RPI)	3.5%
Assumed customer price inflation (CPI)	2.7%
Salary increases	4.5%
Pension increases	2.7%
Discount rate	4.4%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 18 March 2014.

17. Classification of Financial Assets

The following table analyses the carrying amounts of financial assets and liabilities, (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2014	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000
Financial Assets			
Pooled Investments	818,517	-	-
Pooled Property		-	-
Cash Deposits	-	10,138	-
Investment income due	-	-	-
Debtors	-	2,180	-
Financial Liabilities			
Creditors	-	-	(2,349)
	818,517	**12,318**	**(2,349)**

31 March 2013	£'000	£'000	£'000
Financial Assets			
Pooled Investments	790,106	-	-
Pooled Property		-	-
Cash Deposits	-	11,589	-
Investment income due	-	-	-
Debtors	-	2,348	-
Financial Liabilities			
Creditors	-	-	(7,049)
	790,106	**13,937**	**(7,049)**

18. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments and fixed interest securities. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension scheme (Management and Investment of Funds) regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks.

The Pension Funds has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of

Pension Fund investments managed by external Investment Managers is compared to benchmark returns.

Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2014 working capital was held in the Pension Fund Bank account with the Co-operative Bank and, in a call account with the Bank of Scotland, in accordance with the Council's Treasury management strategy credit rating criteria.

	Long Term Credit Rating	Source	**Holding 31/3/2014 £'000**	**Holding 31/3/2013 £'000**
Schroder Group	AA3	Moodys		
JP Morgan (Schroder Custodian)	AA-	Standard and Poors	**375,269**	**358,204**
Newton –Bank of New York Mellon (Parent)	A+	Standard and Poors	**383,452**	**376,022**
Bank of Scotland	A1	Moodys	**8,779**	**-**
Co-operative Bank	BBB+	Fitch	**155**	**10,097**

Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meets its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension fund has a comprehensive cash flow management system that seeks to ensure that the cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument can fluctuate because of changes in market prices.

The Pension fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

Details of these can be found in the Pension fund's Statement of Investment Principles.

As the Pension Fund's Multi Asset Strategy does not provide a breakdown by asset class, following analysis of historical data and in consultation with the fund adviser, sensitivity analysis is based on an assumed a 10% volatility for pooled assets and 1% for cash.

2013/14

Asset Type	**Market Value 31.3.2014 £'000**	**Percentage Change %**	**Value on Increase £'000**	**Value on Decrease £'000**
Pooled Investments	**818,587**	**10.0**	**900,445**	**736,728**
Cash Deposits	**9,164**	**1.0**	**10,239**	**10,037**

2012/13

Asset Type	Market Value 31.3.2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Pooled Investments	**791,598**	**10.0**	**870,758**	**712,438**
Cash Deposits	**10,095**	**1.0**	**10,196**	**9,994**

Exchange rate risk

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and therefore could be exposed to the risk of loss from exchange rate movements of foreign currencies. This risk is managed by holding the fund assets in Sterling.

Refinancing risk

The key risk is that the Pension Fund will be required to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Pension Fund does not have any financial instruments that carry a refinancing risk.

19. Membership of the Pension Fund

		2013/14
Employees		
Number of Employees at 31/03/2013		6,660
Employees joining during the year		1,916
		8,576
Members leaving during the year:		
Normal retirements	113	
Ill-health retirements	8	
Deaths in service	8	
Refunds of Contributions	47	
Deferred pensions	598	-774
Number of Employees at end of year		**7,802**
Pensioners		
Number of Pensioners at start of year		6,772
New pensioners during the year:		
Normal retirements	154	
Ill-health retirements	0	
Dependants' pensions	64	
Deferred pensions becoming payable	101	319
		7091
Deaths/dependants ceasing to be eligible		-364
Number of Pensioners at end of year		**6,727**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		7,977
New deferred pensioners during the year:		637
		8,614
Deferred Pensioners leaving the fund during the year		
Normal retirements	95	
Ill-health retirements	0	
Transferred	78	
Back to active status	0	
Deaths	14	-187
Number of Deferred Pensioners at end of year		**8,427**
Total Membership at 31 March 2014		**22,956**

20. Events after the Balance Sheet date

Since the Balance Sheet date of 31 March 2014, there have been no post balance sheet events to report. The only non-adjusting event that is reported is the latest market value of the total externally managed investments of the Fund which increased slightly from £819.561 million to £822.262 million (as valued at 31 May 2014) .This represents an increase of £2.7 million.

