Putting the Community First

BARNET
LONDON BOROUGH

MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 26TH JUNE, 2018
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall MA (Hons)

Anthony Finn
Elliot Simberg
Anne Hutton
Alison Moore
Danny Rich

Substitute Members

Stephen Sowerby
Ross Houston
Eva Greenspan
Reema Patel
Peter Zinkin
Arjun Mittra

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10am on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is Wednesday 20 June at 10am. Requests must be submitted to Paul Frost (paul.frost@barnet.gov.uk)

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

Andrew Charlwood – Head of Governance

Governance Service contact: Paul Frost, paul.frost@barnet.gov.uk, 020 8359 2205

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	5 - 8
2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
6.	Members' Items (if any)	
7.	External Audit Report	9 - 30
8.	Update Admitted Bodies	31 - 38
9.	Transfer Value in respect of Barnet and Southgate College	39 - 44
10.	Barnet Council Pension Fund – Annual Performance Report	45 - 52
11.	Fossil Fuel and Corporate Engagement	53 - 86
12.	Scheme Funding Update	87 - 96
13.	London Borough of Barnet Pension Fund – Annual Report	97 - 148
14.	Review of Strategic Asset Allocations	149 - 212
15.	Barnet Council Pension Fund - Performance for the Quarter to 31 March 2018	213 - 244
16.	Any item(s) that the Chairman decides is urgent	

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Paul Frost.

People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE

If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by uniformed custodians. It is vital you follow their instructions.

You should proceed calmly; do not run and do not use the lifts.

Do not stop to collect personal belongings

Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions.

Do not re-enter the building until told to do so.

This page is intentionally left blank

Decisions of the Pension Fund Committee

26 February 2018

AGENDA ITEM 1

Cllr Mark Shooter (Chairman)
Cllr John Marshall (Vice-Chairman)

* Rohit Grover * Arjun Mittra * Andreas Ioannidis
* Peter Zinkin * Jim Tierney

1. MINUTES (Agenda Item 1):

RESOLVED – That the Minutes of the meeting held on 24 October 2017 be approved.

2. ABSENCE OF MEMBERS (Agenda Item 2):

None.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):

All members declared a non-disclosable pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):

The Pension Fund Committee noted the details of public questions that had been submitted and circulated.

13. REPRESENTATION FORM BARNET UNISON (Agenda Item 13):

Mr John Burgess the Branch Secretary for Barnet UNISON was invited by the Chairman to ask questions on behalf of the Barnet UNISON. He expressed concerns regarding the recent meeting of the Local Pensions Board relating to poor levels of service provided by Capita in relation to the Pension Administration Service. He asked a range of questions to the Chairman which were responded to verbally.

Paul James, Head of Public Sector Pensions for Capita outlined that they had made good progress and he assured the Committee that Capita were working closely with the Council in order to implement the improvement plan. Councillor John Marshall sought assurance that Capita were deploying addition resources, this was positively confirmed.

Resolved:
That the Pension Fund Committee noted the verbal representation from Mr John Burgess and the verbal response.

5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):

None.

6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):

None.

7. REFERRED REPORT - LOCAL PENSION BOARD PERFORMANCE OVERVIEW (Agenda Item 7):

The Chairman invited Profession Alderman to introduce the report. He stated that he was in attendance to provide a warning to the Pension Fund Committee. He outlined that the Local Pension Board were keeping a watching brief of the situation. Professor Alderman requested that the Pension Fund consider section 2.2&2.3 of the report and encouraged the views of the Pension Fund Committee Members. He further added that he and the Local Pension Board were concerned of the levels of Resources

Members of the Pension Fund Committee were given the opportunity to ask Professor Alderman questions. During this process Professor Alderman noted that there were two key themes that were of concern to the Local Pension Board Members:

- Communications with pension scheme members
- Quality of Data

Paul James Head of Public Sector Pensions for Capita gave an overview of the work that Capita performed. He stated that data was being cleansed from 2010 and good progress made been made.

Profession Alderman noted that a remedy notice had been issued and a second was likely. He stated that the Local Pension Board noted that if performance did not improve and a third remedy was issued the Council and the Scheme Manager could consider the management of the administration of the Fund.

The HR Consultant, Mrs Natasha Edmunds stated that Members of the Scheme and Employers will be communicated with as part of a wider communication plan and as a result an Employer Forum is to be established.

The Committee shared the view that there needs to be a common understanding of the scale of the problems and how it can be resolved. Mrs Edmunds said that the data was 83% accurate and as part of the improvement plan the common data quality score needs to increase and there was a project plan which tracked progress. She stated that there is a detailed plan which will ensure improvement is made, however she noted that greater analysis is required for conditional data sets to understand the scale of the problem and put in place the appropriate next steps.

After considering the contents of the report, the Committee unanimously **RESOLVED:**

Resolved:

- **That the Pension Fund Committee note the performance issues reported to the Local Pension Board in respect of the administration of the London Borough of Barnet Superannuation Scheme.**
- **That the Pension Fund Committee requested employee compliance be submitted to the Pension Fund Committee at a future meeting.**
- **That the Pension Fund Committee requested that narrative be provided for amber data**

8. PERFORMANCE FOR THE QUARTER TO 31ST DECEMBER 2017 (Agenda Item 8):

At the last meeting of the Pension Fund Committee on 24 October 2017 it was resolved to invite any relevant Fund Managers to present to the Pension Fund Committee as appropriate. Therefore the Chairman invited Mr David Moylett and Ms Suzanne Hutchins from Newtons to give their presentation. The Chairman gave thanks Mr David Moylett and Ms Suzanne Hutchinsfor their update and attendance.

The Chairman invited Kevin Cullen and Robert Hall form the London CIV who provided a representation for the Committee. The Chairman thanked Kevin Cullen and Robert Hall for their update and attendance.

The Chairman invited Lyndon Bolton and Tim Carr from Schroder from Schroders to give their presentation. The Chairman thanked Lyndon Bolton and Tim Carr from Schroder for their update and attendance.

After considering the contents of the report, the representations made the Committee unanimously **RESOLVED:**

- **The Pension Fund Committee requested that Funding Options be consider and presented to a future meeting of the Committee**
- **That Pension Fund Committee requested consideration of changes in the strategic investment allocation be deferred until a future meeting.**
- **That Pension Fund Committee noted future funding requirements should be derived from proportional realisations from both DGF funds.**
- **That the Pension Fund Committee noted that consideration of private equity and active emerging market equities is carried over to a future meeting.**

9. POOLING UPDATE (Agenda Item 9):

The Chairman invited Kevin Cullen and Robert Hall form the London CIV to present item.

The Committee noted that the London Borough of Barnet was a shareholder in the London CIV. The report and presentation provided an update on the development of the CIV. The Chairman thanked Kevin Cullen and Robert Hall for their update and attendance.

After considering the contents of the report, the Committee unanimously **RESOLVED:**

- **The Pension Fund Committee approved the payment of £25,000 development funding charge from the London CIV.**
- **The Pension Fund Committee noted that a pooling plan for each investment will be presented for consideration at a future Committee meeting.**
- **The Pension Fund Committee delegated to the Head of Treasury and Pensions the approval of the response to the London CIV's consultation questions (appendix 2)**

10. REVIEW OF STRATEGIC ASSET ALLOCATIONS (Agenda Item 10):

The report was presented by Andrew Elliot the independent investment advisor from Hymans.

After considering the contents of the report, the Committee unanimously **RESOLVED**

- That the Pension Fund Committee gave consideration of changes in the strategic investment allocation and agreed it be deferred until a future meeting.
- That the Pension Fund Committee agreed that future funding requirements should be derived from proportional realisations from both DGF funds.
- That the Pension Fund Committee gave consideration of private equity and active emerging market equities and agreed that it be carried over to a future meeting.

11. GOVERNANCE POLICY AND COMPLIANCE STATEMENT (Agenda Item 11):

The Committee considered the recommendations and noted that the proposals.

After considering the contents of the report, the Committee unanimously

RESOLVED:
The Pension Fund Committee noted the recommendation from the Local Pension Board to include wider employer and scheme member representation and asked officers to review representation at other London Boroughs pension committees and report back to a future meeting.

12. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 12):

None.

The meeting finished at 21:20

	AGENDA ITEM 7 **Pension Fund Committee** **26 June 2018**
Title	**Pension Fund External Audit Plan for the year ended 31 March 2018**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A - BDO External Audit Plan 2017/18
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

In line with International Standard on Auditing 260 (ISA 260) the Pension Fund's external auditors, BDO, should be provided with access to those charged with governance.
BDO are the Pension Fund's appointed external auditors for the 2017/18 financial year.

Appendix A to this report sets outs the audit plan for 2017/18 which will be presented to Pension Fund Committee by BDO.

Recommendations

1. **That the Pension Fund Committee note the audit strategy for the 2017/18 Report and Accounts and raise any issues with the auditor.**

1. WHY THIS REPORT IS NEEDED

1.1 The audit plan contained at appendix A highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance. The purpose of this report is to highlight and explain the key issues which the auditor believes to be relevant to the audit of the annual accounts of the pension fund for the year ended 31 March 2018.

1.2 The report includes the following sections:

1.3 Within the key risks section, there are two references to issues identified last year (page 8) relating to membership data and bank accounts that will form part of the 201718 audit.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendation is required in order for the Council to comply with statutory audit requirements.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The external auditor will report to the July Pension Fund Committee to present their audit findings.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

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

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 financial management as well as providing value for money.

5.2.1 The external audit fees for 2017/18 are £21,000 (2016/17: £21,000). Additional fees may be charged if the auditor is not provided with adequate working papers.

5.3 **Social Value**

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts, and

To receive and consider approval of the Pension Fund Annual Report."

5.4.2 The Local Government Pension Scheme Regulations 2013 requires that each employer is sent a copy of the auditor's report.

5.5 **Risk Management**

5.5.1 The external audit is a key source of comfort on the accuracy of the financial records and the systems that feed information into these records. Engaging with the auditor as they plan and undertake the audit will assist the auditor to direct their work at high risk areas.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None

LONDON BOROUGH OF BARNET PENSION FUND

AUDIT PLAN TO THE PENSION FUND COMMITTEE

Audit for the year ended 31 March 2018

31 May 2018

BDO

CONTENTS

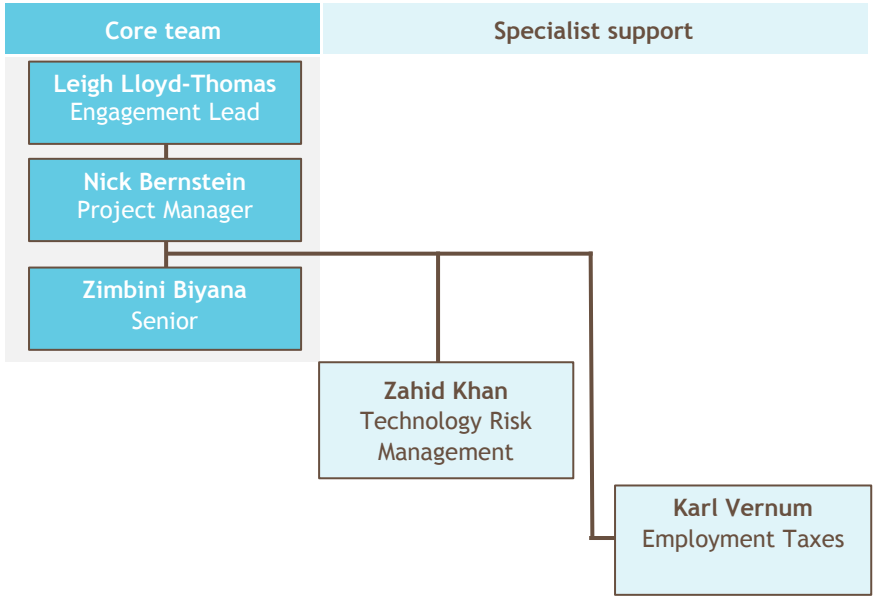
WELCOME

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ended 31 March 2018. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Pension Fund Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas **Engagement Lead**	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Nick Bernstein **Project Manager**	Tel: 020 7034 5810 nick.bernstein@bdo.co.uk	Management of the audit
Zimbini Biyana **Senior**	Tel: 01473 320 823 zimbini.biyana@bdo.co.uk	Day to day supervision of the on-site audit
Zahid Khan **Technology Risk Assistant Manager**	Tel: 020 3219 4147 zahid.khan@bdo.co.uk	Manage IT review for audit purposes
Karl Vernum **Employment Tax Principal**	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

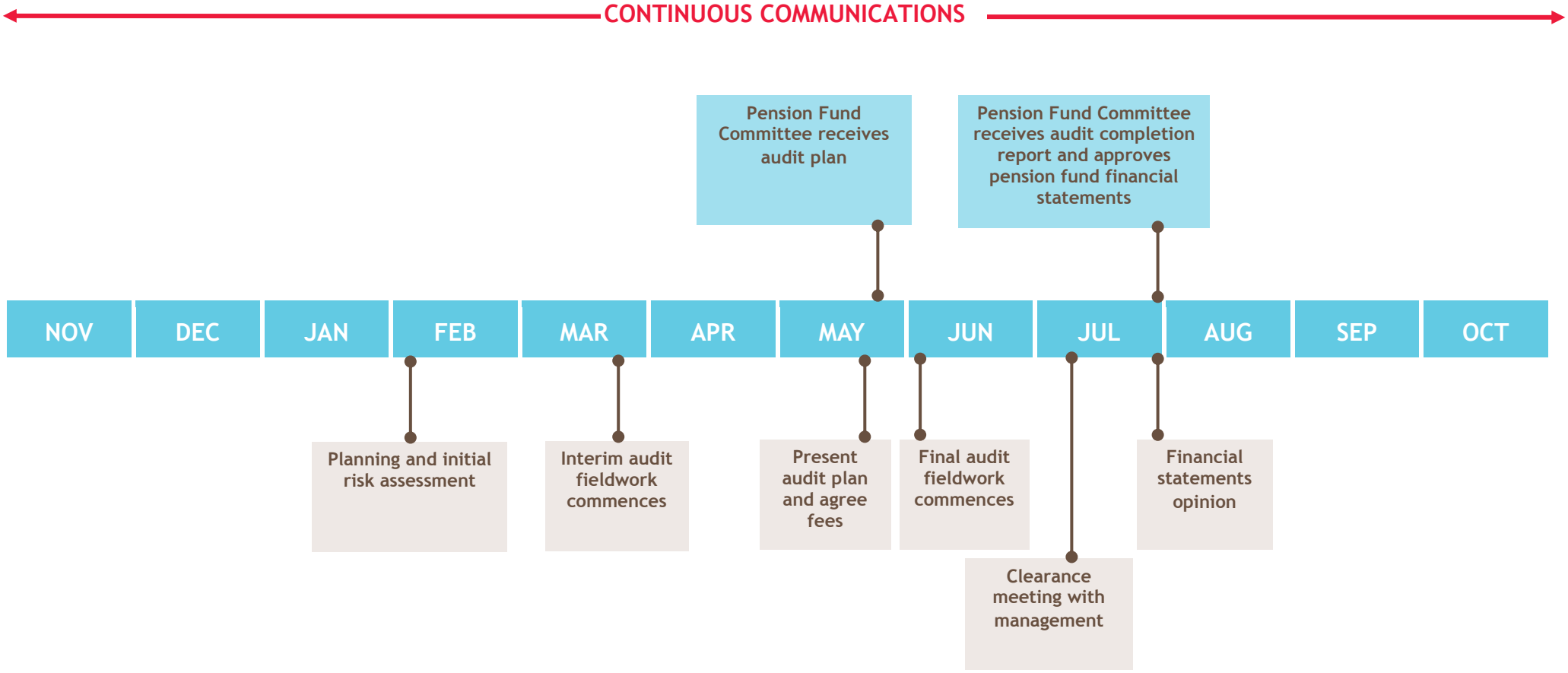
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error.

He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS
1 The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements.	4 Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£10,500,000	£210,000
Specific materiality for other financial statement areas:		
- Fund account	£2,900,000	£58,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the fund account at 5% of contributions receivable.

At this stage, these figures are based on the prior year net assets and contributions receivable amounts. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during the planning stage of the audit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to audit risks.

Risks and planned audit responses

Under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the pension fund financial statements is low. Potential fraud could include failure to receive all contributions due from employers, paying for fictitious pensioners or continuing to pay pensions to deceased pensioners. Management consider that controls in operation would prevent or detect material fraud in these areas. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

The Pension Fund Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	The primary responsibility for the detection of fraud rests with management. Its role in the detection of fraud is an extension of its role in preventing fraudulent activity. Management is responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud. Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.	We will: • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Not applicable.
Pension liability assumptions	An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.	We will: • Review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. • We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Membership disclosure	Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements. During last year's audit, following a cleansing of the data by Management we identified significant issues within the membership data. This was raised as a significant control deficiency. We have therefore recognised a significant risk that the membership database may not be accurate and up to date to support this disclosure this year.	We will: • Obtain membership records and review the controls over the maintenance of these records. • Test a sample of movements of members to transactions recorded in the fund account, and other underlying supporting documentation.	Not applicable.
Cash at bank	During last year's audit, we noted there had been no significant improvements to the control environment. This included three 'off-ledger' bank accounts with nil balances. We have therefore recognised a significant risk over the existence, completeness and accuracy of cash at bank.	We will: • Update our understanding of the controls during our audit visit. • Obtain year-end bank reconciliations and agree these to the general ledger and external bank confirmations of amounts held at year-end. • Substantively test a sample of reconciling items to supporting underlying documentation.	We will request external confirmation of all bank account balances held at year-end.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Contributions receivable (normal and augmented)	Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Augmented contributions are also required against pension strain for early retirements. There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.	We will: • Perform an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant. • Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month. • Perform tests over augmented contributions due from employers for pension strain costs. • Carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.	We will check a sample of contributions receivable from the Council to the Council's payroll records to ensure that the correct amounts have been paid by the employee and employer. For other significant admitted and scheduled bodies, we will select a sample of bodies each year and either (a) agree amounts to the employer payroll or (b) request confirmation from that organisation that the correct amounts have been paid to the pension fund for selected employees.
Fair value of investments	The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Actuary, and reported on a quarterly basis. There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We will: • Obtain direct confirmation of investment valuations from the fund managers and agree independent valuations, where available, provided by the custodian. • Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	Direct confirmation of investment valuations from fund managers and, where appropriate, from the custodian. Assurance report on the operating effectiveness of internal controls within each of the fund managers.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Investment management expenses	Local Government Pension Fund Accounts are required to disclose investment management expenses. Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments. CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. It is expected that where overarching pooled funds are acting as an agent (such as the London CIV Top-Co pool), and transferring monies into sub-fund mandates that already exist between the Pension Fund and Investment Manager the 'hidden' fees are disclosed in respect of the sub-funds and not just the overarching pooled fund. This disclosure is a mandatory requirement for the 2017/18 financial statements. We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.	We will: • Review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Benefits payable	Benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations. Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.	We will: • Substantively test a sample of benefits payable in year to underlying supporting documentation. • Review the results of the latest National Fraud Initiative (NFI) data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches. • Review any life certification exercises undertaken for members that are excluded from the National Fraud Initiative. • Crosscheck payments to movements in the membership statistics.	Review of NFI data matching.
Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	We will: • Document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. • Discuss with management and review Member of Pension Fund Committee and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Pension Fund Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2018.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the Council and pension fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors. We have provided no non-audit services to the Pension Fund.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

ENGAGEMENT TEAM ROTATION	
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	3
Nick Bernstein - Project manager	1

ENGAGEMENT QUALITY CONTROL REVIEWER
NUMBER OF YEARS INVOLVED
2

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 £	2016/17 £
Code audit fee (pension fund)	21,000	21,000[1]
Fees for audit related services	-	-
Fees for non-audit services	-	-
TOTAL FEES	**21,000**	**21,000**

[1] The 2016/17 Code audit fee remains subject to amendment to reflect the additional resources required to resolve the issues identified during the audit.

Fee invoices have been raised in two equal instalments in July 2017 and January 2018.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY
Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Pension Fund Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Pension Fund Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process are adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

www.bdo.co.uk

	AGENDA ITEM 8 **Pension Fund Committee** **26 June 2018**
Title	**Update on Admitted Bodies**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Admitted Bodies Monitoring Sheet
Officer Contact Details	George Bruce, Head of Treasury, CSG George.bruce@barnet.gov.uk 02083597126

Summary

This report updates the Committee on the Admitted Bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet.

Recommendations

That the Pension Fund Committee:

- **Approve the admission of Greenwich Leisure Limited, Elior and Churchill Catering, subject to the signing of admission agreements and provision of bonds / guarantors as calculated by the scheme actuary,**
- **Note the update concerning cessations and bonds as detailed below and in Appendix 1.**

1. WHY THIS REPORT IS NEEDED

1.1 The Report is to update the Pension Fund Committee on the current position in terms of admitted bodies to the London Borough of Barnet Pension Fund. The report is divided into sections on admissions, cessations and bonds.

Admissions

1.2 When an existing participating employer transfers staff to a new employer, the staff have a right to remain in the pension scheme unless the new employer wishes to offer alternative comparable pension benefits. Most employers opt to join the local government pension scheme. The Committee is asked to approve the employers noted below who have requested participation in the scheme. This are no grounds for refusal provided that the new employer:

- Signs an admission agreement approved by the legal team
- Agrees to pay the contribution rate calculated by the scheme actuary, Hymans Robertson
- Provides a bond, guarantee or alternative security against the risk of default (the value is calculated by the actuary).

1.3 Three employers are seeking admission to the Pension Fund

Greenwich Leisure Ltd

GLL was re-appointed to operate Council leisure centres (January 2018) and has 16 active members of the pension scheme. A new admission agreement has been negotiated; signing awaits Committee approval. A bond for £162,000 is in place. GLL were already a participating employer. The new contact to operate Council leisure centres involves a cessation of the old contract / scheme membership and new admittance. The employer's contribution rate is 38.5%.

Elior

Elior was awarded catering contracts for two schools in September 2017, involving four staff at each. The draft admission agreements have been reviewed by HB Public Law. The administrator has been asked to provide the actuary with the information required to calculate the rate of contributions. The UK holding company will provide a parent company guarantee.

Churchill Catering

Churchill Catering was awarded the catering contract for Queenswell School commencing May 2016. There are four active staff. The contractor is reviewing the admission agreement. The employer's contribution rate used will remain the same as the previous contractor.

1.4 The Committee's agreement to admit these employers is subject to the formalities being agreed i.e. admission agreement, agreement of the contribution rate and a bond / guarantee being in place.