London Borough of Barnet Pension Fund

IAS26 Disclosures as at 31 March 2014

Barnett Waddingham
Public Sector Consulting

29 May 2014

Contents

Introduction

We have been instructed by the London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension Fund ("the Fund"), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to members of the Fund as at 31 March 2014.

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

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

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

Valuation Data

Data Sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the London Borough of Barnet.

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2014.
- Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013 and a Fund asset statement as at 31 March 2014.
- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal Employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Fund Membership Statistics

The table below summarises the membership data, as at 31 March 2013.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	6,702	141,943	47
Deferred Pensioners	8,992	14,264	46
Pensioners	6,738	33,831	71

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 4%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Equities	563,734	68%	545,151	68%
Gilts	0	0%	0	0%
Other Bonds	256,996	31%	248,525	31%
Cash	8,290	1%	8,017	1%
Total	**829,020**	**100%**	**801,693**	**100%**

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

From the information we have received from the administering authority, we understand that of the total Fund at 31 March 2014;

- Of the Equities allocation above, 46% is invested in the BNY MFM Ltd Newton Real Return 'X' Acc Fund, 46% in the Schroder Pension Management Ltd SIM Life Diversified Growth Fund, and 8% in the Legal & General Index Linked Tracker Fund - (World (Ex UK) Equity Index.
- The Other Bonds allocation consists of 47% in the BNY MFM Ltd Newton Long Corp Bond 'X' (Acc) GR Fund, 1% in the BNY MFM Ltd Newton Global Dynamic Bond 'X' (Acc), 45% in the Schroder All Maturities Corp Bond Fund, and 7% in the Legal & General Active Corporate Bond - All Stock – Fund.
- A small amount of the Fund, less than 0.5% is invested in BNY MFM Ltd Newton Long Gilt Fund 'X' (Acc) GR (43%) and BNY MFM Ltd Newton Index Linked Gilt 'X' (Acc) GR Fund (57%).

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the Administering Authority is contacted in the first instance.

Unfunded Benefits

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

Actuarial Methods and Assumptions

Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are;

Life Expectancy from age 65 (years)		31 March 2014	31 March 2013
Retiring today			
	Males	22.0	20.1
	Females	24.3	24.1
Retiring in 20 years			
	Males	24.1	22.1
	Females	26.7	26.0

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.5%	-	3.4%	-	3.3%	-
CPI increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.5%	1.0%	4.8%	1.4%	4.7%	1.4%
Pension Increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount Rate	4.4%	0.9%	4.6%	1.2%	4.6%	1.3%

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund’s liabilities is 17 years.

The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund’s liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 17 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.5%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.7%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £515,554,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

A Short

Anna Short FFA
Associate

Appendix 1 Balance Sheet Disclosure as at 31 March 2014

Net Pension Asset as at	31 Mar 2014 £000's	31 Mar 2013 £000's	31 Mar 2012 £000's
Present Value of Funded Obligation	1,344,574	1,305,450	1,212,469
Fair Value of Scheme Assets (bid value)	829,020	801,693	716,032
Net Liability	**515,554**	**503,757**	**496,437**

*Present Value of Funded Obligation consists of £1,214,083,000 in respect of Vested Obligation and £130,491,000 in respect of Non-Vested Obligation.

Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2014 £000's	Year to 31 Mar 2013 £000's (had the revised IAS19 standard applied)	Year to 31 Mar 2013 £000's disclosed
Opening Defined Benefit Obligation	**1,305,450**	**1,212,469**	**1,212,469**
Current Service cost	40,544	37,366	37,366
Interest cost	59,331	55,136	55,136
Change in financial assumptions	49,856	28,011	combined below
Change in demographic assumptions	(21,008)	-	combined below
Experience loss/(gain) on defined benefit obligation	(56,965)	-	combined below
Total Actuarial losses (gains)	separated above	separated above	28,011
Losses (gains) on curtailments	combined below	combined below	1,565
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(44,332)	(38,759)	(38,759)
Past service cost	combined below	combined below	-
Past service costs, including curtailments	1,671	1,565	separated above
Contributions by Scheme participants	10,027	9,662	9,662
Unfunded pension payments	-	-	-
Closing Defined Benefit Obligation	**1,344,574**	**1,305,450**	**1,305,450**

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to 31 Mar 2014 £000's	Year to 31 Mar 2013 £000's (had the revised IAS19 standard applied)	Year to 31 Mar 2013 £000's disclosed
Opening fair value of Scheme assets	**801,693**	**716,032**	**716,032**
Expected return on scheme assets	n/a	n/a	38,566
Interest on assets	36,959	33,098	n/a
Return on assets less interest	(8,831)	46,824	n/a
Other actuarial gains/(losses)	(3,475)	-	n/a
Total Actuarial gains/(losses)	n/a	n/a	40,020
Administration expenses	(914)	(1,336)	n/a
Contributions by employer including unfunded	37,893	36,172	36,172
Contributions by Scheme participants	10,027	9,662	9,662
Estimated benefits paid plus unfunded net of transfers in	(44,332)	(38,759)	(38,759)
Settlement prices received / (paid)	-	-	-
Closing Fair value of Scheme assets	**829,020**	**801,693**	**801,693**

AGENDA ITEM 8

	Pension Fund Committee **29 July 2014**
Title	**Statement of Investment Principles**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Appendix A – Statement of Investment Principles July 2014
Officer Contact Details	Iain Millar, Head of Treasury Services iain.miller@barnet.gov.uk 020 8359 7126

Summary

This report asks the Committee to approve the updated Pension Fund Statement of Investment Principles.

Recommendations
1. That the Pension Fund Committee approve the updated Statement of Investment Principles.

1. WHY THIS REPORT IS NEEDED

1.1 This document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Under the legislation, administrating authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments, including a statement of compliance with Myner's revised principles of investment management 2009.

2. REASONS FOR RECOMMENDATIONS

2.1 The Statement of Investment Principles requires updating to reflect the results of the 2013 triennial pension fund actuarial valuation.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

4.1 None

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities.

5.2 **Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The financial issues are set out in the body of the report and in the statement of investment principles.

5.3 **Legal and Constitutional References**

5.3.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) made under the powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972. It is a requirement of regulation 57 Local Government Pension Scheme Regulations 2013 that the statement of investment principles is included in the pension fund annual report.

5.3.2 Constitution –Responsibility for Functions Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

5.4 **Risk Management**

5.4.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT Investment Consulting, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

5.5 **Equalities and Diversity**

5.5.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contribute to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met.

5.6 **Consultation and Engagement**

5.6.1 Not Applicable

6. BACKGROUND PAPERS

6.1 None

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Appendix A – Statement of Investment Principles

Introduction

This document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009. Under the legislation, administrating authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments, including a statement of compliance with Myner's revised principles of investment management 2009.

The London Borough of Barnet Pension Scheme is a funded, defined benefit, a career average scheme with protection for those previously on the final salary scheme. Operated under the national Local Government Pension Scheme (LGPS) arrangements and is subject to regulation by Central Government. Every three years, the Fund's Actuary determines the funding level of the scheme and advises the Council of the rate of employer contributions necessary to meet the cost of pensions in payment and future liabilities. The next triennial valuation will be undertaken as at the 31st of March 2013.

The primary investment objective of the pension fund is to maximise the long term investment return whilst taking account of risks. Investment performance is measured against customised benchmarks and is monitored by the Council's Pension Fund Committee Investment Policy for the Council's Pension Fund has been decided after consideration of first principles. These principles determine the investment objectives and the level of risk that is deemed appropriate for the Fund.

At the core of the investment policy of the Pension Fund lies the objective of securing and maintaining an investment rate of return which will count towards meeting the Council's current and future obligations and liabilities to make pensions payments and which will contribute towards keeping the burden on the Council Tax-payer as low as possible.