Cessation

1.5 When an employer ceases to have active members a cessation valuation is triggered. The actuary values the pension assets and liabilities allocated to that employer. Should there be a deficit of assets, a payment is demanded from the employer of the deficit value. Any surplus of assets is retained in the fund. The basis of the valuation is set out in the admission agreement. There have been five cessations, of which two require cessation valuations.

Housing 21

Ceased August 2016, when staff transferred to Aqualfo. As at March 2016, there were 29 active members and surplus of £1,065,000 (liabilities £5,322,000). It is unlikely that a cessation payment will be required. The actuary is awaiting information from the administrator.

GLL

As discussed above, there was a cessation when a new contract was signed in January 2018. As at March 2016 there was a surplus of £519,000 (assets £4.541 million, liabilities £4.021 million), which suggest that no deficit payment will be required.

1.6 There are three other cessations of non-material employers:

Aqualfo – This was a short-lived contract. Staff transferred to Your Choice Barnet. The employer never signed an admission agreement and paid no contributions. Barnet Council have agreed to pay missing contributions and the assets and liabilities will be added to Council's pool.

Absolutely Catering (Queenswell School Contract) – had one active member and was fully funded (gross assets and liabilities of £8,000) as at March 2016. Liabilities will be held as part of the 'dead' employers pool, which currently has a small surplus.

APCOA – listed as commenced November 2016 and ceased soon after, with one active member. Details are being checked with the administrator.

Bonds and Guarantees

1.7 The attached schedule sets out the current provision of bonds for all admitted employers (those that are not schools or colleges). Listed below are the

employers whose bonds have expired and have not been renewed. These are listed by current position / action required:

Awaiting bond value evaluation by the actuary

Mears Group
NSL
OSC Group
Viridian Housing
Barnet Educational Trust

The actuary is currently awaiting information from the administrator to undertake the bond value calculations.

Employers not responding

Birkin Cleaning Services

Previous Bond £13,000 – expired 30 August 2015

Six active members and actuarial surplus of £9,000 (liabilities £77,000) as at March 2016.

Have been informed by one school (St James) that the contract ceased in Sept 2016. Checking with the second school that a contract remains in place.

Green Sky

Two school catering contracts

Bonds expired January 2015 (£23,000) and September 2014 (£16,000)

Currently eight active members across both contracts and a deficit of £4,000 (liabilities £123,000) as at March 2016.

Checking with the schools that contracts remain in place.

1.8 It is expected that the new bond values for the above employers will be finalised soon and bonds or alternative security provided.

2. REASONS FOR RECOMMENDATIONS

2.1 That the Committee notes the update to the issues detailed in Appendix 1

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

4.1 Once any recommendations in terms of admitted bodies have been approved, the Pension Fund will take appropriate action to update records and obtain bond information.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

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

5.2.1 Appendix 1 notes the bond levels required for each admitted body which will act as guarantee for the Pension Fund liabilities.

5.2.2 All organisations that have been paying their contributions in a timely way in line with the terms of their admittance to the Pension Fund have been rated green in Appendix 1 apart from the newest admissions that are in the process of setting up payments. Backdated contributions have been requested and are expected shortly.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Schedule 2 of the Local Government Pension Scheme Regulations 2013 provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2 With respect to an admission agreement, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified. However, the Regulations do allow in some circumstances for the previous

employer (often the Council) to act as guarantor.

5.4.3 The Council's standard admissions agreement makes provision for the admitted body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time

5.5 **Risk Management**

5.5.1 The ongoing viability of the Pension Fund is dependent on acquiring assets that match the pension liabilities. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that admissions agreements and bonds (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant admission agreement.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not Applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Current Admitted Body Status

Admitted Body	Active Employees	Start Date	Guarantor	Bond Value	Bond Expiry Date	Bond Status	Contribution Status	Comment	Actions Required
Status GREEN									
Absolutely Catering (2) (St James' Catholic School)	8	01/01/2016	tbc	£33,000	01/01/2019	GREEN	GREEN	Admission Agreement and Bond documentation received and sent to HB Public Law for sealing	Requested status on admission agreement and bond from HB Public Law (13 April 2018).
Servest (Henrietta Barnet School)	1	01/10/2015	tbc	£7,000	01/10/2018	GREEN	GREEN	Bond and Admission Agreement documentation received and sent to HB Public Law for sealing on 15/2/17	Requested status on admission agreement and bond from HB Public Law (13 April 2018).
Hestia (Domestic Violence Service)	1	18/04/2016	tbc	£15,000	tbc	GREEN	GREEN	Bond still to be received. Details provided in Admission Agreement so it can be considered to be in place.	Wrote to Hestia (13 April 2018) seeking copy of the bond.
Freemantle Trust (2)	83	28/03/2014	Allied Irish Bank	£800,000	05/12/2018	GREEN	GREEN	Facility letter from AIB seen, £800,000 guarantee to 5 December 2018.	Complete
Ridgecrest Cleaning	4	03/11/2014	HCC International	£14,000	30/09/2018	GREEN	GREEN	Extension notification verified.	Complete
Greenwich Leisure / GLL	16	31/12/2002	Tokyo Marine HCC	£162,000	30/11/2020	GREEN The bond value is insufficient.	GREEN	Hymans report (Feb 2017) indicated required bond of £871,000 (£160k redundancy) and £771k deficit (95%) probability. It is likely that Hymans overstated the bond value by including the carried forward deficit. As this is a new contract, there is no inherited deficit.	Checking position with HB Public Law. Checking with Hymans Robertson.
Capita Re	156	30/09/2013	Barclays Bank	£3,812,000	24/11/2018	Green	Green	No action required	
Capita CSG	190	30/09/2013	Barclays Bank	£4,731,000	24/11/2018	Green	Green	No action required	
Status RED									
Mears Group	19	10/04/2012	Euler Hermes	£320,000	30/09/2017	RED	GREEN	Mears have agreed (email 16 March 2018) to fund the cost of updating the bond calculation. Capita Employee Benefits have been asked to send data to the actuary to undertake a bond value calculation.	Asked actuary (13 April) to undertake review of required bond value.
NSL	31	01/05/2012	Lloyds TSB	£412,000	30/04/2017	AMBER	GREEN	NSL have indicated that bond has been renewed (13 April). Evidence has been requested. A parent company guarantee has been offered.	Written to NSL (13 April) to ascertain status of the bond. The actuary has been asked to recalculate the required bond value. As at March 2016 the employer had a 99% funding level and 20 active employees.
OSC Group	13	31/05/2014	HSBC	£102,000	31/05/2017	RED	GREEN	Employer has agreed (27 March 2018) to meet cost of an actuarial evaluation of the required bond value. Capita Employee Benefits have been asked (29 March) asked CEB to provide data to the actuary.	Asked actuary (13 April) to undertake review of required bond value.
Viridian Housing	11	22/04/2006	Euler Hermes UK	£65,000	16/08/2016	RED	GREEN	Emailed Viridian 29 March 2018 seeking current position on bond. As parent complany is A2 rated, a parent company guarantee would be acceptable. Will require a revised bond valuation from the actuary.	Corresponding with Viridian. Awaiting revised bond value from actuary.
Birkin Cleaning Services (St James Catholic School)	6	24/10/2011	Technical and General Guarantee Company	£13,000	30/08/2015	RED	GREEN	Awaiting actuarial report on alternative options	Written to employer (11 April) seeking update on bond position and setting out available alternatives. Have been advised that one (of two) contracts has terminated.
Barnet Educational Arts Trust (BEAT)	2	01/03/2013	n/a	£24,000	28/02/2016	RED	GREEN	BEAT have advised (12 April) that it was agreed last year that an extension would be given to the period in which the London Borough of Barnet would underwrite this although it was not clear as to how long the extension would be. At present there is only one person remaining who is a member of the LGPS.	Have requested a revised bond value from the actuary.
Green Sky (2) (Claremont School)	4	19/01/2015	tbc	£23,000	tbc	RED	GREEN	Written to employer (11 April) seeking update on bond position and setting out available alternatives.	Awaiting employer response.
Green Sky (3) (St Michael's School Catering Contract)	5	01/09/2014	tbc	£16,000	tbc	RED	GREEN	Written to employer (11 April) seeking update on bond position and setting out available alternatives.	Awaiting employer response.

Bond not required									
Hartwig	1	23/06/2014	N/A	N/A	N/A	N/A	GREEN	Liabilities retained by LBB - no bond required	No action required.
Allied Healthcare (NB 2 contracts)	4	23/06/2014	N/A	N/A	N/A	N/A	GREEN	Liabilities retained by LBB - no bond required	No action required.
ISS (Education and Skills - LBOB Catering)	233	01/04/2016	N/A	N/A	N/A	N/A	GREEN	LBB guarantor - no bond required	No action required.
Cambridge Education (Mott McDonald -Education and Skills LBOB non-catering)	113	01/04/2016	N/A	N/A	N/A	N/A	GREEN	LBB guarantor - no bond required	No action required.
Allied Healthcare (Homecare procurement) NB 2 contracts	5	01/08/2016	N/A	N/A	N/A	N/A	GREEN	LBB guarantor - no bond required	No action required.
Your Choice Barnet			N/A	N/A	N/A	N/A		Your Choice Barnet is owned by Barnet Council. No bond is required. Have enquired as to admission agreement. No sure if one is required. If it did, it would record the Council as guarantor for the liabilities.	No action required.
Cessation Valuation required									
Absolute Catering (Queenswell School Catering Contract)	1	01/09/2015	tbc	£17,000	01/09/2018	tbc	GREEN	Contract has terminated. Deficit as at March 2016 was nil (gross liabilities of £8,000 fully funded). Not cost efficient to undertake cessation valuation. Treat as 'orphaned' fund.	No action required.
Housing 21	56	06/09/2010	Barclays Bank	£778,000	30/09/2015	N/A	GREEN	Hymans have been asked (13 April) to undertake a cessation valuation.	Awaiting results of cessation valuation.
Aqualfo (Homecare Procurement - Enablement)	31	01/08/2016	tbc	£572,000	tbc	RED	GREEN	Short lived contract. No admission agreement and no contributions paid. The Council has agreed to pay any outstanding contributions. Will transfer liabilities and assets into Council pool.	Complete
APCOA	1	14/11/2016	tbc	tbc	tbc			Short lived contract for one employee. Actuary to treat as 'orphaned' fund.	No Action required.
Other Employers	**Active Employees**	**Start Date**	**Guarantor**	**Bond Value**	**Bond Expiry Date**	**Bond Status**	**Contribution Status**	**Comment**	**Actions Required**
Elior (two catering contracts)	8	01-Sep-17	None	£23,000	not provided.	RED	tbc	No admission agreement signed. Have report from Hymans on required contribution rate and bond. We are willing to accept parent company guarantee.	Awaiting Pension Fund Committee approval of admission.
Churchill Catering (Queenswell School)	4	May-16				RED	tbc	Acquired catering contract at Queenswell School from Absolutely Catering?	Awaiting agreement of admission agreement and actuary to calculate bond and contribution rate. Will then require Pension Fund Committee Approval.

	AGENDA ITEM 9 **Pension Fund Committee** **26 June 2018**
Title	**Transfer Value in respect of Barnet and Southgate College**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	N/A
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

Barnet and Southgate Colleges merged in 2011 and the active members of Southgate College transferred from the London Borough of Enfield pension scheme to the Barnet Pension Fund. Enfield are seeking to retain deferred and pensioner members within their fund and requesting a transfer value of circa £4.2 million from the Barnet Pension Fund. Negotiations are continuing with Enfield and their actuary.

Recommendations

1. **That the Pension Fund Committee note the ongoing discussions with the London Borough of Enfield and that proposals to resolve the transfer will be submitted to the Committee for approval at a later date.**

1. WHY THIS REPORT IS NEEDED

1.1 This note brings to the attention of the Committee discussions that have been ongoing with LB Enfield since 31 October 2011 concerning the pension implications of the merger of Barnet and Southgate Colleges at that date. As part of the merger the active employees of Southgate College transferred to the Barnet Pension Fund. Barnet assumed responsibility for past service accrued when the transferred employees were members of the Enfield scheme.

1.2 Since 2011 there has been an ongoing debate concerning the treatment of former Southgate College staff who were either Enfield pensioners or deferred scheme members as at October 2011 and the appropriate transfer value to be paid to compensate Barnet for taking on the liability for past service of active staff who transferred to the Barnet Pension Fund in 2011. As will be explained below the Enfield position is that the Barnet Pension Fund should pay Enfield an estimated £4.2 million.

1.3 Quite why the process of finalising the transfer has taken such an extraordinary length of time is impossible to justify. Discussion on the appropriate methodology reached a conclusion in October 2015. Barnet and College officers agreed to the preferred Enfield methodology and this was notified to Enfield. A formal agreement letter was drafted but not signed.

1.4 Thereafter the Barnet actuary at the time, Barnett Waddingham, were asked to verify the calculation of the transfer value. We are informed that Enfield took two years (to September 2017) to provide their actuary, Aon Hewitt, with the relevant membership data that was subsequently passed onto Barnett Waddingham to review on behalf of the Barnet Pension Fund. Barnett Waddingham made the current pensions team at Barnet aware of the issue in November 2017. Subsequently, responsibility for providing advice to Barnet Pension Fund has been switched to our current actuary, Hymans Robertson, and discussions have been held with Enfield and their actuary, Aon Hewitt. Unfortunately, we have not been able to persuade Barnett Waddingham to release the membership data they received from Aon Hewitt to allow Hymans to undertake calculations of the various options.

1.5 The suggestion that the Barnet Pension Fund pay Enfield for taking on past service liabilities of transferred staff is counter intuitive. Normally the transfer value would be paid by Enfield to Barnet as we will be taking on pension liabilities that had been accumulated in the Enfield Fund. The rationale for the 'reverse' transfer value is due to the approach taken to calculating the value of assets that Enfield requires to pay former Southgate staff who were pensioners or deferred members of the Enfield Fund as at 2011, as discussed below.

1.6 Pension funds normally calculate the value of assets required to pay liabilities assuming an investment return that is based on a reasonable expectation of future investment returns. When an employer ceases, the fund can take a more cautious approach and assume a lower (gilt based) return. This leads to a

higher calculation of the required value of assets to meet the liabilities. Often the increase in the value placed on the liabilities is around 50%. When Enfield's actuary undertook this calculation, they calculated that the Southgate fund had insufficient assets to cover the pensioner and deferred liabilities by £2.287 million as at October 2011. This liability has been inflated by missed investment returns since 2011 and is now estimated at £4.2 million. Thus, the proposal is that Barnet Pension Fund pay £4.2 million to Enfield to balance their retained liabilities and we receive no assets for taking on the active liabilities.

1.7 All pension fund assets and liabilities are allocated to individual employers. The liabilities of active transferred staff were included within the Barnet and Southgate sub-fund at the 2016 actuarial valuation and were factored into the contribution rates payable. If we were to accept the Enfield proposal the payment to Enfield would be taken out of the College's assets within the Barnet Pension Fund and the College will be required to pay additional contributions. If the College pays the additional contributions there will be no implications for other employers in the fund.

1.8 As mentioned above, Enfield are seeking to retain the liabilities for former Southgate staff funded on a gilts basis. Two alternative approaches have been suggested to Enfield:

- A higher investment return is used to calculate the Enfield retained assets and liabilities in line with the basis used to set contributions on an ongoing basis, or
- The liabilities and assets relating to pensioners and deferred members are transferred to the Barnet fund.

1.9 Both of the above proposals will alleviate the need for a payment to the Enfield fund and leave the College better funded within Barnet Pension Fund.

1.10 Enfield have expressed a preference for the methodology 'agreed' in 2015 arguing that it would take time and cost to revisit alternatives.

1.11 The College has been informed of the position and expressed surprise. A former officer of the College agreed to the 2015 proposal but this knowledge appears to have been lost with staff changes.

1.12 The current position is that we are seeking data on the pensioner and deferred Southgate members so that Hymans can finalise the alternative proposals. The next steps will involve sending proposals to LB Enfield and arranging a meeting involving both funds, their actuaries and Barnet and Southgate College. Should Enfield not accept our proposals they can force a cessation valuation on the College, resulting in the liability discussed above being directly payable by the College.

1.13 Given the slow progress to date, putting a timescale on resolution is difficult. The Committee and the College will be asked to approve any final proposals.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendation is for the Committee to note the current position. The current Enfield proposal is not seen as the best outcome for either the Barnet Pension Fund or Barnet and Southgate College.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None – alternatives will be offered when a decision is required.

4. POST DECISION IMPLEMENTATION

4.1 Further discussions are ongoing involving officers from Enfield, Barnet, their actuaries and Barnet and Southgate College.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The funding of the Barnet and Southgate sub-fund within the pension fund has no implications for Barnet Council.

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

5.2.1 The payment of a transfer value has significant financial implications for Barnet and Southgate College. Should Enfield's approach be adopted, the college's schedule of contributions will require revision. There are no financial implications for the Council (other than as backstop guarantor of fund solvency) or other employers.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution includes Committee responsibilities for actuarial and funding matters, which are relevant to this issue

5.4.2 The Local Government Pension Scheme Regulations 2013, regulation 98, requires transfers involving two or more members to be treated as bulk transfers and agreed by both administering authorities and the employer.

5.5 Risk Management

5.5.1 The final transfer value agreed with Enfield will impact on the Barnet Pension

Fund assets and actuarial funding level. Lower funding levels increase the risk that contributions will have to increase

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None

This page is intentionally left blank

AGENDA ITEM 10

Pension Fund Committee

26th June 2018

Title	**Barnet Council Pension Fund – Annual Performance Report**
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Summary of PIRC annual performance report.
Officer Contact Details	George Bruce, Head of Treasury, CSG George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the findings from the most recent PIRC performance report for the Barnet Pension Fund.

Recommendations

That the Committee note the report.

1. WHY THIS REPORT IS NEEDED

1.1 To enable the Pension Fund Committee to understand the relative performance of the Barnet fund with other Local Authority funds.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 Director of Finance (The Chief Financial Officer) will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

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

5.2.1 The Committee develops an investment strategy to meet its funding goals. Each pension funds starts from a different position and has differing objectives that influence the design of strategy. Comparisons between fund are less relevant than benchmarking actual performance against Committee targets. However, relative comparisons between funds can be informative.

5.2.2 A summary of the Barnet Fund performance over periods of one to ten years as prepared by the external performance measurer, PIRC, is given on appendix A. For each of the major asset classes, the Barnet return, average fund returns and Barnet decile ranking (1 being the highest, 100 the lowest) is given for annualised time periods of one, three, five and ten years.

5.2.3 The comparison at asset class level generally (seven out of eleven measures) is positive with a higher return for Barnet than the average. For two of the measures the returns are equal to the average and two below. This indicates that Barnet's record at implementing strategy (appointing fund managers) is better than the average Local Government Pension Scheme (LGPS).

5.2.4 Barnet's allocation to asset classes is very different from the average fund. We have higher allocations to diversified growth funds and bonds, with lower allocations to the other asset classes. Unfortunately, the assets classes which are underweight (equities and property especially) have generated the highest returns in each of the time periods and the overweight asset classes have lower returns. In particular, diversified growth funds have generated the lowest returns.

5.2.5 The impact of the portfolio positioning is that the total Barnet returns, particularly over longer periods, has lagged behind the LGPS average.

5.2.6 The investment strategy has changed significantly in recent years. Five years ago, the Fund was 5% invested in equities and 63% invested in diversified

growth funds. The strategy changes in recent years have positively benefited the fund by moving into higher returning asset classes.

5.2.7 Setting strategy is a forward-looking exercise, while this report is backward looking. While informative as to the reasons for the current funding level, it should not be assumed that those asset classes that have generated the highest returns in the last ten years will do so in the next ten years.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular. One of these meetings to be the annual review, at which the representative from the council's performance management organisation attends to comment on the relative performance of the fund managers'.

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.6 **Equalities and Diversity**

5.6.1 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,

marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A

Performance Table

	As at 31 March 2018 [PIRC Definitions]		One year			three years			five years			ten years		
	Barnet Allocation %	Universe Allocation	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %
Total Equity	41	55	4.9	4.3	26	8.4	9.7	78	10.5	10.2	37	9.7	8.8	12
Diversified Growth Funds	26	4	1.6	1.6	50	2.1	1.9	56	3.7	3.7	60	Not measured		
Bonds	32	18	3.0	1.4	13	3.9	4.6	59.0	5.7	5.0	30.0	7.3	6.8	33.0
property	0	9	n/a	9.8	n/a	n/a	9.0	n/a	n/a	10.8	n/a	n/a	5.1	n/a
Alternatives	0	11	n/a	5.8	n/a	n/a	10.1	n/a	n/a	9.3	n/a	n/a	6.1	n/a
Cash	1	3												
Total Fund	100	100	3.4	4.5	62	5.7	8.3	95	6.3	8.8	97	6.3	7.7	95

REPORT CLEARANCE CHECKLIST
(Removed prior to publication and retained by Governance Service)

Report authors should engage with their Governance Champion early in the report writing process and record the date below. If the decision/report has been reviewed at an internal board please record the date and name of the meeting (e.g. SCB). Otherwise enter N/A. All reports must be cleared by the appropriate Director/AD, Legal, Finance and Governance as a minimum. **Legal, Finance and Governance require a minimum of 5 working days to provide report clearance. Clearance cannot be guaranteed for reports submitted outside of this time.**

AUTHOR TO COMPLETE TABLE BELOW:

Who	Clearance Date	Name
Committee Chairman	13 June 2018	Cllr Shooter
Governance Champion		
Director / AD	13 June 2018	Paul Clarke
Enabling Board / Delivery Board		
Commissioning and Policy		
Equalities & Diversity		
HR Business Partner		
Strategic Procurement		
HB Public Law	13 June 2018	David Hodge
Finance	12 June 2018	Gillian Clelland
Governance		Paul Frost

Appendix A

Performance Table

	As at 31 March 2018 [PIRC Definitions]		One year			three years			five years			ten years		
	Barnet Allocation %	Universe Allocation	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %	Barnet return %	Universe average return %	Barnet decile ranking %
Total Equity	41	55	4.9	4.3	26	8.4	9.7	78	10.5	10.2	37	9.7	8.8	12
Diversified Growth Funds	26	4	1.6	1.6	50	2.1	1.9	56	3.7	3.7	60	Not measured		
Bonds	32	18	3.0	1.4	13	3.9	4.6	59.0	5.7	5.0	30.0	7.3	6.8	33.0
property	0	9	n/a	9.8	n/a	n/a	9.0	n/a	n/a	10.8	n/a	n/a	5.1	n/a
Alternatives	0	11	n/a	5.8	n/a	n/a	10.1	n/a	n/a	9.3	n/a	n/a	6.1	n/a
Cash	1	3												
Total Fund	100	100	3.4	4.5	62	5.7	8.3	95	6.3	8.8	97	6.3	7.7	95

This page is intentionally left blank

	AGENDA ITEM 11 **Pension Fund Committee** **26 June 2018**
Title	**Fossil Fuel and Corporate Engagement**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Email from Mayor of London Appendix B – LAPFF Annual Report
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The Mayor of London has issued a press release calling for London funds to divest from fossil companies. The Committee's current approach focuses on engagement rather than disinvestment. Engagement will be enhanced through participating in the Local Authority Pension Fund Forum.

Recommendations

1. **That the Pension Fund Committee**
   - **asks Legal and General to provide training on the available approaches to passive equity investing, including low carbon, and**
   - **acquires membership of the Local Authority Pension Fund Forum.**

1. WHY THIS REPORT IS NEEDED

1.1 This report covers two issues of a related nature:

- Press release from the Mayor of London concerning disinvestment from fossil fuel companies;
- Invitation to join the Local Authority Pension Fund Forum.

Mayor of London Press Release

1.2 Attached (appendix A) is a copy of a press release issued during March by the Mayor of London calling on London local authority pension funds to divest their pension funds from fossil fuel companies. This is aimed at companies whose main business activities are oil, gas and coal extraction and processing. It is not directly targeted at companies who use oil and gas e.g. car industry, transport or power generation.

1.3 The fund's equity holdings (40% of total fund) have exposure to fossil fuel companies close to the index. Currently the world index has a 6.3% allocation to oil and gas and 2.0% allocation to basic resources (a small proportion being coal). The Committee does not currently have a policy on avoiding classes of companies.

1.4 The Mayor's press release supports the proposal to divest stating "By working together, we will have a louder voice to convince polluting firms to change their ways in order to tackle climate change." The Committee has previously taken the stance that by selling holdings we lose all influence and that continuing to invest and use our voting rights is a better way to influence management to consider the interests of the wider community. It is interesting to note that the action taken by the London Pension Fund Authority is in respect of active equity holdings. The Barnet equities are managed wholly passively (index tracking).

1.5 The current equity allocations are split between a market capitalisation allocation and the RAFI index based on a composite of fundamental factors, including total cash dividends, free cash flow, total sales and book equity value. Legal and General offer a range of 'passive' strategies, one of which includes a low carbon index. This index claims to avoid 80% of fossil fuel exposures of the market capitalisation based index while mirroring the return of the latter index.

1.6 It is suggested that the Committee invite Legal and General to provide training on the various equity indices before the Committee discuss the Mayor of London's proposal.

Local Authority Pension Fund Forum

1.7 Barnet is one of a minority of local authority pension funds who are not members of the Local Authority Pension Fund Forum (LAPFF). The LAPFF is

a voluntary association of local authority pension funds, and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:

- Seeks to protect and enhance the value of members' shareholdings by optimising local authority pension funds' influence as shareholders on environmental, social and governance (ESG) issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance
- Facilitates commissioning of research and policy analysis of issues more effectively than individual members
- Provides a forum for consultation on shareholder initiatives
- Provides a forum for information exchange and discussion about any investment issues
- Provides a forum to consider issues of common interest to all pension fund administrators and trustees.

1.8 Currently 75 local authorities are members of the LAPFF. The annual cost is £9,000. The benefits of local authorities working together to influence the behaviour of companies was recognised in the Myners Principles that pension funds are urged to follow:

> "Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues. For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest."

1.9 Joining the LAPFF and supporting its activities is a strong signal that the Committee takes its responsibilities as a shareholder seriously and uses its influence to ensure companies are well managed. It is compatible with the stance taken on fossil fuels that engagement is more likely to change behaviour than divestment.

1.10 A copy of the latest LAPFF annual report is attached for information.

2. REASONS FOR RECOMMENDATIONS

2.1 Public scrutiny of the way local authority pension funds are managed has been increasing with calls for greater attention to socially responsible / ESG investing. The proposals in this paper provide the Committee with an opportunity to consider how it responds to external pressure to take a more active stance.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The Committee is not required to take any action and can retain the current stance.

4. POST DECISION IMPLEMENTATION

4.1 The recommendations include training on passive low carbon investing.

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 ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

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

5.2.1 The proposal to join the LAPFF will incur annual fees of £9,000, chargeable to the Pension Fund. This is a cost-effective way to engage with corporates.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 Included within article 7 of the Constitution is the responsibility to appoint fund managers. Legal and General currently manages 40% of the fund. The suggestion that they provide training is part of the monitoring of the investment strategy.

5.4.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the investment strategy statement to include the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

5.5 Risk Management

5.5.1 There are many risks faced by the pension fund. The risk that investments generate low returns is monitored on a quarterly basis. There is also a risk that the Council attracts adverse publicity due to the way it implements the fund's investment strategy. This paper addresses the latter risk.

5.6 Equalities and Diversity

5.6.1 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the direction of public debate on the management of local authority pension funds.

6. BACKGROUND PAPERS

6.1 None

This page is intentionally left blank

Appendix A

Mayor of London – NewsPress Release

Subject: Mayor calls for boroughs to ditch fossil fuel investment

26 March 2018

Mayor calls for boroughs to ditch fossil fuel investment

The Mayor of London, Sadiq Khan, is today calling on local authorities from across the capital to join him in fighting climate change by divesting their pension funds from fossil fuel companies. Divestment is the opposite of investment – and in this case means getting rid of assets that are invested in companies that are extracting fossil fuels as sources of energy and contributing directly to climate change.

Sadiq is already delivering one of the strongest and most ambitious divestment plans of any world city, as he promised in his manifesto. Last year the London Pension Fund Authority agreed a climate change policy. This committed it to no longer consider new active investments in fossil fuel companies that are directly engaged in the extraction of coal, oil and natural gas as sources of energy, which are ignoring the risks of climate change and unable to demonstrate planning for the global transition to a low-carbon economy and for future emissions reduction targets under the Paris Agreement.

Sadiq is now calling on London boroughs to follow his lead in working with pension fund managers to recognise the risk of climate change to their investments and starting to divest from fossil fuels and invest in more clean projects.

A number of London's boroughs, including Waltham Forest, Southwark and Hammersmith & Fulham, have already made commitments to work with their pension funds on divestment and investments in clean projects, and the Mayor wants to see more boroughs sign up to the commitment and share best practice.

The Mayor of London, Sadiq Khan, said: "I made a manifesto commitment to take all possible steps to encourage the LPFA to divest its remaining investments in fossil-fuel industries that damage the environment and lead to climate change. "Over the last two years my team has been working closely with the LPFA to deliver on this pledge, and the policy they have put in place is a strong and sophisticated one that recognises the risks to pension funds if no action is taken. LPFA is now working hard to implement its policy so that the necessary action can be taken by 2020, in line with the commitments it has made.

"I am now calling on local authorities across the capital to join me in taking their pension funds out of companies that can damage the planet and lead to climate change. By working together, we will have a louder voice to convince polluting firms to change their ways in order to tackle climate change."

Martin Watters of Divest London, said: "It's an amazing moment to see Mayor Khan calling on his fellow local government leaders to show climate leadership and divest from fossil fuels. "From the Caribbean to the Pacific, the last year has brought devastating climate impacts. London should be investing in building a clean, safe energy system for all - not in the industry fuelling the climate crisis.

“We’re looking forward to continuing work with City Hall in the coming months to make Mayor Khan’s own divestment commitment a reality, through the finalisation of the implementation plan released later this year.”

Catherine Howarth, chief executive of responsible investment campaign group ShareAction, says: “This is hugely exciting! ShareAction welcomes this move to push responsible investment up the agenda in London. Pension savings are highly vulnerable to the economic impacts of climate change. At the same time, it makes sense to deploy pension fund capital into the investment opportunities of the fast-growing low-carbon economy to create a world we all want to retire into. London’s pension savers deserve no less.”

Sarah Butler-Sloss, Founder and Chair, the Ashden Trust, said: “We applaud Mayor Khan for his excellent leadership in working with civil society to implement his manifesto commitment to divest from fossil fuels and invest in climate solutions. As fossil fuel companies continue to adopt risky business plans in the face of existential risks from climate change, divestment is the safest option for investors to take and demonstrates a clear commitment to pension holders long term interests. We look forward to other local government pension funds following Mayor Khan’s lead and committing to Divest as well.”

An initial headline review of the London Pension Fund Authority's overall climate change characteristics has already been undertaken with a detailed implementation plan now in progress. The report confirms that LPFA only has 2 per cent of its entire holdings, £59m, invested in fossil fuel companies - significantly below the market benchmark of 6 per cent. The report also confirms that the infrastructure portfolio shows increasing levels of investment in renewable energy projects.

The London Pension Fund Authority has one of the lowest percentages of investments in fossil fuels and the highest in renewables amongst local government pension funds. The LPFA has also committed to publish an implementation plan/ assessment of its portfolio which will set out how the climate change policy will be implemented by 2020.

Local Authority
Pension Fund
Forum

ANNUAL REPORT **2017**

www.lapfforum.org

info@lapfforum.org

@LAPFForum

CHAIR'S STATEMENT

COUNCILLOR KIERAN QUINN
CHAIR OF THE LOCAL AUTHORITY PENSION FUND FORUM

To say that no one could have predicted the political shifts of the last year and a half is a gross understatement. The UK's shock vote on Brexit was followed by an equally unexpected vote in the US Presidential election last November.

The only predictable outcome of this political turmoil has been uncertainty. Although markets have generally performed well in the last year, it is still unclear how major developments such as Brexit will play out. On the environmental front, we don't yet know what impact Mr Trump's decision to pull the US out of the Paris Accord will have on both countries and companies, and the green energy market. Socially, we have seen a rise in populism globally that is affecting migration flows, and in turn local labour markets and economies. The long-term effects of this trend remain to be seen.

Amid all of these developments at the international and national levels, local government pension scheme pooling has taken root with many pools both up and running or just about to be. Apart from their struggle to take off as new, experimental entities, pool companies are having to work out ways to operate in the new political and economic environment. This means not just establishing their own governance structures and their relationships with administering authorities but also negotiating the responsible investment terrain. As pooling progresses Councillors and Officers at administering authorities are gradually adapting to the new conditions.

A cross-pool responsible investment group has developed to address this need, and both pools and administering authorities – which retain legal responsibility for responsible investment under the pooling regulations – are looking to LAPFF for support. As a result, LAPFF is having to think hard about its own structure and governance in order to grow and meet the needs of its current and future membership.

However, these changes and developments also highlight why LAPFF is such an important organisation for its members. The Forum's work at the policy level, through its continuing efforts on accounting standards, responses to government consultations including on corporate governance and listings and the All-Party Parliamentary Group on Local Authority Pension Funds (APPG) started last year, enable LAPFF members to influence the policy environment they are trying to navigate. The Forum's engagement with UK and global companies also provides members with an understanding of how companies are reacting to this uncertain political and economic environment and allows members to make better decisions for their own portfolios.

CHAIR'S STATEMENT

Therefore, if there is one thing I take away from my experience as Chair of LAPFF over the last year, it is that we have to understand the linkages in everything we do. We need to understand how at the international and national level politics affects us at the local authority level. We need to understand how the Forum's policy and engagement work inform each other. And we need to understand how environmental, social and governance risks that companies face work together to affect company performance and consequently their impact on Member funds' portfolios. LAPFF is uniquely placed in this role.

THANK YOU

The LAPFF Executive has seen a number of changes over the last year. I would like to extend huge thanks to Cllr Cameron Rose, who stepped down as Vice-Chair of LAPFF this year. His input to LAPFF over the years has been extensive and has helped to make LAPFF a stronger organisation. We have welcomed his colleague from Lothian Pension Fund, Cllr Alasdair Rankin, who has already proven himself an asset to the LAPFF Executive. A big welcome also to Cllr Yvonne Johnson, who was elected to the LAPFF Executive at the LAPFF AGM. Denise Le Gal has been elected to the position of LAPFF Vice-Chair alongside Ian Greenwood, and I am grateful to both Denise and Ian for their invaluable input and support over the year.

Long-standing LAPFF Executive member, Cllr Richard Greening, also stepped down and we are immensely grateful to Richard for his committed and varied contribution to LAPFF over the years. Cllr Mary Barnett stepped down to pursue other, very worthy, challenges. We will miss her strong, helpful and witty views. And last but not least, our long-standing Honourable Treasurer, Geik Drever, has retired. Geik played a significant role in helping LAPFF to reach its current strong financial position, and I would like to thank her for her consistent and fastidious attention to LAPFF's finances. LAPFF membership has risen to 72 funds in the past year, reflecting the role that LAPFF has been playing in helping members to make sense of the current environment. Many thanks again to Forum Officer, Keith Bray, for his continued efforts and success in recruiting new funds.

Once again our research and engagement work is made possible by our R&E Partner, PIRC Ltd. Their successful contract renewal through the recent LAPFF tender process last November, enabled continuation of their outstanding role over the recent period. I look forward to our work with PIRC for the next period of LAPFF's development and growth.

In closing, I would like to extend a heartfelt thank you to all of my LAPFF colleagues on the Executive and to the membership at large who have contributed ideas this year that have helped LAPFF to grow and develop as an organisation, as well as providing input to LAPFF's engagement and policy development. Without your interest and support, LAPFF would not continue to be the voice of responsible investment for local authority pension schemes in the United Kingdom.

I look forward to continued input and feedback from the LAPFF membership as we work through the big challenges and uncertainties we face, both as investors and administering authorities.

LAPFF EXECUTIVE COMMITTEE

Chair –
Councillor Kieran Quinn
Greater Manchester
Pension Fund

Deputy Chair –
Ian Greenwood
West Yorkshire Pension Fund

Deputy Chair –
Councillor Denise Le Gal
Surrey Pension Fund

Executive –
Councillor Barney Crockett
North East Scotland
Pension Fund

Executive –
Councillor Paul Doughty
Merseyside Pension Fund

Executive –
Councillor Yvonne Johnson
Ealing Pension Fund

Executive –
Councillor Mukesh Malhotra
London Borough of Hounslow

Executive –
Councillor Doug McMurdo
Bedfordshire Pension Fund

Executive –
Councillor Alasdair Rankin
Lothian Pension Fund

Executive –
Councillor Toby Simon
London Borough of Enfield

Executive –
Rodney Barton
West Yorkshire Pension Fund

Executive –
Jane Firth
South Yorkshire Pension Fund

Executive –
Faith Ward
Environment Agency
Pension Fund

LAPFF POLICY ENGAGEMENT – SPOTLIGHT ON POOLING

Whilst the agenda for asset pooling has made uneven progress, administering authority staff and members made best efforts to meet government deadlines and objectives. The Forum continued to provide regular updates through its Business meeting agendas and seminars. Reports were also provided at each LAPFF Executive meeting through the chair, vice chairs and those particular individuals who in effect 'represented' their own pools, some in their capacity of membership of the Scheme Advisory Board or from work through cross-border pool meetings.

The Forum Executive also met late August to review pool company participation in the Forum as individual membership organisations and a decision was made by the Executive to recommend membership and a current year fee. Details of the constitutional position of pool companies remains to be determined.

LAPFF POLICY ENGAGEMENT SUMMARY

As set out by the LAPFF chair in the introduction, the focus of this year's annual report is on linkages. This section draws out some of the overlap between LAPFF's policy and engagement initiatives and outcomes. These connections have arisen especially in relation to accounting, regulation and climate change, and with the government's consultation on corporate governance, and include looking at the role of employee engagement and input at board level.

ALL-PARTY PARLIAMENTARY GROUP, FRINGE MEETINGS, CONFERENCE AND SEMINARS

ALL-PARTY PARLIAMENTARY GROUP (APPG)

Not surprisingly, the APPG topics over the last year focused on pooling. There were general concerns about cost transparency related to pooling, an issue raised by Cllr Roger Phillips, Chair of the LGPS Scheme Advisory Board (SAB). New regulations on LGPS investment also factored into the discussion, as did MiFID II. Specifically, participants raised concerns that local authority pension funds might be classified as retail, rather than professional investors under the Directive, thus compromising their mandate to invest in infrastructure within pools. Paul Spedding of Carbon Tracker also addressed the APPG, advocating for a managed decline of investment for oil investments to protect investor portfolios from the impacts of climate change.

Fringe Meetings

LAPFF continued to engage politicians and stakeholders by hosting fringe meetings at the Labour, Conservative and SNP annual party conferences. This year's theme for discussion was the pros and cons of workers on the board, following the corporate governance green paper and the Prime Minister's proposal to have employees represented in the boardroom. The meetings were well attended and speakers included: Chris Philp MP (PPS to HM Treasury); Jack Dromey MP (Shadow Minister, Business, Energy and Industrial Strategy); Clare Haughey MSP; Maree Todd MSP; Stefan Stern (Director, High Pay Centre); Grahame Smith (General Secretary, STUC) alongside LAPFF executive members Kieran Quinn, Denise Le Gal and Alasdair Rankin.

Conference
The 2016 LAPFF Annual Conference, which takes place each December at the Marriott in Bournemouth, was one of the most impactful yet. Audience members were left speechless by Bill Browder's harrowing account of running a hedge fund in Moscow and trying to challenge Vladimir Putin on corruption. Glencore Chair, Tony Hayward, told the last session of the conference that oil and gas companies would still see demand for fossil fuels for the foreseeable future, while his challenger, Jeremy Leggett, proposed an alternative vision of the energy future focused on renewables and alternative fuel sources. A number of LAPFF members also comprised a panel on pooling, providing a view of how the pools were starting to take shape. A few conference members even braved the cold water for the traditional last day 'dip' in the sea.

Climate Change Investment Policy Framework Seminar
LAPFF often holds seminars on topical issues of interest to members. This past year, as requested by members, the Forum held a hugely successful seminar on member fund responses to the investment implications of climate change in the context of the LAPFF draft climate change investment policy framework. A number of LAPFF fund representatives explained how their funds had factored climate risk into their investment strategy. This presentation was followed by a range of speakers, from investment managers to actuaries from the insurance industry who presented their views on the challenges and opportunities presented by the current state of play in the financial industry on climate change.

CORPORATE GOVERNANCE BEIS CONSULTATION RESPONSE

The Department for Business, Energy & Industrial Strategy (BEIS) issued its Green Paper on Corporate Governance Reform in November 2016.

The LAPFF response focused on ensuring that executive pay is properly aligned to long-term performance, giving a greater voice to employees and consumers in the boardroom, and raising the bar for governance standards in the largest privately-held companies.

Although the Forum remains concerned that the current executive remuneration system is fundamentally broken and needs to be overhauled, the Green Paper contained a number of suggestions regarding the existing framework. Binding upper thresholds for total annual pay and mandatory disclosure of fund manager voting records were recommended. Furthermore, increased stakeholder engagement on executive remuneration, including employee representation on remuneration committees and incorporating employee views into pay policy, were also recommended.

In responding to the consultation, in respect of stakeholder engagement, LAPFF called for more legal requirements to ensure that stakeholder voices of all types, not just those of employees and consumers, to be considered in order to build business resilience to non-traditional financial factors. LAPFF also set out where there are major problems with the regulator of governance, accounts and financial reporting; the Financial Reporting Council (FRC).

The government then issued a White Paper in August 2017. This included a proposal to compare CEO pay to UK average employee pay and to deal with aspect of Long Term Incentive Plans (LTIPs). The White Paper also sets out several different routes to dealing with employee representation on boards.

In addition, the White Paper said the following on share buybacks *'the Government will take forward its manifesto commitment to commission an examination of the use of share buybacks to ensure that they cannot be used artificially to hit performance targets and inflate executive pay. The review will also consider concerns that share buybacks may be crowding out the allocation of surplus capital to productive investment. The Government will announce more details shortly.'* LAPFF first discussed concerns over share buybacks with members in 2015, and these concerns echo just some worries that LAPFF explored in the discussion paper 'Buybacks – Solutions or Illusions'. LAPFF considers the government's approach a positive step in an area that has received relatively little attention from other investors or investor bodies.

RELIABLE ACCOUNTS

The FRC - Matters Relevant to Banks' Accounts, Audits and Their Solvency

LAPFF has a particular interest in the accounts of banks which failed and had identified inconsistencies between the law and FRC standards and guidance. The Forum obtained a legal opinion on this issue from George Bompas, a QC who is also a Deputy Judge of the High Court. This area is called statutory capital maintenance (Companies Act 2006) and it precedes anything else that banking regulation may or may not do. These provisions exists to protect creditors and shareholders of limited liability companies and audited accounts have a central role in that. Mr Bompas identified several areas where the FRC is wrong in its interpretation and application of this law.

The statutory capital maintenance regime establishes a test for robustness of the numbers in the accounts for solvency and distributions (the profits and net assets). This test is unlikely to have been met where a bank collapses shortly after an audit that has uncovered, or should have uncovered, problems (essentially over-valuation) with the pre-existing loan book, as occurred with HBOS, RBS and some other banks.

On being questioned by the House of Lords Economic Affairs Committee on this issue in 2014, the FRC told Parliament that the governments' lawyers disagreed with the LAPFF position and agreed with the FRC's counsel. A Freedom of Information (FOI) request on BEIS showed that not to be the case. The FOI instead revealed the government had explicitly stated that it had never said that LAPFF was wrong.

This revelation is prima facie evidence that the accounts of banks failed to meet their statutory objectives. As a result of that experience, LAPFF undertook a fuller comparison of the legislative text and requirement and FRC materials. This comparison uncovered a problem: the FRC was using the short title, rather than the full text, a practice that repeats itself regarding quotes from s393 Companies Act 2006 (True and Fair view). That error can be seen in the FRC's 2011 and 2014 papers on 'True and Fair View'. The correct wording of the statute 'true and fair view of the *assets, liabilities, financial position and profit or loss'* does not actually appear anywhere in those papers. Those papers contain shortened and misleading forms of words instead. Given that s393 is the overarching statutory requirement, the shorter construction is a major weakness.

There are other problems with the transcription of other part of legislation, including FRC guidance on qualified audit reports, section 837(4). The FRC guidance on the legislation states that an auditor statement in lieu of an unqualified audit opinion targets the dividend cover of a proposed distribution[1].

That is incorrect, and s874(5) could not be clearer that the statutory requirement relates to the distribution capacity that the accounts show, and not dividend cover of any proposed dividend/distribution[2]. Also, the same guidance is defective by omission. The FRC guidance states, correctly, that the test of lawfulness is set out in Part 23 of the Companies Act. It then cites the profits test (s830 CA 2006). However, it misses the net assets test (s831 CA2006) altogether. These problems with framing the distribution requirements and the profits test are both very material defects.