Employer contributions are met, mainly, by the Council's General Fund and therefore it is the Council Tax-payer who meets this cost. Most of the factors that the Actuary uses to determine what the rate should be are external factors, such as the rate of inflation, life expectancy rates and future dividend earnings. These are all factors over which the Council has no control or influence. The only two areas in which the Council has influence or control is with regard to pensions remuneration policies (in particular early retirement policies other than ill-health) and in the investment performance of the Fund.

With regard to early retirement, the Council is making additional contributions towards meeting the immediate financial strains arising from early retirements other than ill-health retirements.

With regard to investment performance, the Pension Fund Committee recognises that a superior and stable investment return will minimise the employer contribution rates. This is because an investment fund, which has a growing capital base, is able to re-invest capital and this in turn, will increase the fund's dividend and interest earning capacity.

The Committee also recognises that the tax-exempt status of the fund must be maintained to safeguard the taxation advantages of freedom from capital and income taxes.

Strong investment returns have always been important to Barnet. We recognise that for local authority funds, especially in the context of maturing pension schemes, there is a great responsibility to set standards and investment performance targets that reflect the objective of keeping the burden on Council Tax as low as possible.

As a statutory public service scheme, the Fund is not subject to the Minimum Funding Requirement of the Pensions Act 1995. However, the Pension Fund Committee Panel does have a responsibility to regularly examine the asset allocation of the Fund to ensure that an appropriate investment strategy has been set to help secure the Fund's continued solvency.

Investment structure and the council's attitude to risk

We pay close attention to the risks, which may arise through a mismatch between the Fund's assets and its liabilities and the risks, which may arise from a lack of diversification of investments. As at the 31st of March 2010, the date of the last Actuarial Valuation, the Scheme was 76% funded.

The Council seeks to achieve its investment objectives through investing in an appropriate mixture of real (e.g. equities) and monetary assets (e.g. bonds and cash). It recognises that the returns on real assets, whilst expected to be greater over the long term than those on monetary assets, are likely to be volatile. Nevertheless, the Council has decided that, in view of the financial health of the Fund, no major change to the Fund's long-term asset allocation was required and an equity-biased approach would be maintained for the foreseeable future.

We believe that the asset allocation policy in place provides an adequately diversified distribution of assets. The Scheme’s asset holdings are diversified further by employing three fund managers each of whom have their own investment style.

Unit trusts held by the investment managers are within the ranges specified in the investment regulations. As the Fund has a positive cash flow, the Pension Fund Committee considers that the benefits of diversification and risk spreading obtained by investing in these vehicles more than offsets any potential longer realisation periods.

The investment management arrangements of the Fund are reviewed by the Pension Fund Committee to ensure that the professionals engaged to manage the assets of the Fund have the capacity, skills and resources to achieve its objectives. The Council employs two investment managers.

Both managers are regulated by the Financial Services Authority (FSA). As at the 31st of March 2014 Schroder Investment Management (45.8%) and Newton Investment Management Ltd (46.8%), managed the majority of the fund between them and Legal and General's managed the remainder in pooled funds (7.4%)

The Pension Fund Committee has delegated the day to day investment management activity to the investment managers. The managers will, however, have regard to the asset allocation against which they are benchmarked, as determined by the Pension Fund Committee. Investment managers are appointed in accordance with the LGPS regulations and their activities are specified in detailed investment management agreements.

These Agreements provide important protections for the Fund. They set out the detailed terms on which the assets are managed, the investment briefs, guidelines and restrictions under which the manager works.

Policy on socially responsible investment

The Pension Fund Committee has considered socially responsible investment in the context of its legal and fiduciary duties. In accordance with the aforementioned objectives, the Committee believes non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. We also believe that encouragement and persuasive pressure from the fund management community is a more robust way to influence companies. It is likely to have more effect than isolated pockets of direct action by shareholders and this has a better prospect of achieving Governments' original objectives.

The Committee encourages Fund Managers to consider the financial impact of good and poor socially responsible activities of companies. If the assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on a company's financial performance (positively or negatively), the investment managers must assess and take account of the associated risk and, if appropriate, seek to encourage companies to pursue better business practices. Investment managers should provide assurances that these issues are being taken into account on an agreed basis.