The impact of the FRC's erroneous guidance is that it fails to highlight that net assets as well as profits are relevant to distributions for a public company, and hence relevant to whether an auditor report is qualified or not.

Given the gearing of banks, and the sensitivity of banks' net assets to inadequate bad debt provisioning, the FRC's

[1]Miscellaneous Reports by Auditors Required by the United Kingdom Companies Act 2006, para 11 and 12 and the model report contain the error.
[2]The FRC guidance correctly cites the text in footnote.

problems in this area are clearly relevant to the audits of banks which failed within months of receiving clean audit opinions. HBOS, Co-op Bank, RBS and others are examples. But there is also relevance to thinly capitalised companies with large pension funds which pay dividends (such as BHS).

SECTION 172 COMPANIES ACT 2006 ('ENLIGHTENED DIRECTOR DUTIES')

LAPFF has been concerned about the FRC's approach to director duties and the strategic report. These concerns emerged from discussions with FRC executives that LAPFF had, together with some NGOs, on the subject of climate change. Matters were also raised by the BEIS Select Committee in the wake of issues with BHS and Sports Direct. The FRC claimed that there were issues with the legislation rather than its guidance.

However, LAPFF believed that the problem was not the requirements of the legislation for director duties, s172, or the strategic report, s414C, but the way in which the FRC guidance (for companies and auditors) on the legislation had left out parts of the text of s172. As with s393, the FRC guidance chose to cite the short-title of the section rather than the content of that section of the statute itself. It was quite clear there was an error[3] by the FRC merely by reading the government's correct description of the legislation in its Corporate Governance Green Paper of November 2016.

As a result of a vocal campaign – which included pointing out that FRC evidence to the BEIS Select Committee repeated the error - the FRC did, in August 2017, issue draft revised guidance which adds back the text omitted. LAPFF does not find the FRC's explanation that an EU Directive has altered things to be compelling, as that Directive does not touch on the parts of s172 for which the FRC has now correctly transposed the existing 2006 Act text.

That said, it is positive that the wording is now correct in the FRC's revised guidance. On the basis that the FRC inspects accounting firms and accounts according to its guidance, any misinterpretation of the law will have a systemic effect.

EXECUTIVE PAY POLICY VOTING

During 2017, a majority of UK companies faced binding votes on their executive remuneration policies, in line with 2014 legislation calling for such votes at least every three years. Overall, remuneration levels were down for executives, in part because prior to setting their policies, many companies engaged with investors critical of existing pay arrangements.

LAPFF decided this context provided a good opportunity to issue voting alerts on executive remuneration. The companies with the highest opposition to their pay policies in 2016 and with votes on their remuneration policies during 2017 were identified. They were then cross-referenced with companies in which LAPFF collectively has a high level of holdings. Members received voting alerts either critiquing or commending the companies, as appropriate, for their proposed remuneration policies.

For a number of these companies, LAPFF had engaged directly on their remuneration arrangements and expressed concerns in relation to some aspects. Voting recommendations for members balanced areas of concern with recognition of positive changes made during the year, resulting in the following recommendations.

The companies for which LAPFF issued voting alerts to members during 2017 were:

Company	LAPFF Recommendation
BP	For
Shell	For
WPP	Oppose
Sports Direct	For
Smith & Nephew	Oppose
Carillion	Oppose
GlaxoSmithKline	Oppose
Babcock International	Oppose

[3]Or not an error. A paper from Deloitte indicates that because the legislation had not turned out as the FRC had expected, it produced Guidance on the basis of the outcome it had wanted but not got.

LAPFF COMPANY ENGAGEMENT

ENGAGEMENT OVERVIEW

FOCUS ON INTERPLAY OF ESG ISSUES

This portion of the report highlights the linkages between the 'E', the 'S' and the 'G' elements of responsible investment in relation to LAPFF engagements. Failure to recognise these linkages can mean a failure to properly identify financial risks.

The three sections on pages 14 to 19 cover areas where LAPFF has identified the importance of such linkages: sustainability expertise on boards, the divestment versus engagement debate, and stakeholder engagement. The report covers policy engagement activity from the beginning of October 2016 to the end of September 2017.

COMPANIES
50

ENGAGEMENTS
108

TABLE 1: **ENGAGEMENTS BY TOPIC**

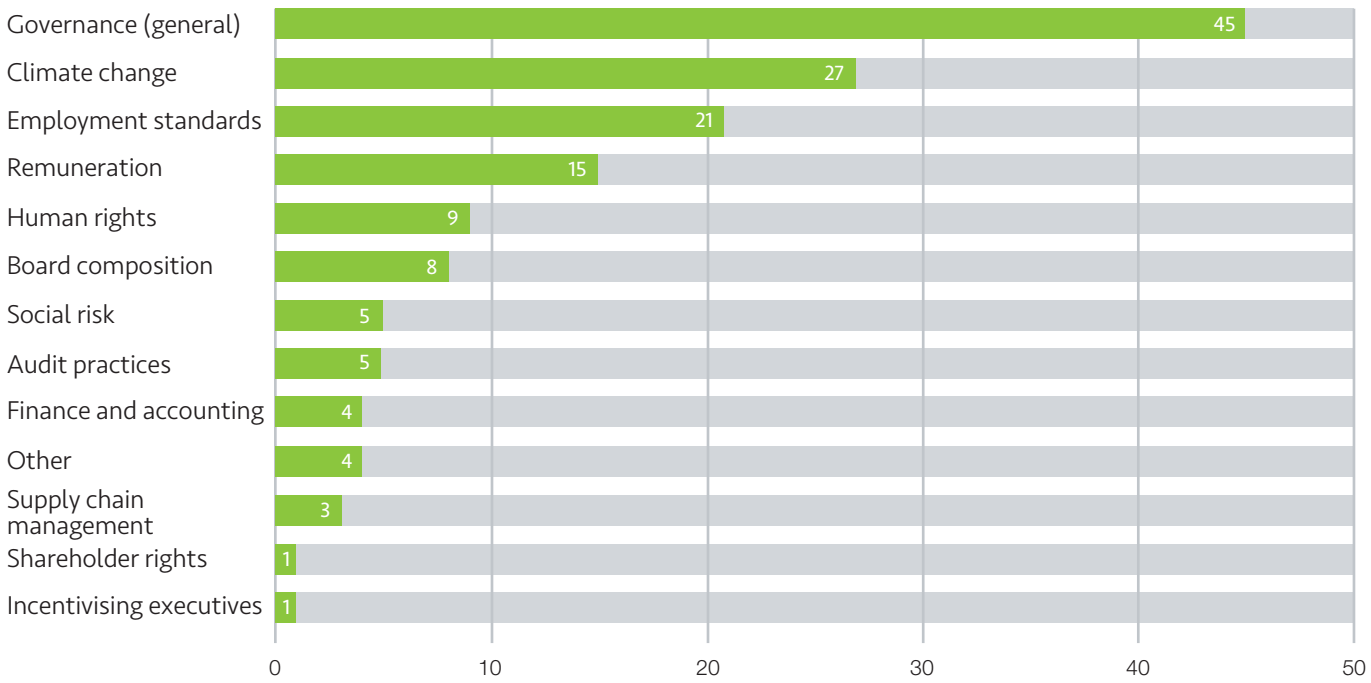


TABLE 2: **TYPES OF ENGAGEMENTS**

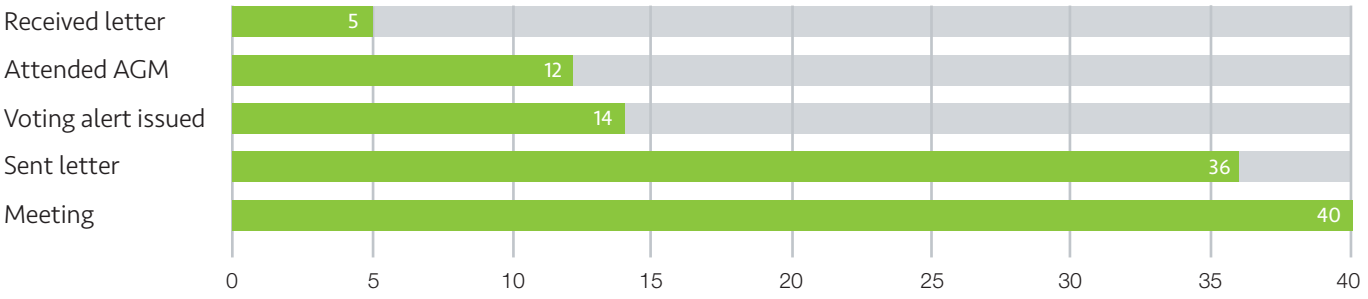


TABLE 3: **COMPANIES BY DOMICILE**

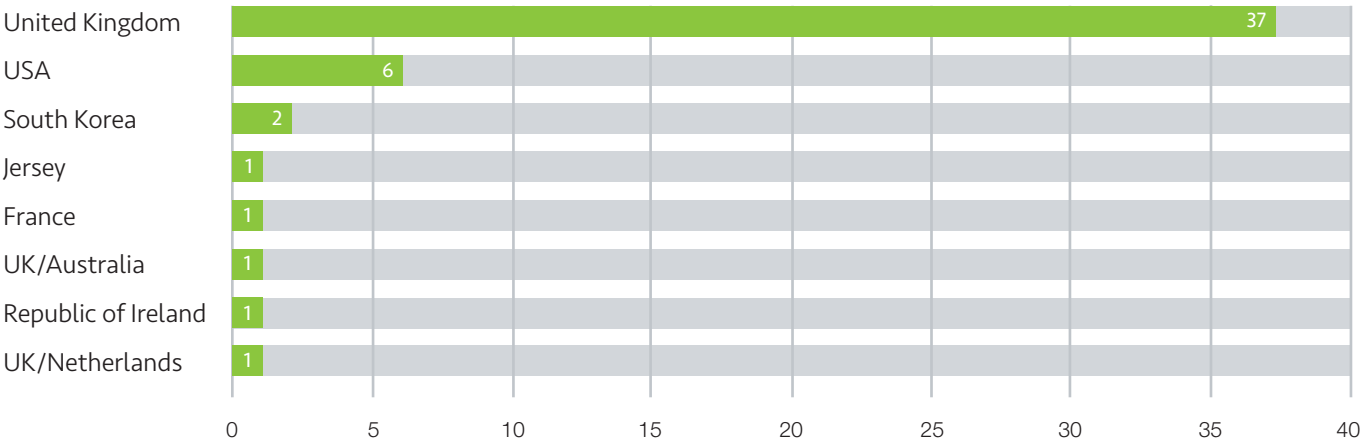


TABLE 4: **POSITION ENGAGED**

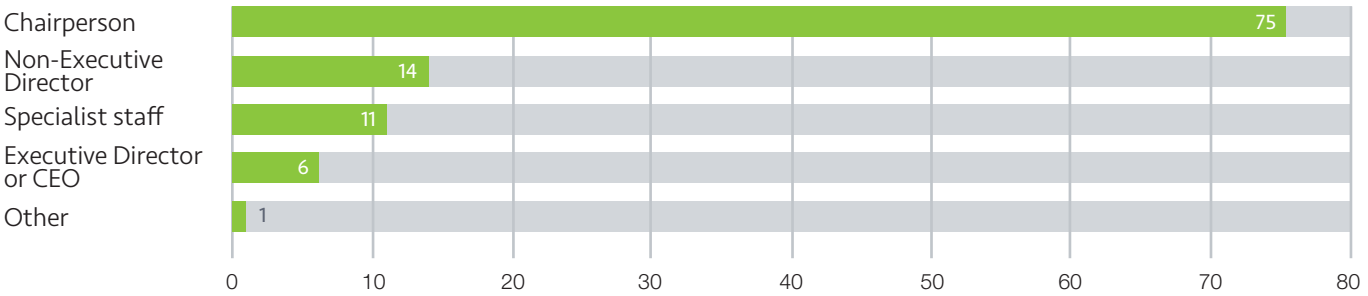


TABLE 5: **ENGAGEMENT PER INDUSTRY**

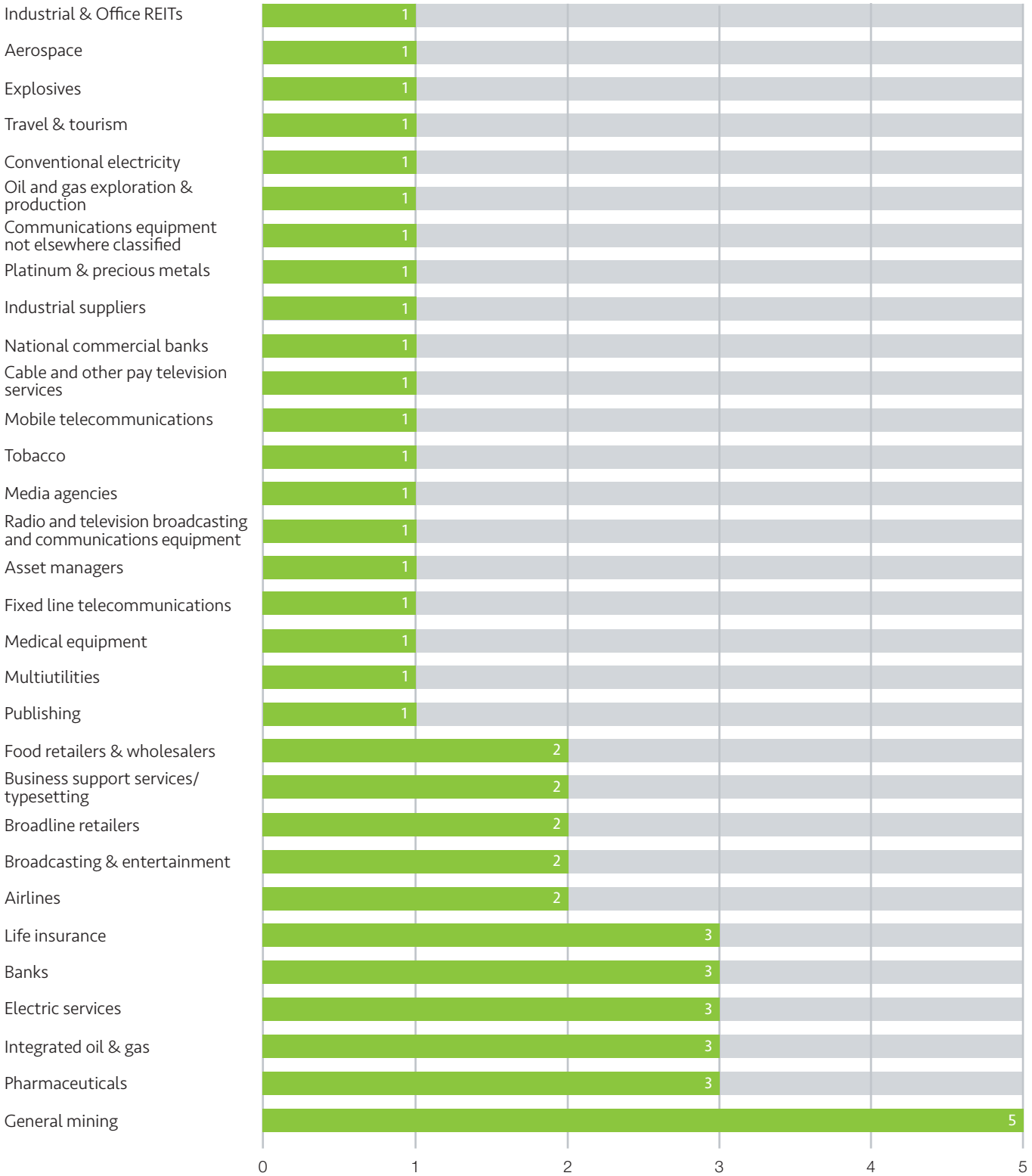
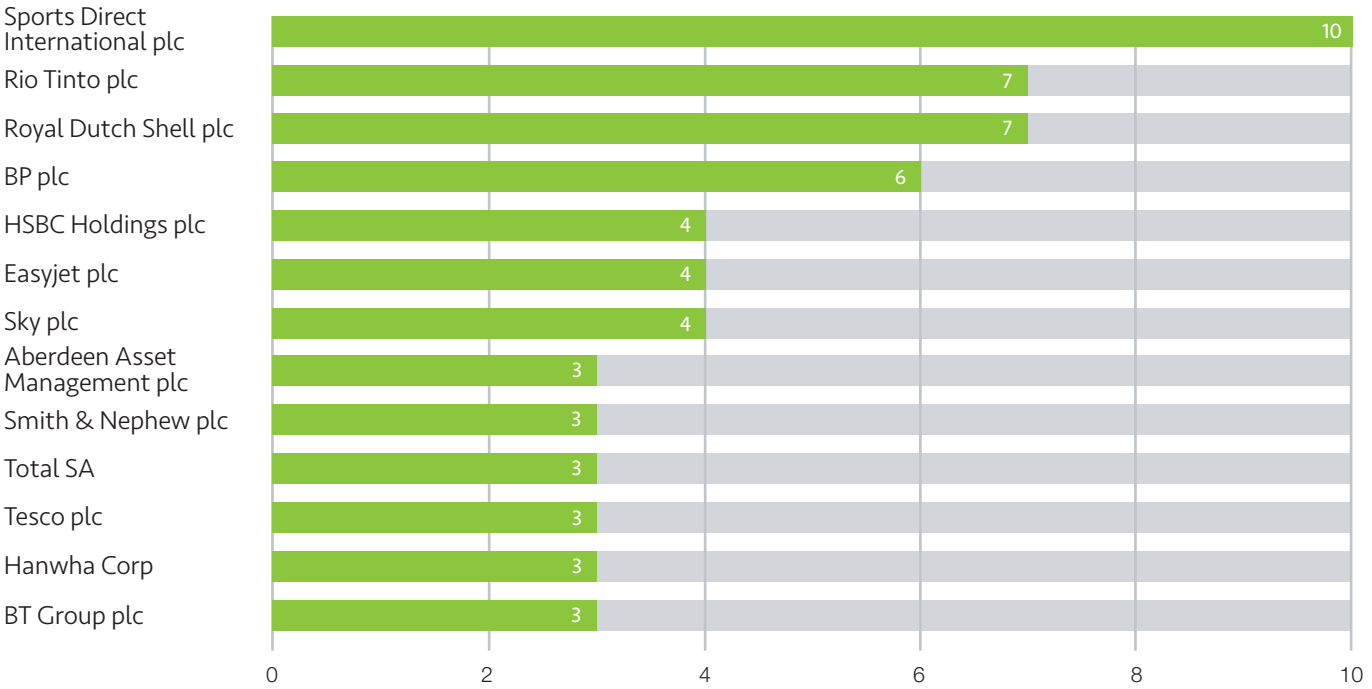


TABLE 6: **NUMBER OF ENGAGEMENTS PER COMPANY (WHERE THERE WERE MORE THAN TWO)**



GOVERNANCE RISK – LINKAGE 1: SPOTLIGHT ON BOARD MEMBERS WITH SUSTAINABILITY EXPERTISE

LAPFF often uses governance as a lens for social and environmental competence. Increasingly, this approach is used in relation to board composition. Over the course of the year, the Forum has conducted engagements to explore whether boards have sufficient sustainability competence. These engagements have taken place both through questions asked at AGMs and through discussions at meetings with companies.

To progress this approach, on environmental competence, LAPFF has partnered with US-based 50/50 to explore the possibility of advocating for board directors with climate change expertise. This is in part because there continue to be company boards that appear slow to recognise the pace of change required for the low carbon transition and not least, a number of company directors in the US that deny climate science. However, it is increasingly clear that climate change is a financially material issue. LAPFF's report issued with Carbon Tracker points to the need for a managed decline for oil assets if investors are to protect their investment portfolios from the impacts of climate change. In practice, when engaging with companies, LAPFF is seeing more and more evidence of boards and/or board members that refuse to acknowledge, and act on, this trajectory, particularly in the US, and is collaborating with other investors, to highlight the risks this poses for shareholder capital.

In relation to social risk, a LAPFF member asked about maintaining appropriate sustainability expertise on the Carillion board where the Director with greatest experience in this area was leaving the board. It was clear from the company's reporting that the remaining Board members did not have the necessary knowledge and understanding of the Company's social risk because only one aspect of social risk received due attention in the Annual Report and the AGM responses, whereas the company clearly should be considering a range of risks in this area. An engagement meeting with BAT covered the same issue. In general, feedback from companies has been that boards should have business experts with sustainability knowledge rather than sustainability specialists. While there is a good argument for the former case, many companies do not appear to consider even this approach in discussing board composition or succession planning.

Even if boards are open to improving their sustainability expertise, based on LAPFF engagement, there are questions about whether directors know what appropriate sustainability expertise looks like and how to roll out sustainability considerations through appropriate representation and structures within a company. Therefore, LAPFF sees sustainability competence on boards as an issue for continued consideration and engagement.

GOVERNANCE RISK SUMMARY

Cyber Security

Cyber security currently ranks as one of the biggest concerns for investors and company boards alike. Recent high-profile cyberattacks have highlighted the operational and reputational costs at stake. To safeguard against these threats, LAPFF has sought further detail and assurances from companies about how they are mitigating the risks posed.

The Forum had meetings with the Chairmen at BT and Vodafone to discuss cybersecurity as both companies are at the forefront of the threat given their role in the exchange of information. At this year's Tesco AGM, LAPFF asked the chairman, in light of the cyberattack on Tesco Bank the previous year, whether the board had the right competencies to mitigate future attacks and gained a better understanding of how cyber risk is managed within the company and the training the board had received. LAPFF also asked about cyber security at the SSE AGM. It appears that this issue will continue to increase in importance for investors in the coming years.

Diversity
Board diversity is important for many reasons, not least to avoid group think and provide effective challenge in the boardroom. Over the year LAPFF continued to both engage companies on board diversity and be an active member of the 30% Club investor coalition, which works to achieve a minimum of 30% women on FTSE-350 boards and 30% women at senior management level in FTSE100 companies. Glencore was the last FTSE 100 Company not to have an all-male board and the Forum attended its AGM to ask about further progress. Despite all FTSE 100 companies now having at least one woman on the board, this is not the case for all FTSE 350 companies. To push for board diversity across the whole of the FTSE, the Forum issued voting alerts on gender diversity on the boards of Euromoney and EnQuest, both of which have all-male boards. In both cases whilst the boards had stated their commitment to gender diversity the Forum felt it was not being addressed with sufficient urgency. This complacency is a particular concern given the reputational repercussions tech companies such as Google have faced over gender diversity during the course of the year.

However, the Forum considers diversity incorporates many more aspects than gender alone and in discussions with Antofagasta the challenges of achieving board and workforce diversity in terms of gender, skills and international experience and perspectives were explored. The Forum also submitted a response to the Parker review of ethnic diversity of UK Boards. The Forum's response set out how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.

Executive Pay
LAPFF has long engaged on executive remuneration and has developed its 'Expectations on Executive Pay' since they were first issued in 2013, by engaging with boards on this topic. In addition to issuing a number of voting alerts on pay policies, Forum members met with a number of companies to discuss their structure for and approaches to executive pay. Over the last year, LAPFF raised remuneration issues at the Smith & Nephew and Ashtead Group AGMs and held several meetings to discuss pay policies and schemes, most notably with EasyJet, Shell, Smith & Nephew, BP and Vodafone.

Mergers and Acquisitions
The past year has been an interesting time for corporate mergers and acquisitions (M&A). We have seen continued jostling for market position by global pharmaceutical giants, and Tesco has taken a big leap by announcing a planned merger with Booker. This announcement followed on from Sainsbury's acquisition of Argos last year, perhaps pointing to a merged concept of food and non-food consumer products more generally. A large merger in the financial services sector also took place between Aberdeen Asset Management and Standard Life.

LAPFF took the opportunity to meet with a number of companies about their approaches to M&A. These companies included Shire, Tesco, Aberdeen and Standard Life (now Aberdeen Standard). All of the directors, including chairs and CEOs, who met with LAPFF to discuss this issue provided helpful stories describing their approaches to M&A, and their insights have helped to substantiate the findings in LAPFF's trustee guide, The Case for Engaging on M&A: Raising Standards of Corporate Governance by Asking the Right Question.

ENVIRONMENTAL RISK – LINKAGE 2: SPOTLIGHT ON THE DIVESTMENT v ENGAGEMENT DEBATE

Recently, a number of member funds have been on the receiving end of calls for divestment related to 'carbon heavy' companies' climate impacts. However, this campaigning approach has also been used to tackle social problems. One current area of focus for divestment campaigners is companies associated with the manufacture or distribution of cluster munitions. Divestment from companies invested in apartheid South Africa is another historical example.

LAPFF has always espoused the position that engagement is preferable to divestment. The Forum takes this stance for several reasons. First, LAPFF does not hold shares in companies; its member funds do. Therefore, while member funds are free to divest as they see fit within their individual investment strategies and mandates, LAPFF can provide an opportunity to press companies on an issue of concern through engagement, effectively 'sandwiching' a company with both divestment and engagement. We have seen this approach in relation to climate change, where a couple of LAPFF funds have divested from fossil fuel investments but the Forum has continued to engage with, for example, Shell and BP.

Second, the Forum believes that divestment can be a blunt tool that deprives investors of leverage to influence companies. Over the past year, we have seen this concern materialise through the vote for Sports Direct Chairman, Keith Hellawell, who had said he'd step down if he received less than half the independent vote. He ended up receiving 53% of votes in support from independent investors. Some commentators believe this is in large part because of the Standard Life and Aviva divestments. LAPFF saw the power of voting and engagement through its members' co-filing and supporting the strategic resilience resolutions to BP and Shell in 2015 and the UK-listed integrated mining companies in 2016. This trend has been evident again this past year in the US where an unprecedented number of investors supported climate-related resolutions with companies such as Chevron, Exxon and PPL. Boards that had been intransigent on addressing the strategic business implications of climate change have had to devote attention and resources to it as a result of shareholder pressure. There is a long way to go, but engagement on climate change has yielded a number of positive results in the last few years and appears to be snowballing.

ENVIRONMENTAL RISK SUMMARY

Shareholder Resolution Support

In what turned out to be landmark victories for shareholders on climate change disclosure, LAPFF issued voting alerts recommending members support shareholder resolutions at PPL, Chevron and Exxon Mobil. The resolutions sought to require the companies to undertake analysis and produce publicly-available reports on the impact that a two-degree scenario, as outlined in the Paris Agreement, would have on their business and shareholder value. The resolutions at Exxon, the world's largest oil and gas company, and PPL both received majority backing of shareholders.

Following a similar shareholder resolution at Southern Company, LAPFF met the company's legal counsel along with other US investors. The conversation covered climate change and carbon risk, and explored how the company is best positioning itself to report its strategy for a two-degree scenario in the context of the shareholder resolution to the company, which received 46% of support from shareholders. The meeting was co-ordinated via the Forum's partnership with the 50/50 Climate Project.

Carbon Disclosure and Scenario Planning
Carbon disclosure also featured in a number of engagement meetings and questions at AGMs. At the Rio Tinto AGM, LAPFF welcomed the company's disclosure in response to the strategic resilience resolution but pushed the company to provide greater detail. Two meetings were held with Rio Tinto's CEO which explored the company's experience of internal carbon pricing, the impact of the Taskforce on Climate-Related Financial Disclosure (TCFD) and progress on scenario planning. Similar issues were raised with Sir Peter Gershon, the chair of National Grid at the AGM.

LAPFF continued to engage with BP and Total and explored the implications of scenario planning for a faster transition, including how this related to their businesses. At the Total AGM, LAPFF also asked whether Total would be willing to report its oil and gas resources in resource-neutral gigajoules in order to compare better the value of these reserves with the value of renewables for the company. At a follow-up meeting Total confirmed that they did report in a resource-neutral way using a carbon intensity measure and also set out how their strategy was consistent with a two-degree scenario.

Low Carbon Transition
During the year LAPFF engaged with several energy and mining companies on how their remuneration policies could create incentives for an accelerated low carbon transition. LAPFF engaged with BP, Shell and Anglo American on their remuneration policies that were being put to vote at their 2017 AGMs. As result of some measures taken to link executive pay with the required low carbon transition, LAPFF issued voting alerts recommending that Members support the remuneration policy vote at BP and Shell, recognising direction of travel, despite other concerns. LAPFF's focus on creating incentives for companies to align their strategies with a two degree scenario were also raised at a number of other meetings. During a meeting with the chair of Lonmin, the Forum gained better understanding of the company's position on carbon pricing and the governmental level discussions on the issue in South Africa.

SOCIAL RISK – LINKAGE 3: SPOTLIGHT ON STAKEHOLDER ENGAGEMENT

Stakeholder engagement figures prominently in LAPFF's approach to responsible investment. From engaging with other investors and corporate boards on shareholder resolutions to meeting with unions and non-governmental organisations (NGOs) for input on social and environmental issues, LAPFF seeks to understand business issues and concerns from all sides. LAPFF undertakes this rounded engagement approach to ensure that companies' business models and business strategies are fit for purpose based on all financial and ESG risks.

Progress in engaging with companies on climate change would not have been possible without engaging with other institutional investors and NGOs. Unions have been important engagement partners on shareholder resolutions with Sports Direct and National Express. LAPFF also regularly engages with regulators on a range of issues, from reliable accounts to climate change to corporate governance reform.

The Forum looks for similar engagement and openness in investee companies. For example, in relation to National Express, LAPFF has been speaking with the Company for a number of years regarding allegations that its employment standards in its US operations are inadequate. Many of these allegations have come from employees via trade unions. Therefore, LAPFF has consistently pressed National Express to engage more openly with unions.

The situation seemed to be intransigent, but LAPFF continued to engage with both National Express and the unions, using both voting alerts and engagement meetings to encourage both parties to talk. At last year's National Express AGM, there appeared to be a breakthrough. The Company finally agreed to meet with the Teamsters union, and although it took until this year for a meeting between the two parties to take place, early indications are that this engagement has been positive. LAPFF has every confidence that, as with its FirstGroup engagement, the two parties will reach an agreement that will strengthen the company and benefit workers.

LAPFF has also observed the importance of engaging with both social and environmental stakeholders in mining projects. Often, environmental impacts lead to significant social problems that then cause operational and reputational risk for companies. Appropriate governance of and accountability for these risks and relationships is crucial for cost-effective projects that meet stated timelines and allow companies to create shareholder value.

SOCIAL RISK SUMMARY

Human Rights

Historically, much of LAPFF's engagement around human rights has been through the lens of employment standards. This approach continues to the case to a large extent with companies such as Sports Direct and Ryanair.

This year, though, the range of human rights engagements seems to have increased. For example, LAPFF engaged again on the use of cluster munitions, as well as with companies operating in Israel and the settlements. LAPFF also engaged with extractives companies facing pressure from community groups over their mining practices. These engagements reflect human rights concerns on which LAPFF has engaged previously. However, LAPFF also engaged with 21st Century Fox over its sexual harassment scandal, which seems to be snowballing across the entertainment industry and has even played a role in its attempted acquisition of Sky. This development and the government's focus on worker access to corporate boards also drives home the link between corporate governance and employment rights, highlighting the need for good human capital management, or workforce management as it is increasingly known.

LAPFF supplemented these engagements with attendance at external events on the importance of gaining free prior and informed consent (FPIC) from communities affected by corporate mining projects, child labour and its implications for investors, and the launch of the Corporate Human Rights Benchmark. Input from this range of stakeholders, plus engagement meetings with companies, allows LAPFF to develop an understanding of where legal and policy gaps exist and where company practice can be strengthened to encourage companies to develop more resilient business models and better business strategies.

Employment Standards

Employment standards continue to figure prominently in LAPFF's work on social risk. Of LAPFF's 38 engagements on social risk during the year, 21 such engagements covered employment standards. Companies engaged on this topic include Lonmin, 21st Century Fox, and National Express. However, by far the largest focus of engagement was Sports Direct, a company with which LAPFF has attempted to engage over a number of years. This past year, LAPFF issued a voting alert, attended an investor question and answer session held by Mike Ashley and attended the Company's AGM to ask again for an independent review of corporate governance and workplace conditions. LAPFF has been pleased with some developments at the Company, including the appointment of a worker representative to liaise with the Board. However, the selection process for this representative has not been made sufficiently clear in LAPFF's view to ensure that he is an appropriate representative. Furthermore, the continued corporate governance problems at Sports Direct make it unlikely that any kind of effective employee voice will make it through to Company policy or practice.

Investors have exhibited a renewed interest in the role that company work forces can play in the creation of shareholder value. Organisations such as the Pensions and Lifetime Savings Association (PLSA) and ShareAction are developing tools for investors to use in assessing how well companies account for their work forces in setting the conditions for shareholder value creation. LAPFF provided PLSA with feedback on its work force reporting tool at a Roundtable this year and submitted a number of comments and suggestions to ShareAction as it develops the Workforce Disclosure Initiative (WDI). Both tools are important developments on the path to enabling investors to understand more clearly the link between work forces and the creation of shareholder value at investee companies.

Public Health

Public health is a growing topic of interest for the Forum. During the year, LAPFF attended sessions to update investors on the Access to Nutrition Index, and in particular the India and US Spotlight Indices.

Deputy Chair Ian Greenwood also met with representatives of British American Tobacco to discuss next generation products and their impact on the overall effort to reduce health implications of smoking, as well as the effects of plain packaging and health warning signs on packages. The Forum plans to further engage on public health issues and assess the related investment risks.

MEDIA COVERAGE

Accounting Standards
There was extensive press coverage of LAPFF's position on IFRS accounting standards throughout the year. As well as pressing for proper adherence to the law on capital maintenance related matters, the Forum has also demanded that the European Commission demonstrate that it has followed a lawful procedure in endorsing IFRS 9. The Forum was also cited several times in the press after it called on the Government to give serious consideration to winding up the FRC.

LAPFF's stance on these issues was reported in the Financial Times, Investment & Pensions Europe and CityAM, among other sources.

Climate Risk and 50/50 Climate Change Project
The Forum has partnered with the 50/50 Climate Project, to support effective long-term climate change strategies amongst the public companies with the 50 largest carbon footprints. The partnership and the Forum's increased pressure over climate change risk has received good coverage in the news, including pieces in Pensions & Investments, LocalGov and Portfolio Institutional.

LAPFF Response to the Government's Corporate Governance Green Paper
The BEIS Green Paper on Corporate Governance Reform and the government's subsequent response in its White Paper have prompted much debate in 2017; LAPFF advocated in particular for alignment of executive pay with long-term performance and that a greater voice to be given to employees and consumers in the boardroom. The Forum's response was reported in IPE and has been posted on ThomsonReuter's Practical Law site.

Executive Pay
LAPFF's concerns over poor executive pay practices are long-standing and represent an ongoing governance risk. The Forum therefore frequently comments on this topic. In 2017, the Forum's views on excessive CEO remuneration packages of Martin Sorrell (WPP), Thomas Fanning (Southern Co.) and Bob Dudley (BP), were reported by Reuters, Bloomberg, Financial Time and the Guardian, to name a few.

Sports Direct
After issuing a voting alert and attending Sport Direct's AGM, LAPFF featured in the media after LAPFF member, Cllr Richard Greening, requested changes within the Company. Executive member, Jane Firth, and the LAPFF Chair, Cllr Quinn were also quoted setting out LAPFF's dissatisfaction with progress in various outlets.

Sky
Following 21st Century Fox's bid for Sky in December 2016, LAPFF was concerned that the offer undervalues the Company and called for an appropriate premium and a safeguard for future probity. The Forum's recommendation to put the bid to a shareholder vote, along with Cllr Quinn's concerns on the matter was covered by Guardian, The Street, Investment & Pensions Europe and Belfast Telegraph, among others.

LIST OF COMPANIES ENGAGED

Company	Topic	Activity	Outcome
Aberdeen Asset Management plc	Governance (General)/Employment Standards/Social Risk	Meeting/Letter	Change in process
Anglo American plc	Climate Change/Human Rights	Meeting	Change in process
Antofagasta plc	Governance	Meeting	Dialogue
Ashtead Group plc	Remuneration	AGM	Satisfactory response
AstraZeneca plc	Governance (General)	Letter	Dialogue
Aviva plc	Governance (Cybersecurity)	Letter/Letter received	Dialogue
Babcock International Group plc	Remuneration	Alert issued	Dialogue
BP Plc	Remuneration/Climate Change	AGM/Alert issued/ Meeting/Letter	Substantial improvement
British American Tobacco plc	Public Health/Supply Chain Management/ Board Composition	Letter/Meeting	Small improvement
BT Group plc	Audit Practices/Governance (Accounting Practices)	Meeting	Change in progress
Carillion plc	Board Composition/Supply Chain Management/Remuneration	AGM/Alert issued	Dialogue
EasyJet plc	Remuneration/Employment Standards/Governance	Meeting/Letter/AGM	Dialogue
EnQuest plc	Board Composition (Diversity)	Alert Issued	Dialogue
Euromoney Institutional Investor plc	Board Composition (Diversity)	Alert Issued	No improvement
GlaxoSmithKline plc	Remuneration	Alert Issued	Dialogue
Glencore plc	Board Composition/Climate Change	AGM	Small improvement
Hanwha Corp	Human Rights (Cluster Munitions)	Letter/Letter received	No improvement
HSBC Holdings plc	Governance (Cybersecurity)/ Employment Standards/Finance and Accounting	Letter /Letter received/ Meetings	Change in progress
International Consolidated Airline Group SA	Governance (Cybersecurity)	Letter	Dialogue
ITV plc	Governance (Cybersecurity)	Letter	Awaiting response
Lloyds Banking Group plc	Finance and Accounting	Letter	Dialogue
Lonmin plc	Employment Standards/Climate Change/Finance and Accounting	Letter/Meeting	Substantial improvement
Marks & Spencer Group plc	Governance (Cybersecurity)	Letter	Awaiting response
Motorola Solutions Inc.	Human Rights	Letter	Dialogue
National Express Group plc	Employment Standards	AGM	Dialogue
National Grid plc	Climate Change	Meeting/AGM	Small improvement
NRG Energy Inc	Climate Change	Alert issued	Dialogue
PPL Corporation	Climate Change	Alert issued	Substantial improvement
Prudential plc	Governance (Cybersecurity)	Letter/Letter received	Dialogue

LIST OF COMPANIES ENGAGED

Company	Topic	Activity	Outcome
Rio Tinto plc	Climate Change	Meetings	Substantial improvement
Rolls-Royce Holdings plc	Environment/Corruption	Meeting	Small improvement
Royal Dutch Shell plc	Social Risk/Human Rights Climate Change/Remuneration	Meeting/Alert issued/ AGM	Dialogue
Sainsbury plc	Governance (Cybersecurity)	Letter	Awaiting response
Samsung Electronics Co Limited	Governance/Supply Chain Management	Sent letter	Awaiting response
Segro plc	Board Composition	Letter	Awaiting response
Shire plc	Governance (General)	Letter/Meeting	Small improvement
Sky plc	Governance	Meeting	Dialogue
Smith & Nephew plc	Remuneration/Governance	Meeting	Moderate improvement
Southern Company	Climate Change	Meeting	Moderate improvement
Sports Direct International plc	Employment Standards/Board Composition/Governance	Letter/AGM/EGM/ Alerts issued/Roundtable	No improvement
SSE plc	Employment Standards (Cybersecurity)	AGM	Change in process
Standard Chartered plc	Governance (General)	Letter	Awaiting response
Standard Life plc	Governance (General)/Employment Standards/Social Risk	Meeting/Letter	Change in process
Tesco plc	Mergers & Acquisitions/ Governance (General)	Meeting/AGM	Moderate improvement
Total SA	Environmental Risk	Meeting	Substantial improvement
Twenty-First Century Fox Inc	Employment Standards	Letter	Dialogue
Vedanta Resources plc	Human Rights/Climate Change	Meeting	Dialogue
Vodafone Group plc	Governance Cybersecurity/ Remuneration/Audit Practice	Meeting/Letter	Substantial improvement
Wells Fargo & Company	Governance (General)	Alert issued	Dialogue
WPP plc	Governance (Cybersecurity)/ Remuneration	Letter/Letter received/ Alert issued	Dialogue

LIST OF MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund (Royal Borough of)
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire County Council Pension Fund
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- Northumberland County Council
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Redbridge (London Borough of)
- Rhondda Cynon Taf
- Shropshire Council
- Somerset County Council
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

MEMBER SUPPORT

Guidance for members has been produced throughout the year, including media training for members on how to respond to media requests; a climate change seminar LAPFF framework and climate risk investment strategies; and surveys requesting feedback to improve member support. E-bulletins are sent to members every month covering news on LAPFF engagement themes along with the Forum's engagement activities throughout the month. Several consultations have also been produced during the year on topics ranging from ethnic diversity and gender imbalance to climate-related disclosure and financial reporting standards.

LAPFF representatives have also addressed various member funds' pension committees and member consultative meetings throughout the year, providing information on the Forum's activities and engagement outcomes. A full list of services for members is listed below:

Company engagement	Quarterly engagement report	Consultation responses
Voting alerts	AGM briefings and attendance	Website
Investor partnership	Business meeting and presentations	E-bulletin
Information on LGPS reform	Trustee guides	Media coverage
Member briefings	Working groups	PRI/AODP reporting
Investor seminars	Shareholder resolution filing support	Event attendance
Policy guidance	Twitter presence	Training
Mentoring scheme	Fund presentations	LGPS/Pooling research

For further information on any LAPFF services or publications, please contact Lara Blecher, Engagement Services Executive – lara.blecher@pirc.co.uk

NOTES

For more information about LAPFF, visit our website at www.lapfforum.org

For further information on LAPFF and membership enquiries, contact Keith Bray, Forum Officer postmaster@keithbray.plus.com or 07811 800612 or 01633 255685

Engagement information and data supplied by LAPFF's Research and Engagement Partner, PIRC Ltd – www.pirc.co.uk

For more information about LAPFF's Engagement Programme, please contact Lara Blecher at lara.blecher@pirc.co.uk

Design by Stephen Levesley, West Midlands Pension Fund

	AGENDA ITEM 12 **Pension Fund Committee** **26 June 2018**
Title	**Scheme Funding Update**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Actuarial update as at 31 March 2018 Appendix B – Report from Government Actuary's Dept.
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The next review date is 31 March 2019. Attached is an updated funding position as at 31 March 2018. This provides an indication of the changes in the funding position since the last triennial valuation.

The Government Actuary's Department (GAD) has reviewed Barnet's 2016 actuarial valuation and their scorecard is attached. They have noted that Barnet has one of the lowest (bottom decile) funding positions of LGPS funds.

Recommendations

1. **That the Pension Fund Committee note the funding update and the GAD scorecard.**

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.

1.2 Two reports are discussed in the paper:

- The Scheme Actuary's funding update as at 31 March 2018
- The Government Actuary's Department's scorecard on Barnet's 2016 triennial valuation.

Funding Update as at 31 March 2018

1.3 The Scheme Actuary has calculated a revised funding level (difference between assets and pension liabilities) as at 31 March 2018. See appendix A. In summary, the changes are:

	31-Mar-13 £m	31-Mar-16 £m	Impact	31-Mar-18 £m	impact
Value of liabilities	1,000	1,256		1,545	
Value of Assets	789	916		1102	
Deficit	**-211**	**-340**		**-443**	
Key Assumptions					
Assumed discount rate	*6.00%*	*4.20%*	*negative*	*3.60%*	*negative*
Inflation (CPI)	*2.70%*	*2.10%*	*positive*	*2.34%*	*negative*
			positive		
Future salary increases	*4.50%*	*2.40%*		*2.64%*	*negative*
Longevity - males pensioners	*22.1 years*	*21.9 years*	*positive*	*21.9 years*	*nil*

1.4 The estimated deficit (excess of liabilities over assets) has increased by £103 million. Although assets have increased by £186 million, the value placed on the liabilities has increased by £289 million.

1.5 The change in the value of the liabilities is not because the Fund will be paying out more benefits than previously expected. Instead, it is a measure of the assets required to be held to meet the benefits already earned. This has increased because the assumed investment return (discount rate in the table above) has fallen by 0.6%. If the scheme's investments earn less in future, then more assets are required to pay the benefits. The assumptions that estimate the future benefit payments – inflation, salary and longevity – have moved in the direction of lower benefits since 2013.

1.6 The discount rate used by the Actuary is influenced by the return on government bonds, which have fallen to historical lows. The Actuary's note identifies the sensitivity of the results to changes in government bond yields, with funding levels between March 2016 and March 2018 varying between 66% and 76%.

1.7 Changes in the funding level caused by the discount rate do not necessarily lead to higher employer contributions. This is because when modelling the required contribution to pay for past and future service the Actuary factors in the range of possible future investment returns, most of which will be in excess of the discount rate. Thus, part of the deficit will be met from investment returns above the discount rate.