Policy in relation to the exercise of rights (including voting rights) attaching to investments

The Pension Fund's direct holding in UK and overseas equities have associated with them the right to vote on resolutions at company general meetings. The Pension Fund Committee believes in encouraging good corporate governance in the companies in which it invests. Voting is undertaken by the Investment Managers in accordance with their voting policies.

CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 came into force on 1 January 2010.

This regulation requires the Fund to state the extent to which it complies with the principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners. Thus the Fund's compliance with the revised Myners principles is set out below:

Principle 1: Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they received, and manage conflicts of interest.

Compliant. The Council, as the administering authority, appoints the Pension Fund Committee, specifically for the purpose of managing the Fund's Investments. The Committee is supported by the actuary, independent advisors and officers.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, and clearly communicate these to advisers and investment managers.

Compliant. The Fund's investment objective and attitude to risk are reviewed and adjusted where necessary, on the basis of the outcomes of asset liability studies.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliant. The investment strategy is reviewed annually and updated to take account of the latest actuarial information. Risk of sponsor or fund default is irrelevant as the London Borough of Barnet Pension Fund benefits are guaranteed by law.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers an external performance management firm, WM Company and adviser JLT. The Committee is looking into how to assess the performance of decisions taken.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment mangers adopt the Institutional Shareholder's Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliant. Investment managers employed by the fund have clear corporate governance policies. The Pension Fund Committee has an approved voting policy.

Principle 6: Transparency and Reporting

Trustees 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

Compliant. The Committee publishes documents including the Statement of Investment Principles, Funding Strategy Statement, Corporate Governance policy and committee meeting minutes on the London Borough of Barnet website. Annual reports and accounts are also published on the website.

London Borough of Barnet pension fund objectives

Investment objectives

The investment objective is to minimise the long term cost of funding commensurate with an appropriate level of risk and volatility.

The investment object will be achieved through the formulation of an appropriate investment strategy that takes into account the liabilities of the fund and the assumptions made within the actuarial valuation.

Fund benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

Performance target

Manager	**Fund**	**Monitoring Benchmark**	**Target**
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years

Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterlind Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years

Specific investment restrictions, parameters and guidelines

In addition to the Council's attitude to risk in respect of the Fund's long term asset allocation, the Council complies with a number of specific statutory restrictions. The Pension Fund Committee has set additional investment guidelines and restrictions that reflect their attitude to the risks inherent in investing and maintaining safe custody of the Fund's assets. The Pension Fund does not currently participate in stock lending.

Statutory Restrictions and the Council's Parameters on Investments

The statutory restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits maybe increased, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.

The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed at Appendix A.

Policy on giving instructions

Our instructions to the managers will be in writing. Instructions given orally, or by email will be confirmed in writing including facsimile. Where the Agreement would be varied or where instructions involve the transfer of assets to or from the portfolio, instructions will be confirmed in writing and shall bear the signatures of two authorised signatories to the Fund.

Fund managers

The Pension Fund Committee meets quarterly with its fund managers to review performance and consider their activities and the future investment strategy.

The Fund managers are:

Schroder Investment Managers (UK) Ltd
31 Gresham Street
London
EC2V 7QA
Tel: 0171 658 6000

Newton Investment Management Ltd
Mellon Financial Centre
160 Queen Victoria Street
London
EC4V 4LA
Tel: 020 7163 9000

Legal and General Investment Management Ltd
One Coleman Street
London EC2R 5AA
Tel: 020 3124 3277

Custody of the Fund's assets is subject to combined Fund management and Custodian Agreement agreements with JP Morgan Europe Ltd (the Custodian for Schroder Investment management (UK) Ltd) and the Bank of New York Mellon (the Custodian for Newton Investment Management Ltd).

Annex A: Investment Limits Adopted

Investment	**Limits Adopted**
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	2%
3. All contributions to partnerships	5%
4. The sum of all loans and any deposits with – A) Any local authority, or B) Any body with power to issue a precept or requisition to a local authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	35%
10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%