1.8 It is impossible to speculate based on these results the direction of employers' contribution rates. Each employer has their own funding level and contribution rate. The Council's rate is currently increasing by 1% p.a. It is proposed that the Scheme Actuary is invited to meet the Committee to discuss the 2019 triennial valuation and the outlook for contributions. One of the Committee's aims is stability of contribution rates for employers and early engagement with the Actuary can identity the extent to which any contribution increases can be mitigated.

Government Actuary's Department – Review of the 2016 actuarial valuation

1.9 The Ministry of Housing, Communities and Local Government has commissioned GAD to review the 2016 actuarial valuation for each local authority and comment on whether:

- the valuation is in accordance with regulations
- individual valuations are consistent with other valuations
- the solvency of the scheme is ensured
- the pattern of contributions is cost effective

1.10 The purpose is to bring a degree of standardisation to the approaches and assumptions used by scheme actuaries, to identify those schemes that are being more optimistic than others when setting assumptions and also to identify when increases in contributions are being postponed leading to higher overall contribution rates in the long term. MHCLG can ask funds to alter their triennial valuation methods and assumptions should they consider that they do not comply with regulations (ensuring solvency and cost efficiency).

1.11 GAD has developed measures to test each valuation against the last three criteria above. The results for Barnet are set out in the scorecard. Each measure is coloured green (acceptable), amber or red. Of the 12 scores, Barnet is rated green in 10 and amber in two. Following a meeting between officers, GAD and MHCLG, the second amber flag (changes in contribution rates) will be re-rated as green.

1.12 The one remaining amber flag is the funding level calculated on the Scheme Advisory Board's standardised basis of 82.3%. Barnet has one of the lowest funding levels on this basis (lowest 10% of funds). Despite the low starting

point, the other green flags indicate that the Barnet plan to achieve full funding does not raise any concerns with GAD.

1.13 The table at the top right-hand side of appendix B indicates the sensitivity of funding levels to the assumptions used. In addition to Barnet's own calculation as at March 2016 (73%), the standardised basis is 82% and the best estimate (no prudence) is a little over 90%.

1.14 The conclusion from the scorecard is that continuing our current approach to scheme funding is unlikely to trigger criticism from GAD or action from MHCLG.

2. REASONS FOR RECOMMENDATIONS

2.1 No action is required as a consequence of these updates.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The Scheme Actuary will be invited to attend a subsequent Committee meeting.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2017/18. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

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

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary in advance of the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"To consider actuarial valuations and their impact on the Pension Fund."

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare a funding strategy statement.

5.5 **Risk Management**

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. BACKGROUND PAPERS

6.1 None

This page is intentionally left blank

HYMANS ROBERTSON

London Borough of Barnet Pension Fund

Funding and risk report as at 31 March 2018

Reliances and limitations

This report was commissioned by and is addressed to the London Borough of Barnet in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

HEADLINES

31 March 2018	Ongoing funding
Assets	£1,102m
Liabilities	£1,545m
Surplus/(deficit)	(£443m)
Funding level	71.3%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2018, for the London Borough of Barnet Pension Fund ("the Fund"). It is addressed to London Borough of Barnet in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

At the last formal valuation the Fund assets were £916m and the liabilities were £1,256m. This represents a deficit of £339m and equates to a funding level of 73.0%. Since the valuation the funding level has decreased marginally by c2% to 71.3% as detailed in the table above.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.
Gemma Sefton FFA

London Borough of Barnet Pension Fund | Strategy and Risk Management dashboard

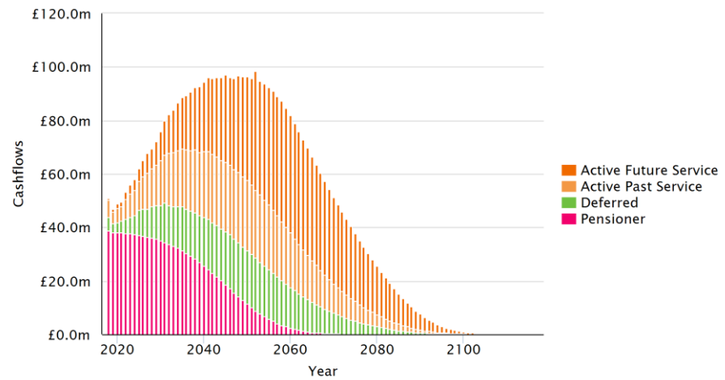
CURRENT POSITION

31 March 2018	Ongoing funding
Assets	£1,102m
Liabilities	£1,545m
Surplus/(deficit)	(£443m)
Funding level	71.3%

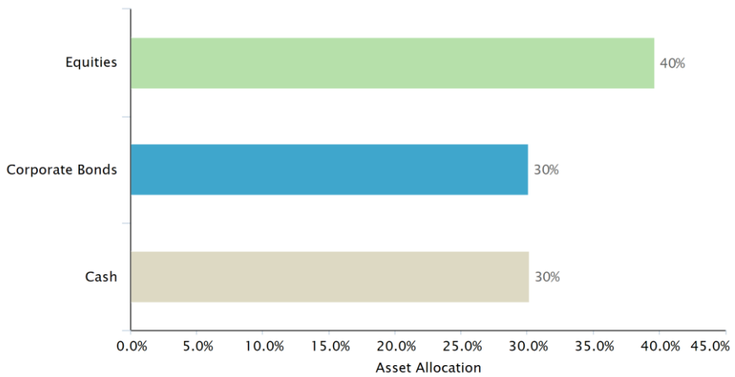
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(339)
Contributions (less benefits accruing)	(5)
Interest on surplus/(deficit)	(31)
Excess return on assets	99
Impact of change in yields & inflation	(167)
Surplus/(deficit) as at 31/03/2018	(443)

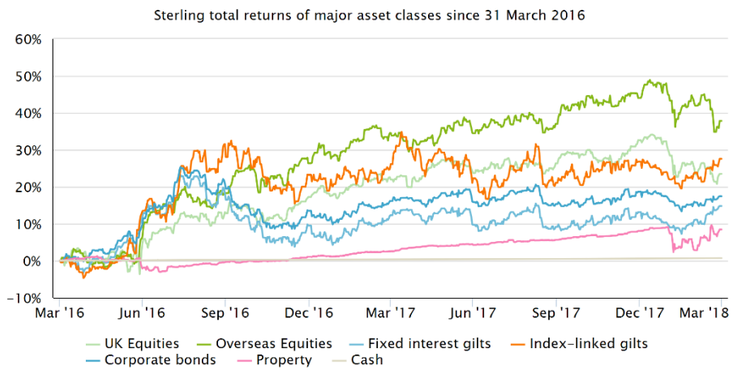
	31 March 2016	31 December 2017	31 March 2018
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.68%	1.63%
Index-linked Gilts	-0.96%	-1.64%	-1.65%
Implied Inflation	3.16%	3.38%	3.34%
AA Corporate Bonds	3.36%	2.44%	2.58%
Price Indices			
FTSE All Share	3,395	4,222	3,894
FTSE 100	6,175	7,688	7,057

PROGRESS



ASSETS AND RISKS





Sensitivity Matrix as at 15 May 2018 for basis Ongoing funding (£m)

Shift in equity level (using FTSE 100 levels as proxy)

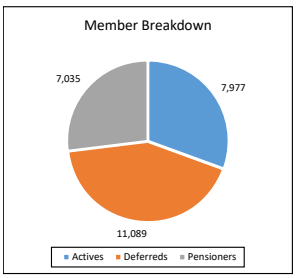
Shift in bond yields (% p.a.)	5406 -30%	6178 -20%	6951 -10%	7723 0%	8495 10%	9268 20%	10040 30%
0.6	(386)	(342)	(297)	(253)	(208)	(164)	(119)
0.4	(424)	(380)	(335)	(291)	(246)	(202)	(157)
0.2	(465)	(420)	(376)	(331)	(286)	(242)	(197)
0.0	(508)	(463)	(419)	(374)	(329)	(285)	(240)
-0.2	(554)	(509)	(464)	(420)	(375)	(331)	(286)
-0.4	(602)	(558)	(513)	(469)	(424)	(379)	(335)
-0.6	(654)	(610)	(565)	(521)	(476)	(431)	(387)

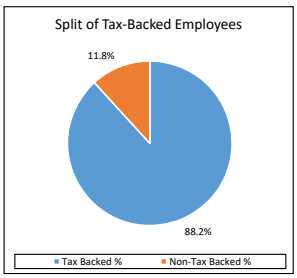
< 50%	50% - 85%	85% - 95%	95% - 100%	100% - 105%	105% - 115%	> 115%

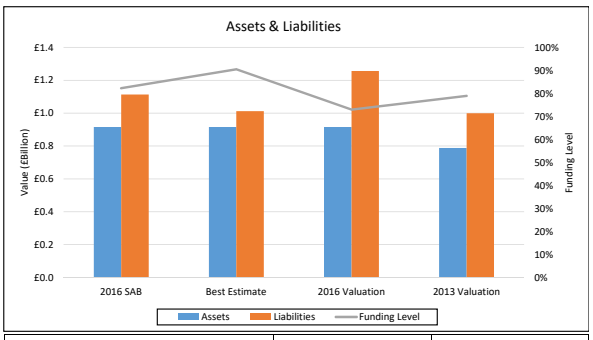
Government Actuary's Department

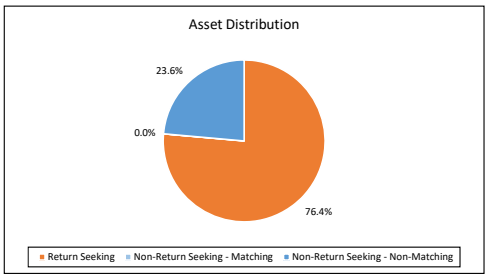
This document is intended only for discussions between GAD, the relevant Local Authority and their actuary

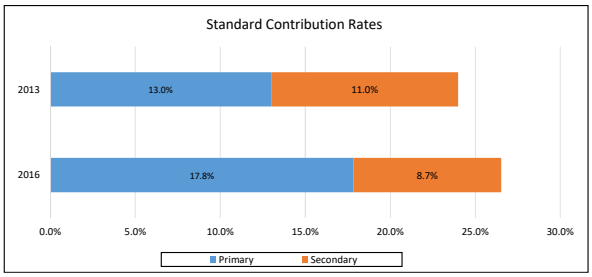
London Borough of Barnet Pension Fund











Local Authority	Core Spending (£m)	Core Spending (%)
Total	**£340.3**	**100.0%**
Barnet	£257.5	75.7%
Barnet GLA	£82.8	24.3%

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:

Return seeking - Equity, Property, Infrastructure debt & other return seeking assets

Non-return seeking - All other assets

Return seeking assets are stressed by reducing them by 15%

New deficit allocated to tax−raising authorities
= (Pre−stress asset value − Post−stress asset value) × % Tax backed employees

This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£916.3
Return seeking assets	£700.1
Non-return seeking assets	£216.3
Post-stress asset value	£811.3
Return seeking	£595.1
Non-return seeking	£216.3
New deficit allocated to tax raising authorities	£92.6
Annual deficit payment (spread over 20 years)	£5.4
Total core spending	£340.3
Deficit percentage of core spending	1.6%

Liability Shock

Non-matched liabilities are stressed by increasing them by 10%

New deficit allocated to tax−raising authorities
= (Post−stress liability value − Pre−stress liability value) × % Tax backed employees

Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£1,012.4
Liability value post-stress	£1,113.7
New deficit allocated to tax raising authorities	£89.3
Annual deficit Payment (spread over 20 years)	£5.2
Deficit percentage of core spending	1.5%

Employer Default Shock

Determine funding level on GAD's best estimate basis
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed
The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£96.1
Proportion of deficit allocated to non-tax raising authorities	£11.3
Annual deficit payment (spread over 20 years)	£0.7
Deficit percentage of core spending	0.2%

Solvency Breakdown (continued)

Fund Open/Closed	Open
SAB Funding Level	82.3%
Percentage of Non-Statutory Employees	11.8%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	4

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	3.0%

Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 2016/17 payroll	3.3%
Actual contribution rate paid less SCR on best estimate basis	14.1%
Difference	10.9%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	5.3%
Required return	3.0%
Difference	2.4%

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2013 valuation

Valuation	*2013*	*2016*
Deficit Recovery End Point	2028	2036
2013 Common Contribution Rate		24.0%
2014/15 Average Employer Contribution Rate		23.8%
2016 Standard Contribution Rate		26.5%
Increase in contributions to 2016		
From 2013 Common Contribution Rate		2.5%
From 2014/15 Average Employer Contribution Rate		2.7%
Increase in deficit recovery end point (years)		8

Minor inconsistencies in totals may occur due to rounding.

15 May 2018

This page is intentionally left blank

AGENDA ITEM 13

Pension Fund Committee

26 June 2018

Title	**London Borough of Barnet Pension Fund – Annual Report and Statement of Accounts 2017/18**
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Annual Report and Accounts
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk 0208 359 7126

Summary

The Committee is required to approve the Pension Fund's Annual Report and Accounts. A draft of the accounts is attached. They are currently being audited. The Committee will be asked to approve the accounts at their July meeting. Comments are invited to be sent to the author at the above email address.

Recommendations

1. **That the committee send any comments on the draft accounts to the Head of Treasury (contact details above) by 6th July**

1. WHY THIS REPORT IS NEEDED

1.1 The Pension Fund's Annual Report and Accounts for the year ended 31 March 2018 (included as Appendix A) has been drafted and is in the process of being independently audited by the Council's external auditors, BDO. The accounts form part of the London Borough of Barnet Council's Statement of Accounts.

1.2 The Annual Report and Accounts have been produced in accordance with Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom.

1.3 The Annual Report and Accounts need to be approved by the Pension Fund Committee before external audit can issue their formal opinion on the Pension Fund accounts. The draft annual report and accounts will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report. The audited accounts will be published alongside the Council's Statement of Accounts by the statutory deadline of 30 September.

1.4 A copy of the final annual report and accounts will be placed on the Council website, and all Fund employers will be notified. In addition, the link will be emailed to all Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations.

1.5 As the accounts are lengthy, the Committee is being given the opportunity to send comments in advance of the next meeting when approval will be requested.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to approve the Annual Report and the Pension Fund Accounts.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Director of Finance will carry out any actions considered necessary.

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 by the Pension Fund Committee will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020). Separate reports on the agenda of

this committee include the investment performance and the Funding Strategy Statement.

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

5.2.1 There are no direct resources issues for the Council because of preparation of the Annual Report and Pension Fund Accounts.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Legal – The LGPS Regulations 2013 (regulation 57) require that an administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains:

(a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;

(b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;

(c) a report of the arrangements made during the year for the administration of each of those funds;

(d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;

(e) the current version of the statement under regulation 55 (governance compliance statement);

(f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with:

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(h) the current version of the statement referred to in regulation 58 (funding strategy statement);

(i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles);

(j) the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and

(k) any other material which the authority considers appropriate.

5.4.2 Constitution – Article 7 - Responsibility for Functions. One of the terms of reference of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts' and 'To receive and consider approval of the Pension Fund Annual Report'.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 The CIPFA publication *Managing Risk in the Local Government Pension Scheme* (2012) provides more detail on the nature, identification and management of risk in the LGPS.

5.5.3 The Pension Fund's risk register is monitored by the Pension Fund Committee and Local Pension Board.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 The Pension Fund Annual Report and Accounts is a key communication tool for updating employers and scheme members on the activities of the pension fund.

.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

This page is intentionally left blank

BARNET
LONDON BOROUGH

PENSION FUND

STATEMENT OF ACCOUNTS

2017/18

STATEMENT OF RESPONSIBILITIES

PENSION FUND'S RESPONSIBILITIES

London Borough of Barnet Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In London Borough of Barnet Pension Fund, that officer is the chief finance officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The chief finance officer is responsible for the preparation of London Borough of Barnet Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2017-18* (the Code).

In preparing this Statement of Accounts, the chief finance officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the CIPFA Code of Practice.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Pension Fund Statement of Accounts 2017/18 present a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund (the Balance Sheet) and its income and expenditure for the year ended 31 March 2018.

Signed:……

Date:

Kevin Bartle

Director of Finance and Section 151 Officer

CHAIRMAN OF PENSION FUND COMMITTEE CERTIFICATE

In accordance with the Accounts and Audit (England) Regulations 2015, I certify that the Statement of Accounts was approved by the Pension Fund Committee.

Councillor:……

Date:

Mark Shooter

Chairman, Pension Fund Committee

MAIN STATEMENTS

FUND ACCOUNT

	Notes	2017/18 £000	2016/17 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	6	(59,040)	(58,614)
Transfers in from other pension funds	7	(2,309)	(950)
		(61,349)	**(59,564)**
Benefits	8	50,466	51,067
Payments to and on account of leavers	9	3,980	5,577
		54,447	**56,644**
Net (additions)/withdrawals from dealings with members		**(6,902)**	**(2,920)**
Management expenses	10	5,446	4,904
Net additions/withdrawals including fund management expenses		**(1,455)**	**1,984**
Returns on investments			
Investment income	11	(2,405)	(1,620)
Profit and losses on disposal of investments and changes in the market value of investments	13	(41,953)	(136,188)
Net return on investments		**(44,358)**	**(137,808)**
Net (increase)/decrease in the net assets available for benefits during the year		**(45,813)**	**(135,824)**
Opening net assets of the scheme		1,052,157	916,333
Closing net assets of the scheme		**1,097,970**	**1,052,157**

NET ASSETS STATEMENT

	Notes	31 March 2018 £000	31 March 2017 £000
Investment assets	13	1,077,530	1,038,872
Long term investments	13	150	150
Total net investments		**1,077,680**	**1,039,022**
Current assets	17	22,587	14,524
Current liabilities	18	(2,297)	(1,389)
Net assets of the fund available to fund benefits at the end of the reporting period		**1,097,970**	**1,052,157**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 21.

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

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 Finance Officer (Section 151 Officer) of the Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the *London Borough of* Barnet *Pension Fund Annual Report 2017/18* and the underlying statutory powers underpinning the scheme.

General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the LBB Council to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

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

The Fund's 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 and has authority under the Council's constitution to approve the Pension Fund Annual Report and Pension Fund Statement of Accounts.

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff in schools, 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 classed as admitted and scheduled bodies:

- Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector

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

The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2018, including the comparative figures. An analysis of membership movement in the year is provided in the note below.

The number of employees contributing to the Fund increased during the year from 8,829 to 9,093 at 31 March 2018. During the same period, the number of pensioners increased from 7,720 to 7,804 and the number of deferred pensioners increased from 9,938 to 10,238. The numbers for 31 March 2017 shown in the table (and quoted above) have been restated to incorporate late notified member movements. Membership recorded in last year's accounts as at 31 March 2017 were actives: 8,428, pensioners: 7,730 and deferred: 10,345

	31 March 2018	31 March 2017 (restated)
Number of employers with active members	64	65
Number of employees in scheme		
London Borough of Barnet	5,357	5,110
Other employers	3,736	3,719
Total	9,093	8,829
Number of pensioners		
London Borough of Barnet	5,130	5,113
Other employers	2,674	2,607
Total	7,804	7,720
Deferred pensioners		
London Borough of Barnet	6,616	6,441
Other employers	3,622	3,497
Total	10,238	9,938
Total number of members in pension scheme	**27,135**	**26,487**

Funding

The Fund is financed by contributions from employers, employees and the income 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.

Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. These are tabled in the actuarial valuation report

Benefits

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.

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Fund account – revenue recognition

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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment income

- **Distributions from pooled funds** are recognised at the date of payment. Should there be a timing delay between the date the net asset value is reduced to reflect the distribution and the date of receipt, the income is disclosed in the net assets statement as a current financial asset.
- **Movement in the net market value of investments**-changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.2 Fund account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the London Borough of Barnet is the administrating authority of the Fund, VAT input tax is recoverable on all Fund activities.

Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

- All **administrative expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity, based on estimated time spent, and charged as expenses to the Fund. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.
- All **oversight and governance expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- 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 reduce as the value of these investments change. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

3.3 Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value or cost basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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.

Financial liabilities

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The net pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

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

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year is 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 rate 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. Sensitivity analysis and the effects of changes in individual assumptions on the net pension liability are shown in Note 21.

6. CONTRIBUTIONS RECEIVABLE

By category

	31 March 2018	31 March 2017
	£000	£000
Employees' contributions:	**(11,155)**	**(10,962)**
Employers' contributions:		
Normal contributions	(39,090)	(34,840)
Deficit recovery contributions	(5,409)	(5,496)
Augmentation contributions	(3,386)	(7,316)
Total employers' contributions	**(47,885)**	**(47,652)**
Total contributions receivable	**(59,040)**	**(58,614)**

By authority

	31 March 2018	31 March 2017
	£000	£000
London Borough of Barnet	(32,877)	(30,351)
Scheduled bodies	(21,758)	(24,269)
Admitted bodies	(4,406)	(3,994)
Total contributions receivable	**(59,040)**	**(58,614)**

Included within normal contributions are estimated deficit contributions of £9.245 million from employers who have not provided a breakdown of contributions between normal and deficit.

7. TRANSFERS IN FROM OTHER PENSION FUNDS

	31 March 2018	31 March 2017
	£000	£000
Individual transfers	(2,309)	(950)
Total transfers in from other Pension Funds	**(2,309)**	**(950)**

8. BENEFITS PAYABLE

By category

	31 March 2018	31 March 2017
	£000	£000
Pensions	43,156	44,603
Commutation and lump sum retirement benefits	6,656	5,723
Lump sum death benefits	655	741
Total benefits payable	**50,466**	**51,067**

By authority

	31 March 2018	31 March 2017
	£000	£000
London Borough of Barnet	34,175	34,863
Scheduled bodies	12,378	10,892
Admitted bodies	3,914	5,312
Total benefits payable	**50,466**	**51,067**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2018	31 March 2017
	£000	£000
Refunds to members leaving service	97	150
Individual transfers	3,883	5,427
Total payments to and on account of leavers	**3,980**	**5,577**

10. MANAGEMENT EXPENSES

	31 March 2018	31 March 2017
	£000	£000
Administrative costs	42	1,781
Investment management expenses	4,473	2,931
Oversight and governance costs	932	192
Total management expenses	**5,446**	**4,904**

In the table above, costs previously treated as administrative have under current guidance been reallocated to oversight and governance.

10A. INVESTMENT MANAGEMENT EXPENSES

	31 March 2018	31 March 2017
	£000	£000
Management fees	3,425	2,918
Performance related fees	387	0
Custody fees	15	13
Transaction costs	646	0
Total investment management expenses	**4,473**	**2,931**

11. INVESTMENT INCOME

	31 March 2018	31 March 2017
	£000	£000
Pooled investments – unit trusts and other managed funds	(2,357)	(1,582)
Interest on cash deposits	(48)	(38)
Total investment income	**(2,405)**	**(1,620)**

12. AUDIT COSTS

	31 March 2018	31 March 2017
	£000	£000
Payable in respect of external audit	28	21
Total external audit costs	**28**	**21**

13. INVESTMENTS

2017/18	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	1,014,952	136,777	(119,657)	41,953	1,074,025
Money market funds	23,900	67,168	(87,568)	0	3,500
Long term investments	150	0	0	0	150
	1,039,002	**203,945**	**(207,225)**	**41,953**	**1,077,675**
Other investment balances:					
Cash deposits	20				5
Net investment assets	**1,039,022**				**1,077,680**

2016/17	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	900,163	120,193	(141,592)	136,188	1,014,952
Money market funds	2,502	77,000	(55,602)	0	23,900
Long term investments	150	0	0	0	150
	902,815	**197,193**	**(197,194)**	**136,188**	**1,039,002**
Other investment balances:					
Cash deposits	107				20
Net investment assets	**902,922**				**1,039,022**

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 and any income attributed to the unitised funds that has been retained by the funds and reinvested.

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. The fund investments are all held in pooled funds.

13A. ANALYSIS OF INVESTMENTS

	31 March 2018	31 March 2017
	£000	£000
Pooled funds – additional analysis		
UK		
Unit trusts	425,658	538,864
UK managed funds	648,367	476,088
Money market funds	3,500	23,900
	1,077,525	**1,038,852**
Long term investments	150	150
Cash deposits	5	20
Total investment assets	**1,077,680**	**1,039,022**
Net investment assets	**1,077,680**	**1,039,022**

13B. INVESTMENTS ANALYSED BY FUND MANAGER

	Market value	31 March 2018	Market value	31 March 2017
	£000	%	£000	%
Legal and General	425,658	39.4	405,190	39.0
Schroder Investment Management	259,541	24.1	353,799	34.1
LCIV NW Real Return Fund	125,948	11.7	133,673	12.9
Alcentra	60,988	5.7	47,940	4.6
Partners Group	43,624	4.0	38,171	3.7
Barings	37,556	3.5	36,199	3.5
Insight Investments	41,528	3.9	0	0.0
M&G Investments	30,977	2.9	0	0.0
IFM Investors	48,211	4.5	0	0.0
London Collective Investment Vehicle (Share Capital)	150	0.0	150	0.0
Standard Life	3,500	0.3	23,900	2.3
	1,077,680	**100.0**	1,039,022	100.0

The following investments represent more than 5% of the net assets of the scheme. These funds are registered in the UK.

	31 March 2018		31 March 2017	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker Fund	215,638	20.8	201,179	19.4
Legal and General Global Equity Tracker Fund	177,237	17.1	173,017	16.7
Schroder Life Diversified Growth Fund	142,284	13.7	144,586	13.9
LCIV NW Real Return Fund	125,948	12.1	133,673	12.9
Schroder All Maturities Corporate Bond Fund	117,252	11.3	114,694	11.0
Schroder Strategic Bond	0	0.0	94,500	9.1

13C. FAIR VALUE – BASIS OF VALUATION

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

- Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2018.

13D. FAIR VALUE – HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

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

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. This included unit trusts priced by the fund managers that are not held as exchange traded funds.

Level 3

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

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

31 March 2018	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000
Financial Assets			
Designated at fair value through profit and loss	260,296	671,995	141,884
Loans and receivables	3,505		
Total financial assets	**263,801**	**671,995**	**141,884**
Grand Total:			**1,077,680**

31 March 2017	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000
Financial Assets			
Designated at fair value through profit and loss	0	1,015,102	0
Loans and receivables	23,920	0	0
Total financial assets	**23,920**	**1,015,102**	**0**
Total:			**1,039,022**

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2018			31 March 2017		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial assets						
Pooled investments	1,074,025			1,014,952		
Cash and cash equivalents	4,477	3,500		20	26,226	
Other investment balances		150			150	
Receivables		18,115			12,198	
Total financial assets	**1,078,501**	**21,765**	**0**	**1,014,971**	**38,574**	**0**
Financial liabilities						
Creditors			(2,297)			(1,389)
Total financial liabilities	**0**	**0**	**(2,297)**	**0**	**0**	**(1,389)**
Total	**1,078,501**	**21,765**	**(2,297)**	**1,014,971**	**38,574**	**(1,389)**
Grand Total			**1,097,970**			**1,052,157**

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to have a reasonable probability of achieving in the long-term returns at least in line with the 'prudent' return set by the Scheme Actuary when calculating the required employers' contributions. The Fund achieves this through selection of appropriate returning asset classes, asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, which require an administering authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund in accordance with its Investment Strategy Statement.

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 Fund Committee has prepared an Investment Strategy Statement which sets out the Pension Fund's policy on matters such as the type of investments to be held, the balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external investment managers is reported to the Pension Fund Committee quarterly. Performance of Pension Fund investments managed by external Investment managers is compared to benchmark returns.

15A. Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities.

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 the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016.

Details of the (Management and Investment of Funds) regulations 2016 can be found in the Investment Strategy Statement adopted by Pension Fund Committee on 14th March 2017.

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset type	Potential market movements (+/-)
Pooled investments	18%

The 18% assumed volatility for pooled assets is based on the largest negative movement in the value of the fund's assets recorded in the last 10 years. This compares with an average annual change in value (positive or negative) during that period of 8.4%. It should be noted that large changes in value in one direction are often followed by a reversal. For example, the 18% loss in 2008/9 was followed by a 26% gain in 2009/10. The assumed volatility for cash balances is 1%.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value as at 31 March 2018	Potential value on increase	Potential value on decrease
	£000	£000	£000
Other pooled investments	1,074,025	1,267,349	880,700
Total	**1,074,025**	**1,267,349**	**880,700**

Asset type	Value as at 31 March 2017	Potential value on increase	Potential value on decrease
	£000	£000	£000
Other pooled investments	1,014,952	1,116,447	913,457
Total	**1,014,952**	**1,116,447**	**913,457**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	13,600	136	13,736	13,464
Total	**13,600**	**136**	**13,736**	**13,464**

Assets exposed to interest rate risk	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	26,246	262	26,508	26,984
Total	**26,246**	**262**	**26,508**	**25,984**

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

15B. Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, 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 their 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 2018 working capital was held in the Pension Fund bank account with the Royal Bank of Scotland and in a money market fund with Standard Life, in accordance with the credit rating criteria within the Council's Treasury Management Strategy. Pension administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

Summary	Rating	Source	Balances as at 31 March 2018 £000	Balances as at 31 March 2017 £000
Standard Life MMF cash	AAAm	Moody's	3,500	23,900
Royal Bank of Scotland	BBB+	Moody's	10,095	2,326
Cash held by Fund Managers			5	20
Total			**13,600**	**26,246**

15C. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as 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. The Fund is also able to sell units in its Pooled Investment Vehicles if required.

The key refinancing risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its investment strategy.

16. ACTUARIAL VALUATION

Hymans Robertson LLP were appointed as fund actuary in 2016 and undertook a formal triennial actuarial valuation of the fund as at 31 March 2016 in accordance with the Local Government Pension Scheme Regulations 2013. The actuarial valuation calculates the contribution rate payable by the all employers, including the LBB Council, to meet the administering authority's funding objectives.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The aggregate primary contribution rate for 2017/18 is 17.9% of pensionable pay plus a secondary contribution of £13.374 million. The secondary contribution in 2018/19 increases to £14.683 million. This is the average required employer contribution to restore the funding position to 100% over the next 20 years.

The assumptions used for the triennial valuation were:

Financial assumptions

	31 March 2016	31 March 2013
	%	%
Discount rate	4.2	6.0
RPI	3.2	3.5
CPI	2.1	2.7
Pension increases rate	2.1	2.7
Salary increases rate	2.4	4.5

Demographic assumptions

	31 March 2016	31 March 2013
Life expectancy from age 65		
Retiring today:		
Males	21.9	22.1
Females	24.3	24.4
Retiring in 20 years:		
Males	23.9	24.2
Females	26.5	26.8
Other demographic assumptions		
Commutation	50%	50%
50:50 option	5%	10%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 14 March 2017. The next actuarial valuation will be based on the value of the fund as at 31 March 2019.

17. CURRENT ASSETS

	31 March 2018	31 March 2017
	£000	£000
Contributions due – employees	798	791
Contributions due – employers	11,382	11,337
Sundry debtors	312	70
Cash balances	10,095	2,326
Total current assets	**22,587**	**14,524**

Analysis of debtors

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	312	42
Other local authorities	7,064	8,911
Other entities and individuals	5,115	3,245
Total debtors	**12,492**	**12,198**

18. CURRENT LIABILITIES

	31 March 2018	31 March 2017
	£000	£000
Sundry creditors	(2,297)	(1,024)
Transfer values payable (leavers)	0	(365)
Total current liabilities	**(2,297)**	**(1,389)**

Analysis of creditors

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	(491)	(483)
Other local authorities	(1,417)	(246)
Other entities and individuals	(389)	(660)
Total creditors	**(2,297)**	**(1,389)**

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market value 31 March 2018	Market value 31 March 2017
	£000	£000
Aviva	**616**	616
Prudential	**2,557**	2,436
Total AVC	**3,173**	**3,052**

AVC contributions of £460,000 (2016/17: £454,000) were paid directly to Prudential and £x,000 (2016/17: £8,000) were paid to Aviva during the year.

20. RELATED PARTY TRANSACTIONS

The London Borough of Barnet Pension Fund is administered by the London Borough of Barnet. Consequently, there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £1.181m (2016/17: 1.388m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £24.337m to the Fund in 2017/18 (2016/17: £18.927m). As at 31 March 2018 the Council owed the Pension Fund £5.115 million in pension contributions (£1.894 million as at 31 March 2017).

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operation of Barnet Council. During the year to 31 March 2018, the Fund had an average investment balance of £11.0m (year to 31 March 2017: £9.5m), earning interest of £0.048m (2016/17: £0.039m).

Governance

One member of the Pension Fund Committee as at 31 March 2018 is in receipt of a pension from the Barnet Pension Fund. There are no active members of the Fund that are members of the Pension Fund Committee. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

20A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Chief Executive, the Assistant Chief Executive, the s.151 officer and the Deputy s.151 officer. The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below.

	31 March 2018	31 March 2017
	£000	£000
Short-term benefits	**43**	**24**
Post-employment benefits	**11**	**5**
Total remuneration	**55**	**29**

21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

Introduction

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

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

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

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

Present value of promised retirement benefits Year ended

Year ended	31 March 2018	31 March 2017
Active members (£m)	728	660
Deferred members (£m)	456	461
Pensioners (£m)	680	708
(£m)	**1,864**	**1,829**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to increase the actuarial present value by £35m. I estimate that there is no impact from any change in demographic and longevity assumptions because they are identical to the previous year.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.6%	2.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.3 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.9 years	26.5 years

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

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity of assumptions for year ended 31 March 2018	Approximate % increase liabilities	Approximate monetary Value (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	150
0.5% p.a. increase in the Salary Increase Rate	1%	20
0.5% p.a. decrease in the Real Discount Rate	10%	180

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

Professional notes

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

Prepared by:-

Peter Summers FFA
13 April 2018
For and on behalf of Hymans Robertson LLP

This page is intentionally left blank

BARNET
LONDON BOROUGH

PENSION FUND

ANNUAL REPORT

2017/18

Contents

1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

The London Borough of Barnet Pension Fund is part of the national Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme established under statute, which provides for the payment of pension benefits to employees and former employees of the London Borough of Barnet and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions that 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. Employer contributions are set by the Fund's actuary at the actuarial valuation which is done every three years. The last actuarial valuation was completed as at 31 March 2016. The Actuary determines the level of contributions payable by employers that together with other income are expected to enable the fund to acquire sufficient assets to pay benefits as they fall due for payment.

As a statutory pension scheme, it is secure because its benefits are set by law and paid out of a fund which is managed professionally. Should there be insufficient assets, ultimately the Council will be responsible for making up the shortfall. Membership of the pension fund is available to 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 rates will vary as the Actuary calculates the required level of assets and expectations of future investment income and this can have an adverse effect on the overall employers' budgets.

In the public sector, the individual legal provisions covering many pension schemes were brought together under one Act of Parliament (The 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.

The LGPS as introduced in 1972 remained unchanged until 2008 when changes were made to the scheme. More significant changes were introduced in a new look LGPS effective from 1 April 2014. One of the main changes is that a scheme member's pension entitlement for service after 1 April 2014 is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Benefits built up in the scheme before 1 April 2014 are protected and will continue to be based on the scheme member's final year's pay. The revised benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for a member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended), the LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016.

The Pension Fund is a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (CIV). The Pension Fund Committee approved the investment of £150,000 as regulatory capital in 2015/16. The Fund has assets of £552 million either in CIV managed pools or in mandates overseen by the CIV. This has delivered considerable savings in fees. It is also consistent with the Government's LGPS pooling arrangements which require local government pension scheme administering authorities to set out their proposals to invest their assets through one of the approved LGPS investment pools.

The content and detail in the pension fund annual report is prescribed by the LGPS Regulations 2013. In publishing this report, the Council as administering authority, sets out the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one document to show how the Fund is managed and how it is performing.

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 the Council's workforce into the LGPS came into effect from 1 June 2013. The dates for other participating employers varied. The impact has been a growth in scheme membership.

The Local Pension Board, enacted through the Public Services Pensions Act 2013, has been established as a Council committee to oversee pension fund governance and administration.

1.2 Governance Arrangements

The London Borough of Barnet is the administering authority and scheme manager for the Pension Fund. The Council has delegated responsibility for pension matters to the Pension Fund Committee.

Pension Fund Committee

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 all aspects of the governance and administration of the Pension Fund including:

- Complying with regulations and best practice
- Establishing sound systems of control over all the Fund's activities
- Approving and updating the statutory statements that form the appendices to these accounts
- Developing funding and investment policies that will safeguard the interest of scheme members and employers, and
- Appointing and monitoring service providers.

The Pension Fund Committee (the Committee) considers advice from the Section 151 officer, other Council officers, the Scheme Actuary, investment advisor, administrator and fund managers. Membership of the Committee is shown below. The Committee meet four times during the year. Three members of the Committee each were absent from one meeting during the year.

The Governance Compliance statement (appendix A) details the Committee's governance arrangements.

Local Pension Board

At the start of 2015/16 the Council established a local pension board (the Board) in compliance with the requirements of the Public Service Pensions Act. The purpose of the Board is to assist the Council to:

- Secure compliance with LGPS Government regulations and any other legislation relating to the governance and administration of the LGPS,
- secure compliance with the requirements imposed by the Pensions Regulator,
- such other matters as the LGPS regulations may specify, and
- ensure the effective and efficient governance and administration of the Pension Fund.

The Board activities during the year included monitoring the quality of the pension administration services, the Fund's compliance with legislation and regulations and reviewing the management of risk.

Conflicts of interest

Members of both the Pension Fund Committee and Local Pension Board follow the Code of Conduct for elected members, which sets out how any conflict of interest should be addressed. Declarations of interest are made at each meeting.

1.3 Management Structure

Administrating Authority
London Borough of Barnet

Pension Fund Committee Members 2017/18

Chairman:	Councillor Mark Shooter
Vice-Chairman	Councillor John Marshall
Members:	Councillor Andreas Ioannidis Councillor Arjun Mittra Councillor Rohit Grover Councillor Jim Tierney Councillor Peter Zinkin
Substitutes:	Councillors : Dean Cohen; Anthony Finn; Ross Houston; Adam Langleben; Pauline Coakley Webb; Stephen Sowerby
Observers:	John Burgess — Unison James Kennedy — Middlesex University

Local Pension Board

Employer Representatives:	Professor Geoffrey Alderman (Chairman) Councillor Thomas Smith
Employee Representatives:	Hem Savla (Vice-Chairman) Salar Rida David Woodcock
Independent:	Stephen Ross
Substitute Member:	Alice Leech

Officers

LB Barnet

Anisa Darr	Director of Resources and Statutory Section 151 Officer (to December 2017)
Kevin Bartle	Interim Director of Finance and S151 Officer (from December 2017)
Paul Clarke	Head of Finance

Capita CSG (Customer and Support Group)

Gillian Clelland	Assistant Director of Finance
George Bruce	Head of Treasury

Actuary
Hymans Robertson LLP

Investment Advisors
Hymans Robertson LLP

Auditor
BDO LLP

Legal Advisors
HB Law

Performance Monitoring
Hymans Robertson
PIRC

Custodians
JP Morgan

Pensions Administration Manager

Colin Barker (to January 2018)	Interim Service Delivery Manager (Pensions), Capita
Scott Harriot (from February 2018)	Employee Benefits, PO Box 215, Mowden Hall, Darlington, DL3 9GT

1.4 Risk Management

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Local Pension Board's terms of reference included oversight of risk management processes.

In order to manage risks, a Pension Fund risk register is maintained and reviewed by both the Committee and Board.

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay the promised benefits to members leading to contribution increases for employers. The investment and funding policies have been developed in conjunction with the actuary and investment advisor to provide a reasonable probability of achieving full funding and offering stability of contributions to employers.

1.5 Financial Performance

The Fund asset value increased by £45.813 million in the year to £1,097.970 million. There was an inflow of £6.902 million from dealings with members, expenses of £5.446 million were incurred and a return from investments of £44.358 million.

The table below summarises the change in the fund value over the last four years:

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000
Dealiing with members				
Contributions	-56,572	-54,238	-59,564	-61,349
Pensions	49,730	56,002	56,644	54,447
Net (additions) from dealings with members	-6,842	1,764	-2,920	-6,902
Management expenses	4,514	5,095	4,904	5,446
Investment income	-29	-12	-1,620	-2,405
Change in market value	-90,520	5,725	-136,188	-41,953
Net (increase) in the Fund	**-92,877**	**12,572**	**-135,824**	**-45,814**

Contributions have increased due to a rise in active membership, partly due to auto-enrolment, and revised employers' contribution rates following the 2016 triennial valuation. Pensions are impact by inflation and increases in the numbers of pensioners. Transfers in and out are variable year to year and declined by £1.6 million in 2017-18.

Most investment income is reinvested and included within the change in market value of investments. Investment markets have risen strongly over the last four years as reflected in the table above.

The table below summarises the change in net assets of the fund available to pay benefits over the last four years.

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000
Pooled funds	910,564	900,163	1,014,952	1,074,025
Cash	1,160	2,609	23,920	3,505
Investment in London CIV	0	150	150	150
Current Assets	14,137	15,935	14,524	22,587
Current Liabilities	-3,202	-2,524	-1,389	-2,297
Total Net Assets	**922,659**	**916,333**	**1,052,157**	**1,097,970**

The asset value has increased reflecting gains in investments. All investments are held in pooled funds. Further details of investments are given in section 2.

The table below details the scheme expenses in the last two years:

	2016-17 £'000	2016-17 £'000	2017-18 £'000	2017-18 £'000
Administration		479		42
Investment Management				
Management Fees	2,772		3,425	
Performance related Fees	0		387	
Custody fees	13		15	
Transaction Costs	0		646	
		2,785		4,473
Oversight & Governance				
Actuarial	138		79	
Investment Advice	146		105	
Audit	28		28	
Council officers recharge	1,321		714	
other	7		6	
		1,640		932
Total		**4,904**		**5,447**

The prior year allocations have been altered to be consistent with the current year definitions. In particular, Council recharges in respect of staff not involved directly in dealing with member (£1.303 million) have been shown as oversight & governance rather than administration. In addition, investment advisor's fees (£146,000) have been moved from investment management to governance.

For the first time, costs incurred via pooled vehicles have been identified and included within costs. These represent costs of £3.049 million in 2017-18. Historically most investment fees were billed directly. This is no longer true, with only Legal & General and Schroders issuing fee invoices. The other funds all charge their costs directly to the value of investments. The Newton mandate switched to internal fee recovery when the mandate was moved to the London CIV (2016-17 costs £0.733 million). Directly charged fees also reduced by £463,000 following a reduction of assets managed by Schroders.

The Pension Fund Committee and officers monitor costs and challenge fund managers. The London CIV has successfully negotiated lower fees for Legal and General and Newton. Post year-end Schroders have implemented a fee reduction.

Actuarial and investment advisory fees were lower in 2017-18. The prior year was impacted by the cost of the 2016 triennial valuation and of selecting new funds.

1.6 Actuarial Funding Level

The actuary to the Fund for the year was Hymans Robertson. 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 most recent valuation of the Fund took place as at 31 March 2016.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The primary contribution rate for 2017/18 was 17.9% of pensionable pay plus a secondary contribution of £13.374 million. For 2018/19 the secondary contribution increases to £14.684 million. This is the average required employer contribution to achieve 66% probability of returning to a fully funded position over 20 years. The next triennial actuarial valuation will be as at 31st March 2019 with a revised contribution schedule effective from 1st April 2020.

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 exercised via the selection of self-managed pooled funds who are regulated by the Financial Conduct Authority. The role of appointing and monitoring of investment funds is shared with the London CIV.

The pooled funds into which the Committee invests appoint investment managers to manage the assets of the fund by buying and selling investments in order to achieve their specific objectives as set out in their governing documentation. In choosing investments, the investment managers must have regard to the overall suitability of investments in accordance with the fund's aims and objectives. This section provides a summary of the current arrangements for investment of the London Borough of Barnet's Pension Fund.

Investment Report

As at 31 March 2017, the value of the Fund's investment assets was £1,077.7 million. This represents an increase of £38.7 million compared with the previous year reflecting the returns generated by investment managers and the modest improvements in equity markets in the last 12 months.

During the year the following changes were made to the investment strategy:

Global listed equities	+4%
Illiquid alternatives	+6%
Diversified Growth Funds	-2%
UK Corporate Bonds	-2%
Multi asset credit	-6%

The Pension Fund Committee continues to work with Hymans Robertson to improve the expected outcome from the investment strategy and the revised allocations are based on modelling undertake by Hymans that considers the range of funding levels for each possible strategy and seeks to balance maximising the probability of achieving full funding with avoiding very poor outcomes.

The fund's investment strategy and investments as at 31st March 2018 are given in the table below.

During the year new Commitments were made to the following three funds:

Insight / IIFIG Secured Finance Fund £40 million

Partners Multi Asset Credit 2017 £30 million

M&G Lion Credit Opportunities Fund £30 million

Fund investments are often drawn in stages as investment opportunities become available and during the year £136.8 million was invested. In addition to fully funding the Insight and M&G funds mentioned above, drawdown were made by Partners MAC 2017 (£10.5m), IFM Infrastructure (£45.4m) and Clareant European Direct Lending (£10.9m).

Funding for these mandates was from disposing of the holdings in Schroders Strategic Bond Fund (£94.5m), partial realisations of the two diversified growth funds (£15.8m), a reduction in cash balances (£20.3m) and distributions from Partners MAC 2015 (£6.2m).

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 are detailed below.

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

The Fund also subscribes to an independent investment performance measurement service in order to assess the rate of return achieved and the relative performance against other local authority pension funds that operate under the same regulations. This service is provided by PIRC.

Investment Allocation

Asset class / Investment Manager	Benchmark	Benchmark Proportion	Target
Equity		**36%**	
LGIM	FTSE All World Index	18%	Track within +/- 0.5% p.a. the index for 2 years in every 3
LGIM	FTSE RAFI All World Equity GBP Hedged Index	18%	
Divsified Growth Fund		**22%**	
Schroder DGF	CPI plus 5% p.a.	11%	To outperform the benchmark over a market cycle (typically 5 years
Newton Real Return	1 month LIBOR plus 4% p.a.	11%	to outperform the benchmark over a rolling 5 years
Corporate Bonds		**12%**	
Schroders All Maturities Corporate Bond Fund	Merrill Lynch Sterling Non-Gilts All Stocks Index	12%	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
Multi-Asset Credit		**11%**	
Alcentra - Clareant Global Multi Credit	3 month LIBOR plus 4% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Baring Global High Yield Credit Strategies	3 month LIBOR plus 5% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Insight - IIFIG Secured Finance	3 month LIBOR plus 4% p.a.	4%	To outperform the benchmark over a market cycle (typically 5 years)
Illiquid Alternatives		**19%**	
Partners Multi Asset Credit 2015	3 month LIBOR plus 4% p.a.	4%	Over the life of the fund
Partners Multi Asset Credit 2017	3 month LIBOR plus 4% p.a.	3%	Over the life of the fund
Alcentra - Clareant Direct European Lending	8-10% per annum	4%	Over the life of the fund
M&G Lion Credit Opportunities Fund	3 month Libor plus 2%	3%	Over the life of the fund
IFM Global Infrastructure	8-10% per annum	5%	Over the life of the fund
		100%	

Investment Ranges

Prior to the adoption of the first investment strategy statement (ISS) in March 2017 the Pension Fund had to abide by the maximum allocations to asset classes specified in the Local Government Pensions (Management and Investment of Funds) Regulations 2009. On adoption of the ISS these limitations were replaced by those set in the ISS, which are shown below together with the actual and benchmark proportions as at 31 March 2018:

Asset class	Actual Proportion	Benchmark Proportion	Maximum Allocation
Global Equity	**39.6%**	**40%**	**44%**
Diversified growth funds	**24.9%**	**20%**	**28%**
Liquid Multi-asset credit	**10.5%**	**11%**	**14%**
Corporate bonds	**10.8%**	**10%**	**13%**
Illiquid alternatives	**13.9%**	**19%**	**23%**
Cash	**0.3%**	**0%**	**n/a**
	100.0%	**100%**	

There were no breaches of these limits during the year.

Independent Advisor

The Pension Fund Committee and Council Officers receive investment advice from the independent advisor to the fund, Hymans Robertson LLP. 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. Corporate governance issues, including socially responsible investment and the Council's Investment Strategy Statement
5. Pension fund related legislation
6. Investment management performance monitoring
7. Assistance in the selection of investment managers, custodians and actuaries
8. Review of and advice on alternative benchmarks and setting of performance targets
9. Other ad-hoc advice.

Custodian

When assets are held in segregated portfolios it is necessary to appoint a custodian whose role is to hold title on behalf of the scheme, settle transactions, collect income, vote etc. The Barnet Pension Fund no longer has any segregated mandates, investing only in pooled funds, and as a consequence does not require the services of custodians. JP Morgan is retained to provide limited custody services for the

Schroder's managed funds. The contract with Bank of New York Mellon was terminated when the Newton assets were transferred to the London CIV.

Each pooled fund will have their own custodian who carry out the duties outlined above and may also act as fund administrator, maintaining the shareholders records for each fund. These custodians are appointed and monitored by either the fund sponsor or fund directors depending on the legal structure.

Voting

When investing through funds, voting rights rest with the fund or its appointed fund managers. The committee and officers discuss voting with the fund sponsors but are not able to direct how votes are cast.

3. Management and Financial Performance of the Fund for the Year 2017/18

3.1 Fund Performance

Over the 12 months to 31 March 2018, the Fund returned 3.3% (net of fees) versus a combined benchmark return of 4.7%.

The table below details the Fund's performance for the 12 months, 3 years and 5 years ending 31 March 2018.

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Total Fund	3.3%	5.6%	6.3%
Combined benchmark	4.7%	7.4%	x.x%
Relative	-1.3%	-1.7%	x.x%

Note: Total Fund performance excludes cash holding.

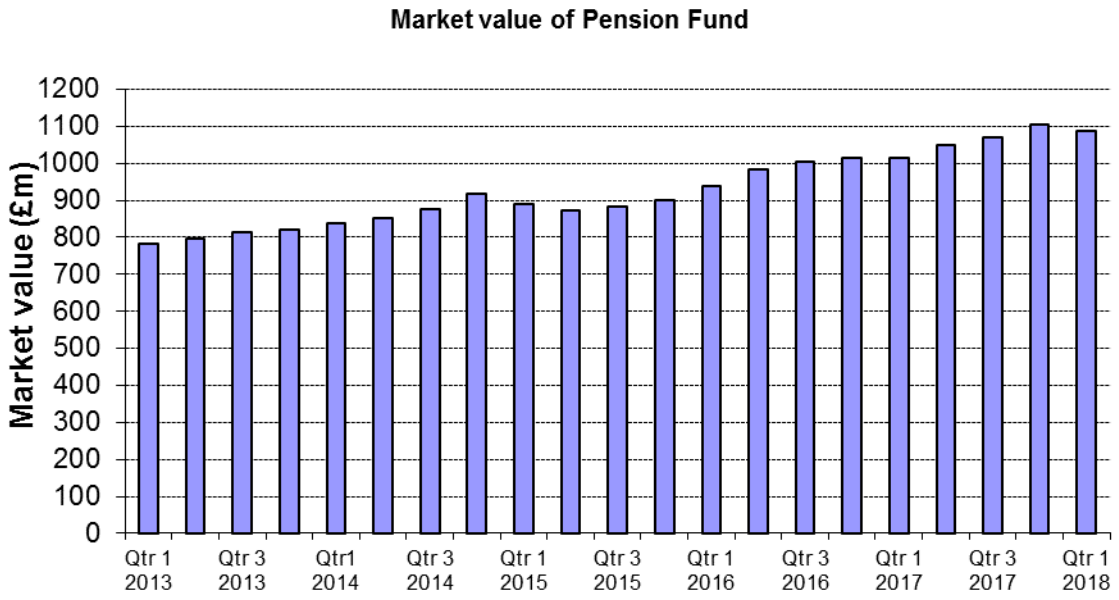
It is important to note that the Scheme's diversified growth and multi-credit mandates are all benchmarked against 'cash plus' performance objectives. These types of performance objectives, e.g. LIBOR + 4% p.a. are broadly in line with a long-term expected return from equities and so are less helpful for measuring short and medium-term performance and in particular the relative performance of the Fund over a 12-month period.

Performance Summary (Net of fees)

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Insight Secured Finance Fund	M&G ABS Alternative Credit Fund	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	-3.9	0.9	-2.3	-0.8	0.5	1.2	0.9	-1.5	1.9	-2.1
	Benchmark	-3.9	1.1	1.1	1.4	1.4	1.1	0.6	-1.2	0.2	-1.2
	Relative	0.0	-0.2	-3.4	-2.1	-0.9	0.0	0.4	-0.3	1.7	-0.9
12 Months (%)	Absolute	5.0	5.0	-1.3	5.2	4.5	N/A	5.0	2.2	2.5	3.6
	Benchmark	5.0	4.5	4.4	7.6	5.4	N/A	2.2	1.3	2.0	4.7
	Relative	0.1	0.4	-5.5	-2.2	-0.9	N/A	2.8	0.9	0.5	-1.0
3 Years (% p.a.)	Absolute	9.2	N/A	1.1	3.6	N/A	N/A	N/A	4.7	N/A	5.9
	Benchmark	8.5	N/A	4.5	7.6	N/A	N/A	N/A	3.6	N/A	7.4
	Relative	0.6	N/A	-3.2	-3.7	N/A	N/A	N/A	1.0	N/A	-1.4
Since Inception (% p.a.)	Absolute	10.0	8.1	3.2	5.1	9.0	4.8	N/A	6.9	3.0	6.6
	Benchmark	9.9	4.5	4.5	7.7	5.5	3.4	N/A	6.5	2.3	7.6
	Relative	0.0	3.4	-1.3	-2.4	3.3	1.4	N/A	0.4	0.7	-0.9

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the investments in the Fund from 31 March 2013 to 31 March 2018 (five years).



3.3 Scheme Administration

Administration of the Pension Scheme is provided by Capita Employee Benefits. The performance table below shows the range of work undertaken.

[Table to be updated]

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 days	100.0%
Letter detailing transfer ***out*** quote	10 days	10 days	75.0%
Process and pay refund	5 days	5 days	91.7%
Letter notifying estimate of retirement benefits	10 days	10 days	98.2%
Letter notifying actual retirement benefits	5 days	5 days	77.0%
Process and pay lump sum retirement grant	5 days	5 days	100.0%
Initial letter acknowledging death of active/deferred/pensioner member	5 days	5 days	92.3%
Letter notifying amount of dependant's benefits	5 days	5 days	92.3%
Calculate and notify deferred benefits	10 days	10 days	91.2%

3.4 Membership of the Pension Fund 2017/18

	31 March 2018	31 March 2017 (restated)
Number of employers with active members	64	65
Number of employees in scheme		
London Borough of Barnet	5,357	5,110
Other employers	3,736	3,719
Total	9,093	8,829
Number of pensioners		
London Borough of Barnet	5,130	5,113
Other employers	2,674	2,607
Total	7,804	7,720
Deferred pensioners		
London Borough of Barnet	6,616	6,441
Other employers	3,622	3,497
Total	10,238	9,938
Total number of members in pension scheme	**27,135**	**26,487**

NB: Membership as at 31 March 2017 has been restated to incorporate late notifications of change of status.

Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector:

[Tables to be checked]

Absolutely Catering 1- Queenswell	Graysons Restaurants	NSL Ltd
Absolutely Catering 2- St James	Green Sky	Oaklodge
BEAT (Barnet Education Arts Trust)	Greenwich Leisure	OCS Group UK Ltd
Birkins - St James School	Hartwig (1)	Personnel & Care Bank
Blue 9 Security Ltd	Hestia	Servest
Capita CSG	Housing 21 (2)	Turners Cleaning
Capita RE	ISS	Viridian Housing
Fremantle Trust (2)	KGB Cleaning	Ridge Crest Cleaning
Go Plant Hire	London Care plc	Hartwig
Goldsborough Homecare	Mears Group	Allied Healthcare

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

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

4. Statutory Statements

The Pension Fund Committee has approved the statutory statements required by scheme regulations. Copies are included with the Annual Report and Accounts:

Governance Compliance Statement	appendix A
Funding Strategy Statement	appendix B
Investment Strategy Statement	appendix C
Communications Policy	appendix D
Pension Administration Strategy	appendix E

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 ("the Fund") Actuarial Statement for 2017/18

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £916 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £339 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.3years
Future Pensioners*	23.9 years	26.5 years

*Aged 45 at the 2016 Valuation.

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

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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

Peter Summers FFA

For and on behalf of Hymans Robertson LLP

4 May 2018

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

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

Opinion on the financial statements of the pension fund

We have audited the pension fund financial statements of the London Borough of Barnet Pension Fund for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the fund account, the net assets statement and the related notes. The framework that has been applied in the preparation of the pension fund financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

This report is made solely to the members of the Council of London Borough of Barnet, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources is responsible for the preparation of the 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 pension fund 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 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 Director of Resources; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information in the Narrative Report 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 pension fund financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of London Borough of Barnet Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

Opinion on other matters

In our opinion the other information published with the audited pension fund financial statements is consistent with the pension fund financial statements.

Leigh Lloyd-Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

xx/xx/2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

AGENDA ITEM 14

Pension Fund Committee

26th June 2018

Title	**Barnet Council Pension Fund – Review of Strategic Asset Allocations**
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Investment Strategy and Structure Considerations (June 2018) [EXEMPT] Appendix B – Investment Strategy Considerations (February 2018) [EXEMPT] Appendix C – Capital Markets Outlook [EXEMPT] Exempt reports - Not for publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 as amended.
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The Committee at its February 2018 meeting discussed proposals from the investment advisor (Hymans Robertson) to amend the investment strategy. The meeting concluded that decisions should be held over until after the Council elections. Hymans have updated their proposals, which are attached, and will discuss at the meeting. No implementation decisions will be requested at the meeting.

Recommendations

That the Pension Fund Committee comment on the investment strategy proposals from the investment advisor.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of the London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 The Committee has at its last two meetings discussed the review of investment strategy (the allocations to the main asset classes – equities, bonds, etc), in particular the role of diversified growth funds. Proposals made at the February 2018 meeting focused on the inclusion of new allocations to property, private equity and emerging market equities. The Committee concluded at the February meeting that any decisions should be held over until after the Council elections.

1.3 Hymans Robertson, investment advisor, have updated their February proposals and will discuss these at the meeting (appendix A). No changes to the fund or to the investment managers will be made as a consequence of the discussion. Instead, based on the Committee's comments, detailed proposals will be brought to the July meeting. Hymans will explain their proposals and the Committee will have time to consider these before decisions are requested at the July meeting.

1.4 Also attached is the February paper on strategy (appendix B). Hymans have requested that this be included as it contains additional background material. The third appendix, capital markets outlook, is a commentary on investment markets and is included for information; it does not form part of the strategy proposals.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (clause 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Various alternatives are discussed in the Hymans Robertson paper.

4. POST DECISION IMPLEMENTATION

4.1 It is not intended that any actions will be taken at this meeting. Detailed proposals will be carried over to the July meeting.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

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

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (clause 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy and publish a statement of any revisions.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement (ISS) and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable.

5.8 **Insight**

5.8.1 Not applicable.

6. BACKGROUND PAPERS

6.1 Pension Fund Committee meeting 26 February 2018, agenda item 10 (Review of Strategic Asset Allocations)

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

	AGENDA ITEM 15 **Pension Fund Committee** **26 June 2018**
Title	**Barnet Council Pension Fund - Performance for the Quarter to 31 March 2018**
Report of	Director of Finance
Wards	n/a
Status	Public Report with Exempt Appendix C - Not for publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 as amended.
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 31 March 2018 Appendix B - Asset Allocation as at 31 March 2018 Appendix C – Review of Investment Managers' Performance for first quarter of 2018 (Hymans Robertson) [**EXEMPT**]
Officer Contact Details	George Bruce, Head of Treasury, CSG George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' performance for the quarter to 31 March 2018, based on the performance monitoring report provided by Hymans Robertson.

Recommendations

That the Committee note:

1. **the performance of the Pension Fund for the quarter to 31 March 2018.**
2. **that Hymans Robertson has downgraded their conviction level for the Newton Real Return Fund.**
3. **Schroders has offered a 0.05% fee reduction.**

1. WHY THIS REPORT IS NEEDED

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

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Financial Officer will carry out any actions considered necessary.

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 ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

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

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.2.2 The valuation of the fund as at 31 March 2018 was £1,087.6 million as detailed on appendix B, a decrease of £15.6 million in the quarter. The chart on appendix A indicates a mostly steady increase in valuations over the last five years. The last quarter was volatile with equity markets giving back some of their gains of 2017. However, since the end of the quarter movements have been upwards and the UK stock markets has achieved new highs.

Performance Summary

5.2.3 The fund's 12-month return (appendix C – page 9) of 3.3% (after fees) is 1.3% below benchmark. Similarly, the three-year return of 5.6% lags the benchmark by 1.7% p.a. The two diversified growth funds continue to miss their benchmark returns by considerable margins over all time periods. The other mandates are either above or in line with benchmarks for three years and since inception.

5.2.4 The best performing asset class is equities in all four reporting periods.

Investment Manager Ratings

5.2.5 Hymans provide ratings for all the investment managers (appendix C – page 3). Most of the mandates are rated at Hymans' highest level of conviction (preferred). The exceptions are the two Schroders' mandates (DGF and Corporate Bonds) which are rated one level lower (positive) and Newton Real Return Fund that was downgraded from 'Positive' to 'Suitable – On Watch'. The primary reason behind this downgrade is due to various team changes including the lead portfolio manager (Iain Stewart) stepping back from his day-to-day duties. Further information is given on page 11 of appendix C. This mandate is monitored as part of pooling by the London CIV who also have the mandate on watch. Both Newton and the London CIV attended the February 2018 Committee meeting.

Fund Manager Transactions

5.2.6 During the quarter £50.2 million was invested as follows:

IFM Infrastructure	£45.4 million ($62.5 million)
Partners 2017 MAC	£3 million
Alcentra Direct European Lending	£1.8 million

There were realisations of £45.8 million:

Schroders Strategic Bond	£25.4 million
Schroders Diversified Growth	£10 million
Newton Real Return	£5 million
Partners 2015 MAC	£5.4 million

5.2.7 The commitment to IFM infrastructure was fully drawn with additional funding to Alcentra European Direct Lending and Partners MAC 2017. The holding in Schroder's strategic bond fund was fully realised with additional sums drawn from the two diversified growth funds. There was also a distribution from the Partners 2015 multi-asset credit fund. The residual inflow was added to cash balances.

5.2.8 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£9.1 million

Partners Multi-Asset Credit 2017 £19.5 million

Allocations v Strategy

5.2.9 Appendix B highlights the portfolio positions compared with benchmark. The most significant differences are a 5.25% underweighting for illiquid alternatives mostly due to the unfunded commitments to European Direct Lending and Partners 2017 Multi-Asset Credit. When called, funds will be drawn from the overweight (4.66%) allocation to diversified growth funds.

Schroders Fee Reduction

5.2.10 The current Schroders fee for the Diversified Growth Fund is 0.55% p.a. Schroders have offered a fee reduction to 0.5%. This will save £70,000 p.a. based on the current fund values. Schroders recognise that compared with the fee rates payable for DGF's managed by the London CIV their fee rate is higher and that without evidence of cost savings Barnet may be challenged on its pooling plans.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.'

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.5.2 Risks around safeguarding of Pension Fund assets are highlighted in the current economic climate following the Brexit decision in the UK. Fund managers need to have due regard to longer term investment success, in the

context of significant market volatility.

5.6 **Equalities and Diversity**

5.6.1 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, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

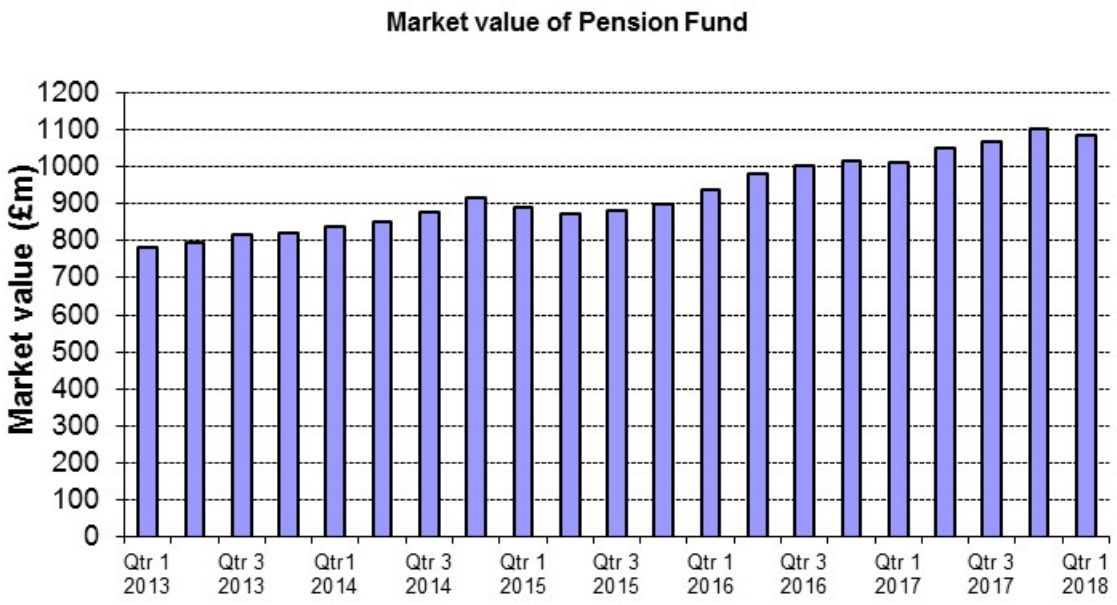
5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

This page is intentionally left blank

Appendix A – Market Value of Investments as at 31 March 2018



This page is intentionally left blank

Appendix B - Asset Allocation to 31 March 2018

LB Barnet Pension Fund
Total value of Externally Managed Investments as at 31.3.2018

	Allocation as at 31.3.2018			Target Allocation	
	£	%		%	£
Equities			**39.14**	**40.00**	
LGIM Global	210,020,109	19.31		20.00	217,518,401
LGIM RAFI	215,637,715	19.83		20.00	217,518,401
Diversified Growth			**24.66**	**20.00**	
Schroder	142,284,217	13.08		10.00	108,759,200
Newton	125,947,542	11.58		10.00	108,759,200
Multi Credit Liquid			**10.43**	**11.00**	
Schroder Strategic Bonds	0	0.00		0.00	0
Baring Global High Yield	37,555,948	3.45		3.50	38,065,720
Alcentra	34,369,200	3.16		3.50	38,065,720
Insight Secured Finance	41,527,538	3.82		4.00	43,503,680
Corporate Bonds			**10.78**	**10.00**	
Schroder	117,251,890	10.78		10.00	108,759,200
Illiquid Alternatives			**13.75**	**19.00**	
Alcentra	26,724,062	2.46		4.00	43,503,680
Partners Group	43,623,904	4.01		7.00	76,131,440
M&G Lion Credit Opportunities	30,976,701	2.85		3.00	32,627,760
IFM Global Infrastructure	48,211,178	4.43		5.00	54,379,600
Cash	13,462,000	1.24	**1.24**	0.00	0
Total	**1,087,592,004**	**100.00**		**100.00**	**1,087,592,004**

This page is intentionally left blank

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank