Putting the Community First

BARNET LONDON BOROUGH

MEETING **PENSION FUND COMMITTEE**
DATE AND TIME **THURSDAY 1 SEPTEMBER 2011** **AT 7.00PM**
VENUE **HENDON TOWN HALL, THE BURROUGHS, HENDON NW4 4BG**

TO: MEMBERS OF THE COMMITTEE (Quorum 3)

Chairman: Councillor Anthony Finn
Vice Chairman: Councillor Mark Shooter

Councillors:

Alex Brodkin	Jack Cohen	Geof Cooke	Susette Palmer

Substitute Members:

Rowan Turner	Ansuya Sodha	Lord Palmer
Andrew Harper	Geoff Johnson	

You are requested to attend the above meeting for which an agenda is attached.
Aysen Giritli – Head of Governance

Business Governance contact: Maria Lugangira 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

To view agenda papers on the website: http://committeepapers.barnet.gov.uk/democracy

CORPORATE GOVERNANCE DIRECTORATE

ORDER OF BUSINESS

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3.	DECLARATION OF MEMBERS' PERSONAL AND PREJUDICIAL INTERESTS	-
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5.	MEMBERS' ITEMS (if any)	-
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10.	Update on Admitted Body Organisations Issues and Revised Monitoring Arrangements	55 - 60
11.	MOTION TO EXCLUDE THE PRESS AND PUBLIC:- That under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act (as amended):	
X1.	ANY OTHER EXEMPT ITEMS THAT THE CHAIRMAN DECIDES ARE URGENT	

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AGENDA ITEM: 6 Page nos. 1 - 28

Meeting	Pension Fund Committee
Date	1 September 2011
Subject	**Barnet Council Pension Fund Performance for Quarter March 2011 to June 2011**
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter March 2011 to June 2011

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Nirpal Bharaj, Interim Head of Treasury and Pensions
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Property Unit Trust Portfolio Appendix B – Pension Fund Market Value of Investments Appendix C – Image Report Quarterly Update 30 June 2011
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Nirpal Bharaj – Interim Head of Treasury and Pensions Tel: 0208 359 7119

1. RECOMMENDATIONS

1.1 That, having considered the performance of the Pension Fund for the quarter to June 2011, the Committee instruct the Deputy Chief Executive and Chief Finance Officer to address any issues that it considers necessary.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th September 2007 – Minute 64.

2.2 Pension Fund Committee – 26 March 2008 – Dec. 1 – Exempt

2.3 Pension Fund Committee – 10 September 2008 – Dec 11 & exempt.

2.4 Pension Fund Committee – 4 February 2010

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.

4. RISK MANAGEMENT ISSUES

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

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

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation

5.1 Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 The financial issues are set out in the body of the report.

7. LEGAL ISSUES

7.1 This report is based on the provisions of (i) the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238) which have their basis in the Superannuation Act 1972.

7.2 Other statutory provisions are referred to in the body of this report.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

9 BACKGROUND INFORMATION

9.1 History

9.1.1 The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds. The London Borough of Barnet's Pension Scheme Fund (The Fund) is set up under the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008. The Regulations include provision for retirement pensions, grants on age or ill-health retirement, short service grants, death grants, injury allowances and widows' pensions.

9.2 Tax Status

9.2.1 The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the fund is not able to reclaim the tax on UK dividends.

9.3 Operation and Administration

9.3.1 The Fund is operated and administered by the London Borough of Barnet. Day to day investment management of the Fund's assets is delegated to expert investment advisors in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The Fund is managed on a balanced (excluding property and cash) basis. The current fund managers are Schroder Investment Management Ltd and Newton Investment Management Limited.

9.3.2 At the Pension Fund Committee meeting held on the 4th of February 2010, the Committee agreed to implement a 70/30 diversified growth and bonds portfolio using the existing managers. Implementation of the new investment strategy commenced on Friday the 19th of November and is now fully completed.

9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from JLT Investment Consulting.

9.4 **Scheme Governance**

9.4.1 The Council is statutorily responsible for the management of the Fund and for making strategic decisions that govern the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Fund Committee. The Pension Fund Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant third parties; and establishing investment objectives and policies.

The Fund's investment objectives and policies are published in a Statement of Investment Principles, details of this statement can be found on the Council's Web Site (www.barnet.gov.uk/pensions/pensions-investments.htm).

9.5 **Funding**

9.5.1 The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The last triennial valuation took place as at 31 March 2010 and the final report has been published on the Council's website.

9.6 **Investment Performance & Benchmark**

9.6.1 The Fund's overall performance is measured against a liability benchmark return and includes internal property.

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

9.6.3 The performance of the Fund including manager performance is outlined in Appendix C.

9.6.4 The value of the fund at 30 June 2011 was £686.84m compared to £662.82m at 31 March 2011. The graph in Appendix B shows how the market value of the fund has appreciated since 2005.

9.6.5 Overall fund performance was 0.9% over the quarter, underperforming the benchmark of 2.6% as shown in the table below:

Total Scheme Performance

	Portfolio Return Q2 2011 %	Benchmark Return Q2 2011 %
Total Scheme	0.9	2.6
Growth Portfolio		
Growth v Global Equity	0.6	1.2
Growth v RPI+5% p.a.	0.6	2.4
Growth v LIBOR + 4% p.a.	0.6	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	1.5	2.3
Bond v Index-Linked Gilts (> 5 yrs)	1.5	4.5

The Growth portfolio excludes internal Property and L&G equities, Global equity 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index

9.7 Internally managed funds

9.7.1 The property unit trust portfolio accounts for 3.5% of the total market value of the fund and was valued at £23.4m as at the 30th of June 2011. Appendix A shows the value of the individual units held in the portfolio and the movement in market value since the last quarter.

9.7.2 The performance of property fund is measured against the IPD All Properties Index, performance for the last quarter and the 12 months to 30 June 2011 are detailed in Appendix C.

10. LIST OF BACKGROUND PAPERS

10.1 None.

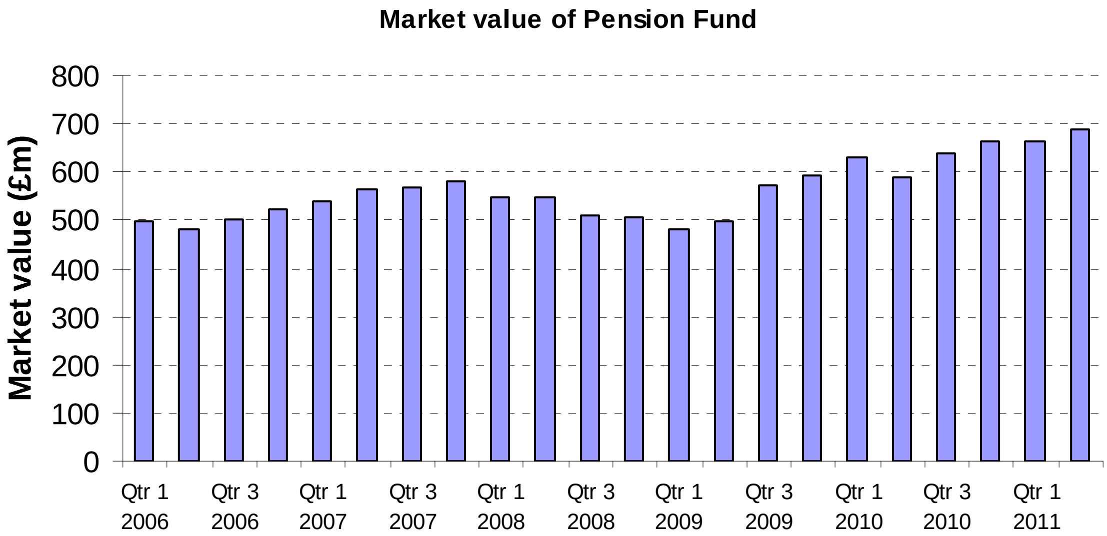
Legal: SS
CFO: JH

Appendix A:

Property Unit Trust Portfolio

Description	Holding	Book Value £	Bid £	Market Value 30 June 2011 £	Market Value 31 March 2011 £
Rockspring Hanover Property Unit Trust	206	1,868,514	11,760	2,422,560	2,405,050.00
Hermes Property Unit Trust	2,002,700	5,891,532	4.407	8,825,899	8,711,745.00
Blackrock UK Property Fund	180,300	4,987,991	33.7443	6,084,097	6,055,501.71
Schroder Exempt Property Unit Trust	190,433	4,954,405	31.65	6,027,204	5,987,213.52
Legal & General Index Tracker Fund	11,461,175	25,000,000	298.109	34,166,793	34,052,869.00
Legal & General Active Corporate Bond – All Stock-Fund	8,202,074	11,000,000	171.944	14,102,974	13,788,507
Cash					
Property Unit Trusts				5,745,079	21,639,872
Total		**53,702,442**		**77,374,606**	**92,640,758**

Appendix B:



Market value of Pension Fund
Market value (£m)
800
700
600
500
400
300
200
100
0
Qtr 1 2006
Qtr 3 2006
Qtr 1 2007
Qtr 3 2007
Qtr 1 2008
Qtr 3 2008
Qtr 1 2009
Qtr 3 2009
Qtr 1 2010
Qtr 3 2010
Qtr 1 2011

IMAGE Report - Quarterly Update
30 June 2011

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

Jignasha Patel, MMath (Hons) IMC
Investment Consulting Analyst

Julian Brown, PhD IMC
Investment Consultant
August 2011

Section One – Market Update

Introduction

This summary covers the key market data for the three months to the end of June 2011.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	1.9	25.6
Overseas Equities	0.2	21.5
USA	0.0	21.8
Europe	2.6	29.5
Japan	0.2	5.4
Asia Pacific (ex Japan)	-0.1	21.3
Emerging Markets	-1.8	17.5
Property	2.1	9.1
Hedge Funds	-0.4	12.5
Commodities	-8.1	17.5
High Yield	1.1	10.1
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	2.3	2.8
Index-Linked Gilts (>5yrs)	4.5	9.7
Corporate Bonds (>15yrsAA)	1.2	3.5
Non-Gilts (>15 yrs)	1.3	4.3

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	0.2	7.3
Against Euro	-2.0	-9.3
Against Yen	-2.4	-2.1

Yields as at 30 June 2011	% p.a.
UK Equities	2.99
UK Gilts (>15 yrs)	4.22
Real Yield (>5 yrs ILG)	0.48
Corporate Bonds (>15 yrs AA)	5.54
Non-Gilts (>15 yrs)	5.53

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.1	0.1
Index-Linked Gilts (>5 yrs)	-0.2	-0.2
Corporate Bonds (>15 yrs AA)	0.0	0.2
Non-Gilts (>15 yrs)	0.0	0.1

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.2	5.0
Price Inflation - CPI	1.1	4.2
Earnings Inflation *	0.9	2.4

* is subject to 1 month lag

Statistical highlights

- The rate of CPI inflation rose from 4.0% in March to 4.2% in June, and has overshot the Bank of England's 2% target for 34 of the past 40 months. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter.
- UK retailers continued to suffer as consumer spending falls; Thorntons and Carpetright both announced their intention to close stores. Meanwhile TJ Hughes seems likely to go into administration following Jane Norman, Homeform and the furniture firm Habitat.
- The Office for National Statistics ("ONS") reported that the number of people unemployed fell by 88,000, to 2.43 million, in the three months to April. Since January, the unemployment rate has fallen from 8% to 7.7%.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets.
- The pound depreciated against the Euro and Yen over the quarter but was little changed against the US Dollar. Fears about the pace of the UK's economic recovery and the likelihood that interest rates will remain at a low level, have unsettled the currency markets.
- The FTSE All-Share Index achieved a positive return over the quarter of 1.9%, despite moderating economic data, a sudden increase in the number of profit warnings, heightened anxiety over the potential risk of default in Greece and the uncertainty regarding the strength of the global economic recovery. The quarter saw sharp intra-day moves at the market and stock level and unseasonably low liquidity. Although the equity market rose sharply in the latter part of June after the Greek Parliament approved austerity measures, which gave the positive return for the quarter as a whole, it has subsequently lost most of these gains as the problems with Italy became the focus of attention.
- Overall, equities had a somewhat muted quarter with the Asia Pacific ex Japan and Emerging Markets regions again producing negative returns in sterling terms. The US and Japanese markets were little changed over the quarter and the Europe ex UK produced return of 2.6%. The performance of global equities over the quarter was largely impacted by falls in commodity prices, which achieved a return of -8.1% over the quarter and concerns about the stalling global economic recovery.
- Gilts produced a return of 2.3% over the quarter and corporate bonds produced a return of 1.2%.

Section Two – Total Scheme Performance

Fund values

		Start of Quarter		Net New Money	End of Quarter	
Manager	Fund	Value £	Proportion of Total %	£	Value £	Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	208,942,483	31.5	6,303,819	217,840,227	31.7
Schroder Investment Management Limited (Schroder)	Diversified Growth	207,368,303	31.3	6,300,000	213,734,238	31.1
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	34,052,869	5.1	-	34,166,793	5.0
Newton	Corporate Bond	87,106,978	13.2	2,701,637	91,427,026	13.3
Schroder	All Maturities Corporate Bond	88,398,463	13.3	2,700,000	92,213,436	13.4
L&G	Active Corporate Bond – All Stocks	13,788,507	2.1	-	14,102,974	2.1
Internal	Property	23,159,510	3.5	-	23,359,761	3.4
Internal	Cash	0	0	-		
ASSET SPLIT						
Bond assets		189,293,948	28.6	-	197,743,436	28.8
Growth assets		473,523,165	71.4	-	489,101,019	71.2
TOTAL		**662,817,113**	**100.0**	**-**	**686,844,455**	**100.0**

Source: Investment managers, bid values. Please note that the internal property amount is based on bid values.

Total Scheme Performance

	Portfolio Return Q2 2011 %	Benchmark Return Q2 2011 %
Total Scheme	0.9	2.6
Growth Portfolio		
Growth v Global Equity	0.6	1.2
Growth v RPI+5% p.a.	0.6	2.4
Growth v LIBOR + 4% p.a.	0.6	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	1.5	2.3
Bond v Index-Linked Gilts (> 5 yrs)	1.5	4.5

The Growth portfolio excludes internal Property and L&G equities, Global equity 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index

The Bond portfolio excludes L&G corporate bond fund.

The total scheme return is shown against the liability benchmark return, and includes the internal property fund. The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder corporate bond portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

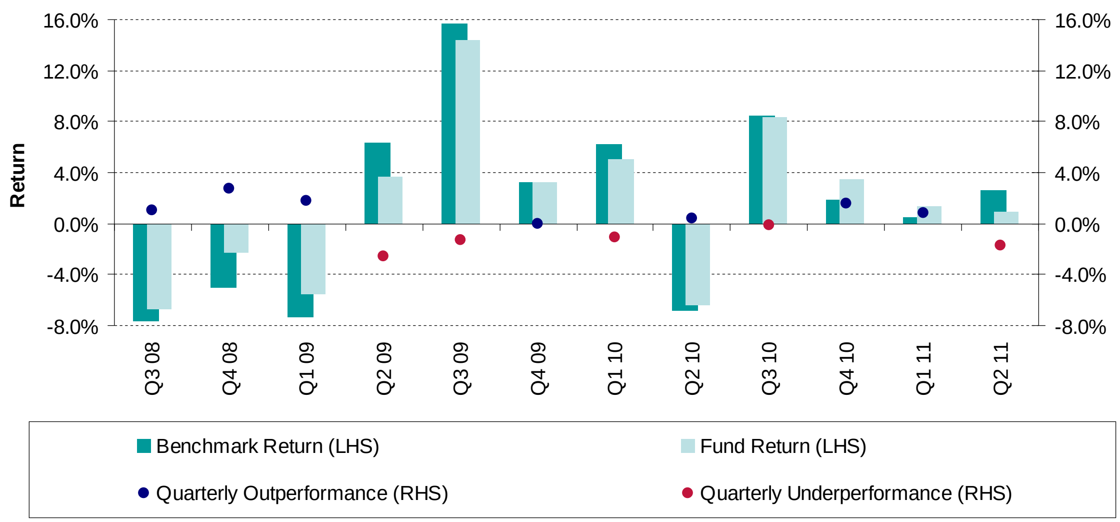
Individual Manager Performance

Manager/Fund	Portfolio Return Q2 2011 %	Benchmark Return Q2 2011 %
Newton Real Return	1.2	1.1
Schroder Diversified Growth	0.0	2.4
L&G – Overseas Equity	0.3	0.2
Newton Corporate Bond	1.8	1.5
Schroder Corporate Bond	1.2	1.9
L&G – Corporate Bond	2.3	1.9
Internal Property	0.9	2.1

Source: Investment managers, Thomson Reuters.

The above table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks. The internal property portfolio is compared to the IPD UK Monthly index.

Total Scheme - performance relative to benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 0.9% over the quarter and underperformed the liability benchmark return of 2.6%.

The chart also shows the historical returns against the WM Universe for information. The new strategy against the liability benchmark is effective from 1 January 2011.

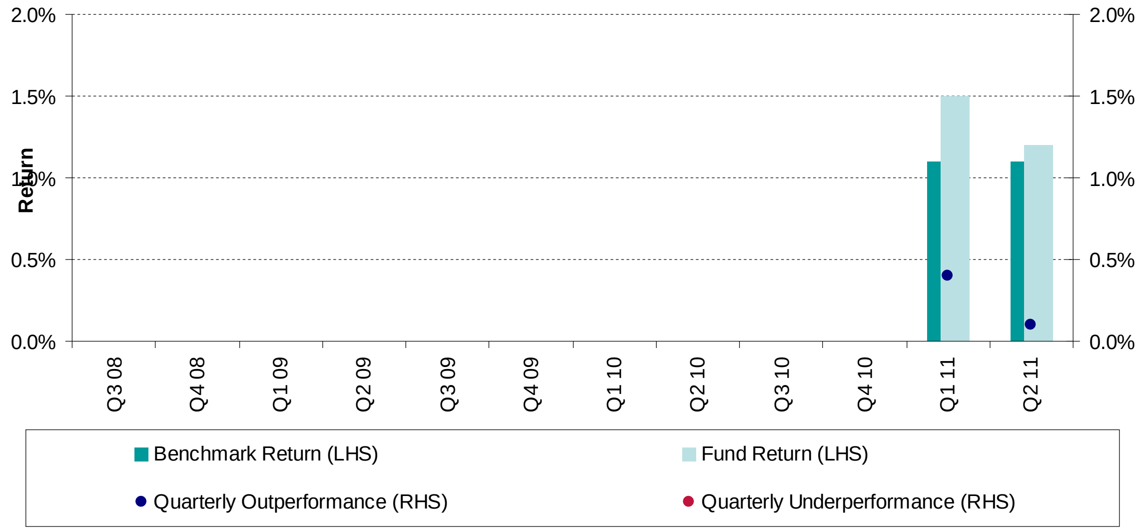
The absolute return was generated by positive returns across all managers and portfolios, except for the Schroder Diversified Growth Fund which produced a zero return over the quarter.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 0.6%, due to the flat performance of the Schroder DGF. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio also returned less than both of the LIBOR +4% and the RPI +5% returns.

The Bond Portfolio, comprising the two corporate bond portfolio's managed by Newton and Schroder, underperformed both the Over 15 Year Gilts Index (-0.8%) and the Over 5 Years Index Linked Gilts Index (-3.0%). During the quarter, although bonds in general produced positive returns, government bonds and index linked gilts outperformed corporate bonds.

Section Three – Manager Performance

Newton - Real return fund- performance relative to benchmark

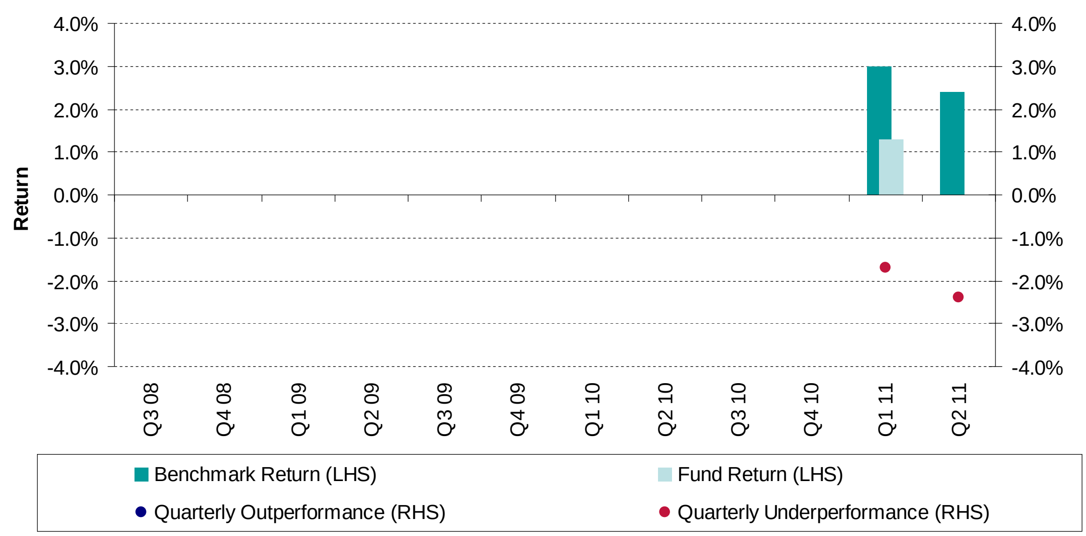


Source: Investment manager.

The portfolio return was 1.2% compared to its LIBOR+4% p.a. benchmark return of 1.1% outperforming by 0.1%. In comparison to a notional 60/40 global equity benchmark return the fund performed in line with it.

The fund performed well over a difficult quarter keeping pace with global equities. Defensive sectors such as pharmaceuticals and telecommunications performed well over the quarter. Commodities suffered over the quarter - although the price of gold rose, the equity holdings in mining companies detracted from performance. The bond holding within the fund also benefitted, most notably the Norwegian government bonds. Currency proved positive for performance particularly due to the strengthening of the Norwegian krone.

Schroder - Diversified growth fund - performance relative to benchmark



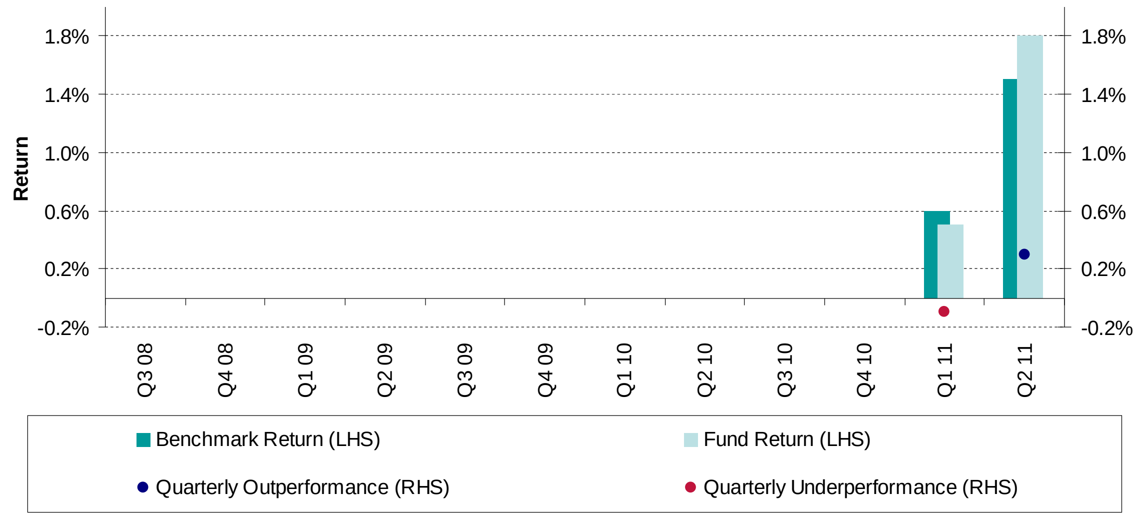
Source: Investment managers.

The portfolio return was 0.0% compared to its RPI+5% p.a. benchmark return of 2.4% underperforming by 2.4%. Unlike the Newton Real Return Fund, the Schroder DGF failed to keep pace with global equities. We note the low allocation of the Schroder DGF to UK equities which produced a positive return over the quarter and a considerable allocation to commodities which produced a negative return over the quarter.

Asset allocation for growth managers: movement over the quarter

	Q1 '11 Newton %	Q1 '11 Schroder %	Q2 '11 Newton %	Q2 '11 Schroder %
UK Equities	17.5	3.2	17.9	3.0
Overseas Equities	40.0	40.5	42.1	44.4
Fixed Interest	4.4	-	4.1	0.0
Corporate Bonds	12.6	-	10.8	0.0
High Yield	-	26.7	-	24.5
Private Equity	-	3.8	-	3.8
Commodities	4.1	16.8	3.0	15.5
Absolute Return	-	3.1	-	3.0
Index-Linked	2.3	-	2.3	0.0
Property	-	3.0	-	2.9
Cash/Other	19.1	2.9	19.8	2.9

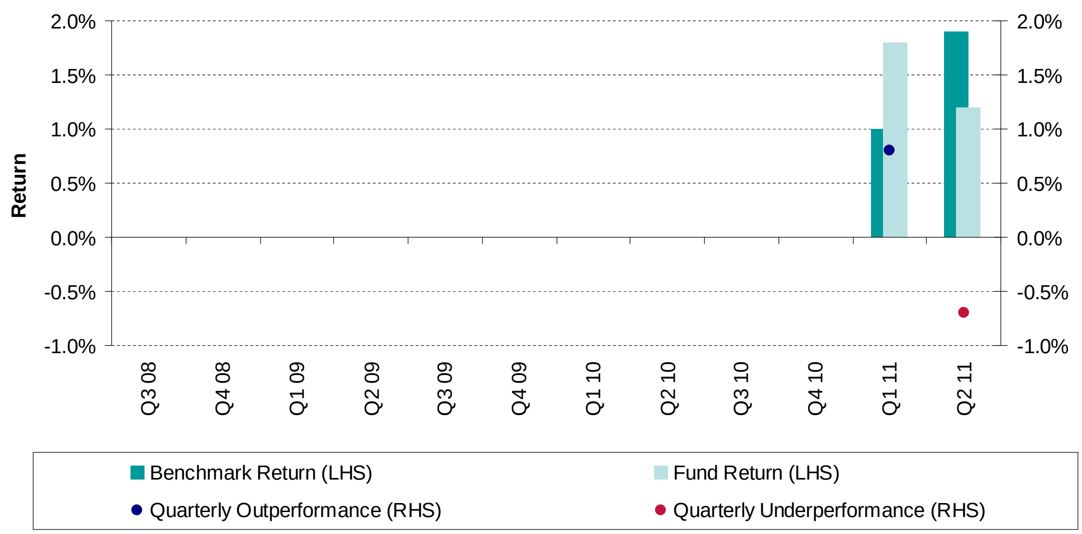
Newton - Corporate bond portfolio - performance relative to benchmark



Source: Investment managers

The Newton Corporate Bond portfolio outperformed its benchmark marginally, returning 1.8% versus the benchmark return of 1.5%. Performance was driven by positive returns from both corporate bonds and gilts over the quarter.

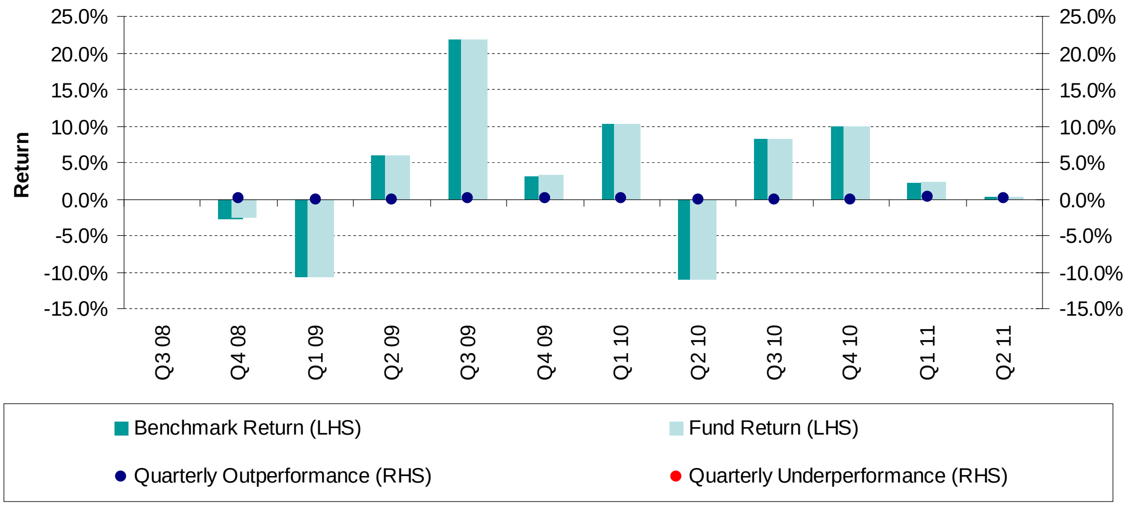
Schroder - All maturities corporate bond portfolio - performance relative to benchmark



Source: Investment managers

The Schroders Corporate Bond portfolio underperformed the benchmark by 0.7%, returning 1.2%. Performance was driven by an overweight exposure to credit, more specifically to lower rated bonds and subordinated financials, which underperformed both higher rated bonds and gilts which rallied as investors sought "safer" investments.

L&G – Equities



Source: Investment manager.

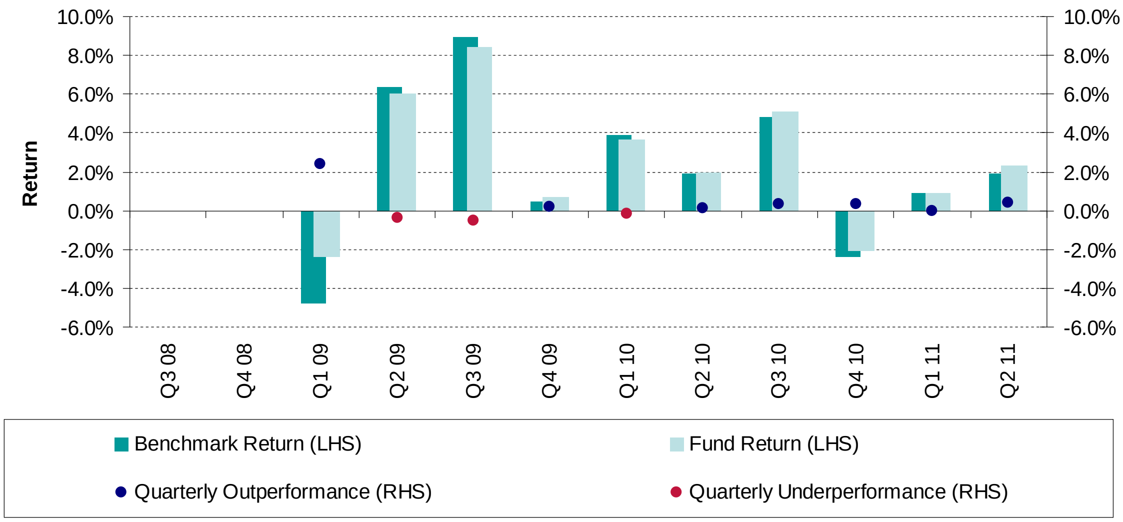
The first investment in the L&G World (ex UK) Equity Index Fund was made on 23 September 2008.

Over the second quarter of 2011, the fund return was 0.3% marginally outperforming the benchmark return of 0.2%; all the equity regions performed much in line with their respective benchmarks.

Over the year, the fund return was 22.1% compared with the benchmark return of 22.0%.

This fund has achieved its target of matching the relevant indices over both the quarter and year.

L&G – Fixed Interest



Source: Investment manager.

The first investment in the L&G Active Corporate Bond – All Stocks Fund was made on 17 December 2008.

Over the second quarter of 2011, the fund return was 2.3% outperforming the benchmark return of 1.9%.

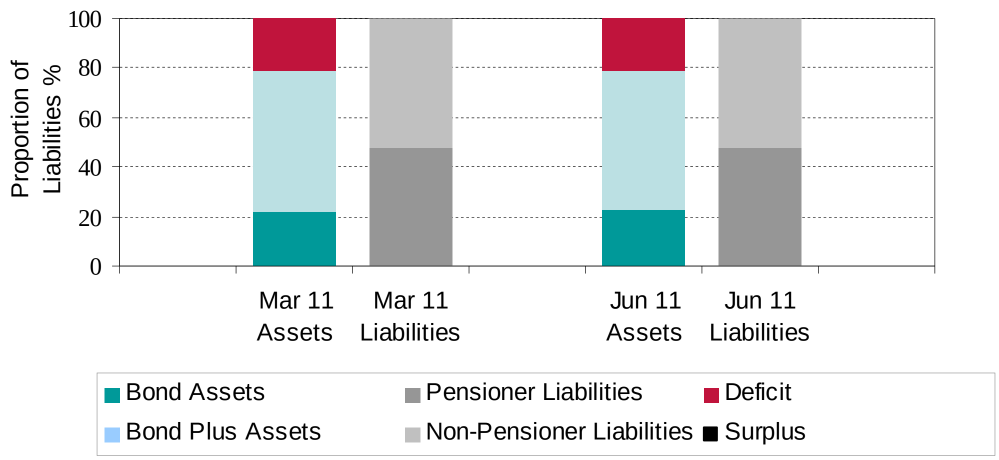
The fund retains an overall defensive bias, and maintains the overweight position in collateralised debt issues which proved positive for performance.

Over the year, the fund has performed well with a return of 6.1% compared with the benchmark return of 5.2%.

Section Four – Consideration of Funding Level

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

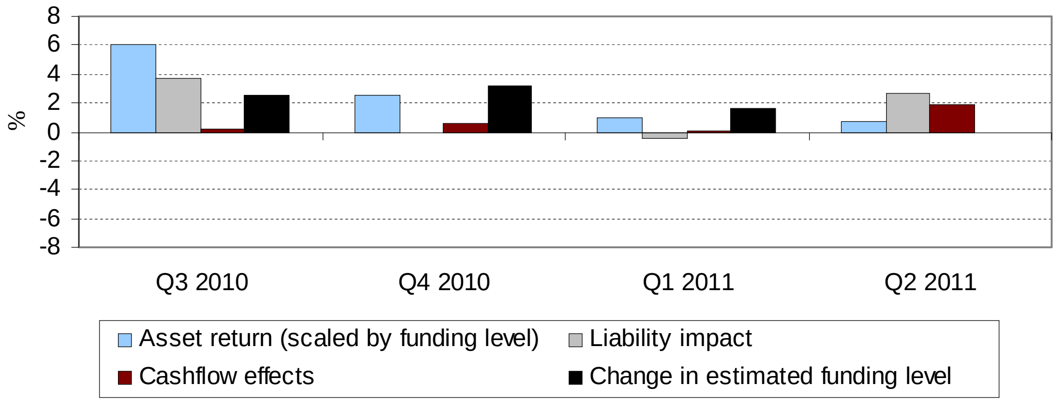
Allocation to Bond and Bond Plus assets against estimated liability split



The chart above shows the allocation of the Scheme to Bond and Bond Plus assets (see appendix for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 2. These calculations do not take account of unexpected changes to Scheme membership and should not be construed as an actuarial valuation. However, by showing approximations to these liabilities, this chart should assist the Panel in making informed decisions on asset allocation.

The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities; a mismatch that leaves the Scheme exposed to both market and interest rate risk.

Scheme performance relative to estimated liabilities



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

Long-dated government bond yields fell (i.e. government bond prices rose) over the quarter and this is expected to have increased the value of the liabilities (all else being equal).

In addition, the value of the Scheme's assets rose over the quarter but by less than the estimated rise in the value of the liabilities which has led to a marginal deterioration in the funding level.

Therefore, based on movements in the investment markets alone, this quarter has seen a slight decrease in the Scheme's estimated funding position with an increase in the funding deficit.

Please note that we have made an adjustment within the cashflow effect to account for removing the cash previously held as part of the property portfolio so as to obtain a true estimate of the movement of the funding level. The change in the estimated funding level over the quarter was minimal.

Section Five – Summary

Overall this has been a mixed quarter for the Scheme.

In absolute terms, the Scheme's assets produced a return of 0.9% over a difficult quarter. All the funds produced positive absolute performances except for the Schroder DGF which produced a return of 0.0%.

In relative terms, the Scheme underperformed the liability benchmark return of 2.6%.

The Schroders Diversified Growth Fund, the Schroder Corporate Bond Fund and the Internal Property all underperformed their respective benchmarks. All other funds outperformed their respective benchmarks.

The combined Growth portfolio marginally underperformed a notional 60/40 global equity return due to the flat performance of the Schroder DGF. The Newton real return fund performed in line with this. In a rising equity market it is usual to expect DGF funds to underperform equities.

The combined Bond Portfolio underperformed the two indices that will be used to measure the duration portfolio as government and index-linked bonds rose more in value than corporate bonds.

Over the quarter it is anticipated, other things being equal, that investment conditions had a slight negative impact on the Scheme's funding level.

Appendix

Liability benchmarking

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

Summary of current funds

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

Summary of current funds (continued)

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

Glossary of Terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Bond plus asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the bond plus assets may not.
CAPS	A performance monitoring service provided by Russell Mellon. This shows manager by manager performance on a fund by fund basis, including median manager returns. CAPS use a form of time-weighted rate of return.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Equity risk premium	The additional return expected from equities over and above that expected from UK Gilts. An equity risk premium is given as an example and other risk premia also exist.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
IMAGE Median	The return from the median manager in the IMAGE survey.
IMAGE Universe	All the managers who are included in the IMAGE survey of pooled balanced funds.
Market stats indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE World Index Series (and regional sub-indices) UK Gilts: FTSE-A Gilt >15 Yrs Index Index Linked Gilts: FTSE-A ILG >5 Yrs Index Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index Property: IPD Property Index High Yield: ML Global High Yield Index Commodities: S&P GSCI GBP Index Hedge Funds: CSFB/Tremont Hedge Fund Index Cash: 7 day London Interbank Middle Rate Price Inflation: Retail Price Index (excluding mortgages), RPIX Earnings Inflation: Average Earnings Index

Market forecast committee	An internal committee at HSBC Actuaries that meets each quarter to set long term return expectations on different asset classes using fund manager surveys and wider economic data from the investment market.
Market volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money-Weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund *less* Return on Index or Benchmark.
Scheme investments	Refers only to the invested assets, including cash, held by your investment managers.
Standard deviation	A statistical measure of volatility. We expect returns to be within one standard deviation of the benchmark 2 years in every 3. Hence as the standard deviation increases so does the risk.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Time-Weighted rate of return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (gross redemption yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the discounted value of future cashflows.
3 Year return	The total return on the fund over a 3 year period expressed in percent per annum.

Manager Research Tier Rating System

Tier	Definition
Tier One	Significant probability that the manager will meet the client's objectives.
Tier Two	Reasonable probability that the manager will meet the client's objectives.
Tier Three	The manager may reach the client's objectives but a number of concerns exist.
Tier Four	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns.
Tier Five	Significant concerns exist and it is highly probable that the manager will not meet client's objectives.

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AGENDA ITEM: 7 Page nos. 29 - 30

Meeting	Pension Fund Committee
Date	1 September 2011
Subject	**One Barnet and the London Borough of Barnet Pension Fund**
Report of	Deputy Chief Executive
Summary	A presentation will be given to the Committee. This will outline the in principle approach to pensions when dealing with the transfer of employees to a new employer in the context of the One Barnet Programme.

Officer Contributors	Jacquie McGeachie, Assistant Director of Human Resources
Status (public or exempt)	Public
Wards affected	All
Enclosures	None
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Jacquie McGeachie, Assistant Director Human Resources

1. RECOMMENDATIONS

1.1 That the Committee note the content of the presentation to be provided to the Committee.

2. RELEVANT PREVIOUS DECISIONS

2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Maintaining the integrity of the Pension Fund supports the corporate priority of getting the best value from our resources.

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 The presentation to the Committee deals with the financial implications in respect of the Pension Fund.

6.2 This report is just for information, there are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 No specific legal issues, this report is just for information.

8. CONSTITUTIONAL POWERS

8.1 No specific constitutional issues, this report is just for information.

9. BACKGROUND INFORMATION

9.1 A presentation will be given to the Committee. This will outline the in principle approach to pensions when dealing with the transfer of employees to a new employer in the context of the One Barnet Programme.

Legal: SS
CFO: JH

AGENDA ITEM:8 Page nos. 31 – 37

Meeting	Pensions Fund Committee
Date	1 September 2011
Subject	**Establishment of a Local Authority Trading Company for the Provision of Adult Social Care services incorporating Barnet Homes**
Report of	Director of Adult Social Care and Health
Summary	This report informs the Committee of the 24 May 2011 Cabinet Resources Committee approval of the Business Case for the creation of a Local Authority Trading Company (LATC) incorporating Barnet Homes and seeks approval for the LATC to become a member of the Local Government Pension Scheme through Designated Body status. The committee is also asked to note the retention of Scheduled Body status for the Arms Length Management Organisation (ALMO), Barnet Homes within the proposed structure.

Officer Contributors	Richard Harrison, Project Manager
Status (public or exempt)	Public
Wards affected	All
Enclosures	None
For decision by	Pensions Fund Committee
Function of	Executive
Reason for urgency / exemption from call-in	Not applicable

Contact for further information: Richard Harrison, Project Manager, 020 8359 2109.

1. RECOMMENDATIONS

1.1 That the Committee note 24 May Cabinet Resources Committee approval to establish a Local Authority Trading Company (LATC) incorporating Barnet Homes for the transfer of Adult Social Services in house provision;

1.2 That the Committee note that the LATC will be 100 per cent owned by the Council;

1.3 That the Committee rescind the previous decision from 21 March 2011 Committee;

1.4 That the Committee approve admission to the Local Government Pension Scheme under Designated Body Status for the LATC Holding Company and Adult Social Care subsidiary; and

1.5 That the Committee note the proposal for Barnet Homes to retain Scheduled Body Status subject to confirmation from the Department for Communities and Local Government (CLG) and the criteria under the LGPS for Scheduled Body is still met.

2. RELEVANT PREVIOUS DECISIONS

2.1 The Council views Barnet Homes as a potential vehicle for providing additional services on its' behalf, as well as extending its role as a provider of housing related services. The Housing Strategy was agreed by Cabinet on 12 April 2010 (decision item 8), and we will explore options for progressing this.

2.2 The One Barnet Scrutiny Panel considered a presentation outlining the key points of the options appraisal on 11 August 2010 (decision item 10). The Panel supported the option for Adult Social Services to be transferred to a Local Authority Trading Company however they wanted the long-term future of Barnet Homes be carefully assessed when exploring options for establishing a Local Authority Trading Company which incorporated Barnet Homes.

2.3 On 29 November 2010, Cabinet approved the initiation of the development of a full business case (decision item 6), to support the findings of the high level options appraisal, which recommended the transfer of Adult Social Services in house provision and staff to a newly established Local Authority Trading Company (LATC) and, subject to legal constraint, incorporating Barnet Homes. Cabinet requested that the report be brought to Cabinet on the viability of the recommendation upon completion of the full business case.

2.4 At 21 March 2011 Pension Fund Committee (decision item 6), the following was resolved:

1. That the Pensions Fund Committee note the proposal to establish a Local Authority Trading Company (LATC) incorporating Barnet Homes for the transfer of Adult Social Services in house provision and staff.
2. That the Pensions Fund Committee note that it is proposed the LATC is 100% owned by the Council and further agreement will be sought from the Cabinet Resources Committee (CRC) that should the LATC enter financial difficulty, staff will transfer back to the Council.
3. That the Pension Fund Committee note the Designated Body Status proposed for the LATC.

4. That the Pension Fund Committee approve in principle Admission Body Status in the event the LATC does not meet the Designated Body Status criteria.

2.5 At 24 May 2011 Cabinet Resources Committee approved the business case for the Adults In-House Service Review (decision item 12). This has enabled the Council, to begin contract negotiations with the LATC Shadow Board as part of the due diligence process. The Committee requested that Council officers continue to take specialist taxation advice to safeguard the Council. The Cabinet Resource Committee approval confirms the proposed LATC structure as presented at 21 March 2011 Pensions Fund Committee.

2.6 It is noted that Department for Communities and Local Government advice may impact the Arms Length Management Organisation (ALMO), Barnet Homes current Scheduled Body Status.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The proposals to establish a Local Authority Trading Company ('LATC') supports the achievement of the Corporate Plan objective of 'Better Services with Less Money' through establishing alternative service delivery bodies who are better placed to respond to changing market conditions. As the workforce of the Council changes it is necessary to ensure that the integrity of the Pension Fund is maintained and that that staff transferring out of the Council are offered the opportunity to remain within the Local Government Pension Scheme (LGPS) or join a pension scheme that provides benefits certified by the Government Actuary's Department (GAD) as being broadly comparable to those benefits provided by the public sector scheme in which the transferring employees formerly participated.

3.2 The proposal to establish a LATC to manage in-house adult social care services supports the objective of "a new relationship with citizens" and the corporate plan priority of 'Sharing Opportunities and Sharing Responsibilities.' This change will promote choice and independence for residents as service users will be able to purchase services currently managed by the Council with a Direct Payment.

3.3 In turn this will leave the Council free to focus on becoming a commissioner of Adult Social Services as the core business of the authority in order to ensure a relentless drive for efficiency with the services through commissioning arrangements.

4. RISK MANAGEMENT ISSUES

4.1 <u>LATC Holding Company and Adult Social Care Subsidiary</u>
The ongoing viability of the Pension Fund is dependent on maximising pension fund membership. The employees of the LATC who become members of the Local Government Pension Scheme (LGPS) will pay pension contributions as specified under the Regulations.

4.2 All scheduled/designated or admission bodies are subject to reviews and actuarial assessments to ensure compliance with regulations and the maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the Pension Fund. The actuarial assessment is carried at the commencement of the contract and at each triennial valuation.

4.3 Trowers & Hamlins LLP has confirmed that the LATC will meet the criteria for Designated Body as stated in section 7.2. Therefore the LATC will not be required to secure a pension bond and should the LATC cease trading, any pension fund deficit that may be incurred will remain with this Authority.

4.4 The LGPS provides for early payment of pension benefits on compulsory early retirement or redundancy. As an employer in the pension fund, the LATC will take responsibility for any potential strain on the fund resulting from any such early retirements. Payments will be made to the Pension Fund by the LATC as and when required, should there be any pension strain or contribution issues as a consequence of any decisions made by the LATC.

4.5 Barnet Homes

It is proposed that Barnet Homes will retain its status as a schedule body. However, having regard to the need for approval/determination from CLG in light of Barnet Homes ceasing to be a direct party to the housing management agreement (see section 7.4.3 below), in the event that the criteria for schedule body status are not met, it will be necessary for Barnet Homes to seek approval as an admitted body into the scheme.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 An Employee Equalities Impact Assessment has been conducted for the proposal which is set for the full in-scope workforce to transfer to the LATC. It is not envisaged that there should be any adverse equalities impact on any protected characteristic grouping. This will continue to be monitored and reviewed at future milestones.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 As set out in 4.3 above, risks associated with any pension fund deficit in the event that the LATC ceases trading will remain with the Council. However, the LATC will be responsible for paying the employers contribution rate, costs associated with redundancy and early retirement, and any pension strain costs.

6.2 The Pension Fund will be in receipt of additional appropriate employer and employee contributions to cover the liability associated with the LATC staff membership of LGPS.

6.3 As the LATC will be a designated body, staff pension rights are unaffected by the transfer from the Council to the LATC.

7. LEGAL ISSUES

7.1 There have been reports to the Cabinet Resources Committee which have addressed the Council's powers to set up a Local Authority Trading Company under section 95 of the Local Government Act 2003. A comprehensive report was produced by the Council's external legal advisers, Trowers & Hamlins LLP, which was incorporated to the Business Case and cover report presented to the Cabinet Resources Committee on 24 May 2011.

7.2 Trowers & Hamlins LLP have advised that the necessary controls will be met to enable the LATC holding company and Adult Social Care subsidiary. These controls will be reflected in the articles of the two companies, but should there be any change a report will be presented to the Committee detailing those changes.

7.3 The Admission Regulations govern whether the LATC entities set out in the structure at paragraph 9.4 can satisfy schedule body, designated body or admission body status.

7.4 The Admission Regulations govern the relevant status of Barnet Social Care and Housing (the LATC Holding Co), Barnet Cares Ltd (LATC subsidiary) and Barnet Homes for LGPS purposes. They specify the particular statutory tests to be met in order to qualify for the relevant status.

7.4.1 It is proposed that the LATC Holding Co will be established with a view to becoming a scheme employer with designated body status.

7.4.2 It is proposed that the LATC subsidiary will be established with a view to becoming a scheme employer with designated body status.

7.4.3 It is proposed, subject to ongoing legal consideration and consultation with HMRC and CLG, that Barnet Homes will remain a scheme employer with schedule body status.

7.4.4 The requirements in respect of the Holding Company and Adult Social Care subsidiary are set out in 7.5 below.

7.5 **Barnet Social Care and Housing (LATC Holding Co)**

In order for the LATC Holding Co to be a Scheme Employer with designated body status, it will need to be a body falling within Part 2 of Schedule 2 to the Administration Regulations. A company under the control of a local authority is listed in Part 2 of Schedule 2 to the Administration Regulations as a body capable of being a Scheme Employer with designated body status.

7.5.1 **LATC Holding Co to obtain designated body status**

The test is whether the LATC Holding Co is a company under the control of the Council. "Control" is defined by legislation and includes amongst other matters whether the company is a subsidiary of the Council and/or the Council's power to control votes or remove/appoint LATC Holding Co directors. The intention is that the LATC Holding Co will be a wholly owned subsidiary of the Council and, as such, will satisfy the control test and qualify as a Scheme Employer with designated body status.

7.5.2 **LATC Subsidiary to obtain designated body status**

The test is whether the LATC Subsidiary is a company under the control of the Council. The same requirements for "control" apply as for the LATC Holding Co. The intention is that the LATC Subsidiary will be wholly owned by the LATC Holding Co, itself a wholly owned subsidiary of the Council, and therefore qualify as a Scheme Employer with designated body status.

7.5.3 **Barnet Homes to retain scheduled body status**

The test under the relevant legislation (including the Housing Act 1985 and the Local Government Act 2000) is whether Barnet Homes is a body that exercises housing management functions of the Council. It is intended that this will be established by reference to the management agreement between the Council and, as presently envisaged, the LATC Holding Co. That agreement, however, will be subject to approval by CLG. Aspects of the status of Barnet Homes, as a subsidiary of the LATC Holding Co, for the purposes of tax legislation are also subject to a determination by HMRC. As indicated in section 4.5 above, this approval/determination may mean that Barnet Homes precise status under the Administration Regulations will have to be reviewed in due course.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee, as set out in the Pension Fund Governance Compliance Statement.

9. BACKGROUND INFORMATION

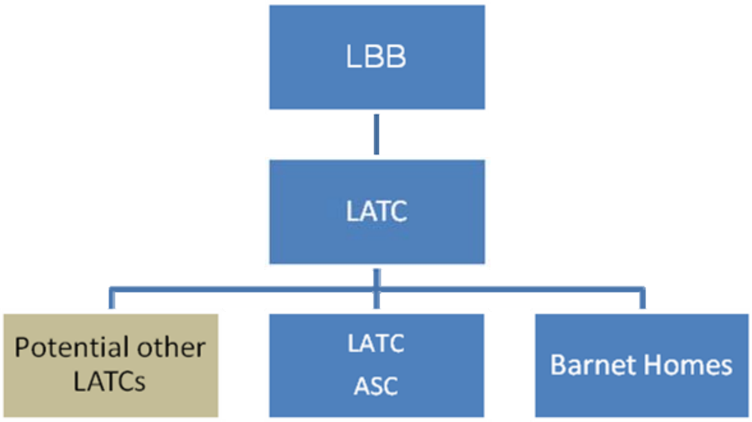
9.1 Since 2007 work has been undertaken to prepare the Adult Social Care in house provider services for transfer to an arms length organisation. To build on the work conducted, a High Level Options Appraisal was commissioned by the council in April 2010 to consider the future options for the Adults In-House Service provision. Care and Health Solutions were appointed to undertake the options appraisal because of their track record and experience of transferring social care provider services into new delivery vehicles in response to the personalisation agenda, most notably in Essex with the creation of Essex Cares. The options identified were:

- Closure and the non provision or reprovision of service
- Remain In-House
- Tender (or trade sale)
- Social Enterprise
- Local Authority Trading Company (LATC)
- Local Authority Trading Company incorporating the LBB Arms Length Management Organisation (Barnet Homes)
- Joint venture Company (with other independent organisations or other partners)

9.2 The recommended option was a Local Authority Trading Company incorporating the LBB Arms Length Management Organisation (Barnet Homes). The proposed entity will be 100% council owned to ensure the council remained in control of the service. This option also creates an opportunity to generate savings in line with the MTFS relating to reduced back office costs building on the existing Barnet Homes infrastructure. Cabinet agreed to the initiation of a full business case on 29 November 2011 to further build the case for change.

9.3 The aim of the proposal to implement a Local Authority Trading Company (LATC) is a strategic fit with the personalisation agenda to roll out personal budgets and direct payments as identified as an objective in the Corporate Plan.

9.4 The company structure as approved at 24 May Cabinet Resources Committee is illustrated below:



9.5 The structure illustrated places a new company at the head of a wider corporate structure. This company will be the holding trading company. This changes Barnet Homes from a wholly owned company to an operating subsidiary.

9.6 A new Board of Directors for the LATC holding company will be formed, comprising membership of both Barnet Homes and the Adults Social Care. This is to ensure both Housing Management and Adult Social Care representation at parent company level. This Board will focus on the commercial aspects of the LATC and will hold the subsidiary companies account for delivery of their respective business plans.

9.7 The Council, being the sole 100 per cent shareholder of the LATC, will appoint (and remove) directors to run the company. There will be no private interests in the LATC. The directors will be appointed with the relevant skills and experience to deliver both Housing Management and Adult Social Care services.

9.8 The proposal is for the LATC Holding Company and LATC ASC to both have Designated Body status and for Barnet Homes to retain their Scheduled Body Status.

10. LIST OF BACKGROUND PAPERS

10.1 Adults In-House Service Review: Initiation of Full Business Plan, Agenda item 12 presented to Cabinet Resource Committee on 24 May 2011.

Legal:SS
CFO:JH

AGENDA ITEM: 9 Page nos. 38 - 54

Meeting	Pension Fund Committee
Date	1 September 2011
Subject	**External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2010/11**
Report of	Deputy Chief Executive & Chief Finance Officer
Summary	To consider the detailed reports from the external auditor on matters arising from the audit of the 2010/11 Pension Fund Accounts

Officer Contributors	John Hooton, Assistant Director, Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – ISA 260 report 2010/11
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: John Hooton, Assistant Director Strategic Finance 020 83592460

1. RECOMMENDATIONS

1.1 That the Committee approve the audited Pension Fund Account 2010/11 and they be signed by the Chairman as having been approved.

1.2 That the matters raised by the external auditor relating to detailed aspects of the 2010/11 accounts audit, including the pension fund accounts, be noted.

1.3 That the officer response to matters raised by the external auditor be noted.

1.4 That the Committee consider whether there are any areas on which they require additional information or action.

2. RELEVANT PREVIOUS DECISIONS

2.1 The un-audited Statement of Accounts for 2010/11 were approved, subject to audit, by the Pensions Committee on 21 June 2011.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Review of reports made under the International Standard on Auditing (ISA) 260 are an integral part of corporate governance, this is inline with Barnet's Corporate Plan within 'Better services with less money'.

4. RISK MANAGEMENT ISSUES

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

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Accurate financial reporting is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities.

6. USE OF RESOURCES IMPLICATIONS (FINANCE, PROCUREMENT, PERFORMANCE & VALUE FOR MONEY, STAFFING, ICT, PROPERTY, SUSTAINABILITY)

6.1 The Pension Fund Account shows the financial position as at 31 March 2011.

7. LEGAL ISSUES

7.1 None in the context of this report.

8. CONSTITUTIONAL POWERS

8.1 Within the Council's Constitution, the functions of the Pensions Committee include acting as "those charged with governance" in respect of the Pension Fund Accounts.

9. BACKGROUND INFORMATION

9.1 In accordance with International Standard on Auditing (ISA) 260, the External Auditor is required to issue detailed reports on matters arising from the audit of the Council's accounts and Pension Fund accounts.

9.2 The ISA 260 report has to be considered by 'those charged with governance' before the External Auditor can sign the accounts, which legally has to be done by 30 September 2011.

9.3 Grant Thornton (GT) were presented with the draft financial statementsin June 2011. GT identified a number of adjustments which are set out in their report.

9.4 The key message arising from the audit of the Pension Fund accounts are:

- The audit has been concluded earlier than in previous years;
- The auditor will issue an unqualified opinion;
- There were a number of accounting adjustments that needed to be made;
- There were some problems experienced in auditing the cash and current asset figures in the accounts.

9.5 The problems arising from the audit of cash and current asset figures arose primarily as a result of the Treasury Manager leaving the Council during the audit. There are a number of controls and processes that need to be documented for 2011/12 to enable a smoother audit.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: TE
CFO: JH

Grant Thornton

London Borough of Barnet Pension Fund

Audit of Financial Statements 2010/11
Report to those Charged with Governance

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Appendices

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1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of Report

Following a change to the regulations governing local government pension schemes, commencing with the 2008/09 year, auditors are required to carry out a separate audit of the Pension Fund, and engage with those charged with governance for the Fund. This is generally considered to be the Pensions Committee, but may be another committee as directed by the Administering Authority. As a result of this, auditors of the Pension Fund are required to issue a separate Audit Report and ISA260 report which records the findings of the auditors' work.

The London Borough of Barnet ('the Authority') is responsible for the preparation of accounts which record its financial position as at 31 March 2011 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's accounts present fairly the financial position of the Authority. Those accounts are required to include, as a separate appendix, the accounts of the Authority's Pension Fund.

This report has been prepared for the benefit of discussion between Grant ThorntonUK LLP and the Pension Fund Committee of the London Borough of Barnet Pension Fund ('the Fund'), to specifically consider the key issues affecting the Fund arising from our audit, and the preparation of the Fund's accounts for the year ended 31 March 2011. We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the accounts of the Authority.

In consequence, our work did not encompass a detailed review of all aspects of the system and controls and cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260, and to report audit findings to "those charged with governance", designated as the Pension Fund Committee.

It is also our intention to provide this report for information to the Borough's Audit Committee as those charged with Governance for the Borough's overall affairs and accounts, and to summarise the findings in the Authority's overall ISA 260 report.

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1.2 Audit Conclusions

Matters arising during the course of our work, that we would like to bring to the attention of the Committee, are set out in Section 2. An update on the action taken on matters raised during the audit for the year ended 31 March 2010 is set out in Section 3.

In Appendix B, we set out the proposed adjustments which the Authority has agreed to process in the accounts.

1.3 Acknowledgements

We would like to record our appreciation for the co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

Date………..

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2 Our findings

This section provides a summary of our observations arising from the audit of the Pension Fund.

This was a year of significant transition for the Fund, as it took over responsibility for accounting for cash held with Investment Managers. There was also a change in investment strategy, a change of accounting staff and the adoption of International Financial Reporting Standards. This has put a strain on the pensions team and findings 2.1 to 2.3 and 2.5 are likely to have been exacerbated by this transition.

2.1 Investment income

Accrued investment income

The draft accounts incorrectly included accrued investment income totalling £1.6m from the December Investment Manager reports. This income had already been accounted for when received by the Fund and therefore had therefore been double counted.

An adjustment has been processed by the Pensions team within the financial statements having the effect of reducing the net asset value of the scheme by £1.6m.

Management response: the adjustment has been processed.

Other income

During our audit work and confirmed through subsequent discussions with the Pensions team, we identified £1.55m of income included within the draft accounts relating to gains on foreign exchange which had been processed in error.

A reclassification adjustment has been proposed, accepted by the Pensions team and has been processed with the financial statements. The adjustment is a reclassification adjustment only and does not therefore impact the value of net assets.

Management response: the adjustment has been processed.

Processing of investment data

The above errors have been exacerbated by investment transaction data which has not been processed within the SAP accounting software since mid-November 2010.

The absence of recording investment transactions represents a control risk relating to an over-reliance on the fund manager reports and the lack of a proper and up-to-date reconciliation procedure between the accounting system and the investment manager reports. There is also potentially a risk of misappropriation of assets in the absence of such controls.

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Recommendation: We recommend that the Pensions team implement formal processes and controls to ensure that investment transactions are appropriately reflected in SAP and reconciled to investment manager reports and reviewed on a timely basis.

Management response: Accepted. The Treasury Manager left the team during the 2010/11 audit and this highlighted a lack of documentation of processes which will be rectified for 2011/12.

2.2 Unrecorded benefits

As part of our audit procedures review, we found that approximately £1.6m of retirement benefits had not been provided for within the financial statements.

The error arose as a result of commutations on the final day of the year not having been identified for accrual amounting to £1.6m. This item is a one off error where member movements to 30 March 2011 were included and provided for but where member movements on 31 March 2011 were omitted.

In addition we identified one member's death benefit that required accrual within the financial statements amounting to £0.1m.

An adjustment has therefore been proposed, accepted by the Pensions Team and has been processed with the financial statements having the effect of increasing benefits payable and reducing the net asset value of the Fund by £1.7m.

Recommendation: We recommend that a further review of benefits is carried out on or around 31 March each year to ensure all amounts are properly recorded.

Management response: Accepted.

2.3 Financial statements preparation

As part of our audit work we noted that that certain trial balance codes which would have been expected to have been mapped to the net assets statement had not mapped to the net assets statement as presented for audit.

In addition, there was not a clear mapping of all the trial balance nominal ledger codes to the financial statements presented for audit.

Of the ten nominal ledger codes not clearly mapped, the following nominal ledger balances (all credit balances totalling £3.4m) were identified as balances that should have been included within the net asset statement:

- cash transfer account £1.3m
- investment management and professional fees creditors balance £1.8m
- Pay as you earn "PAYE" on pensions payments relating to the month of March 2011 £0.3m

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On highlighting these issues, the pensions team have accepted that adjustments are required having the effect of reducing the fund account balance by £3.4m.

Recommendation: We recommend that a full review of the mapping process is performed.

Management response: Accepted. The Treasury Manager left the team during the 2010/11 audit and this highlighted a lack of documentation of processes which will be rectified for 2011/12.

2.4 Cash balances

During the year, cash balances held on behalf of Pension Fund were transferred to a separate bank account held by the Fund.

During our audit work we obtained a listing of cash balances at year end which included a series of reconciling items amounting to £4.6m and of this balance it was identified that £1.3m had not cleared after the year end.

An adjustment has therefore been proposed, accepted by the Pensions Team and has been processed with the financial statements having the effect of reducing the net asset value of the scheme by £1.3m as noted in section 2.3 above.

Recommendation: We recommend that formal bank reconciliations are prepared on a monthly basis and reviewed and evidenced as reviewed by an appropriate member of the Pension team. We also recommend that bank account reconciling items are agreed as having cleared after the month end to ensure they are valid entries.

Management response: the responsibility for bank reconciliations across all Council accounts rests outside of the Pensions Accounting team. This will be reviewed in 2011/12 to ensure that the most effective process is put in place but it is accepted that there needs to be oversight in the Pension Accounting team.

2.5 Timeliness of contributions receipts

Regulations require that contributions deducted from members' salaries are paid over to the Fund by no later than the nineteenth day following the calendar month, from which the contributions have been deducted.

During our review of contributions, it was noted that for nine bodies, contributions were late for between 1 and 35 days. This included:

- one instance of contributions being late for 35 days, relating to total contributions of £9.4k
- six instances where contributions were late for more than 10 days, relating to total contributions of £159k
- twelve instances of contributions being late up to 10 days, relating to total contributions of £1.4m.

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The Fund's officers actively chased late payments and wrote to all bodies during the year reminding them of their duties to pay contributions to the Fund in a timely manner.

Recommendation: We recommend that the Pension Fund officers continue to remind Scheduled and Admitted Bodies of the requirement to ensure that contributions are received on time, and late contributions are chased regularly.

Management response: the Pensions Administration team follow up payment of contributions on an annual basis and will ensure additional focus on this activity in 2011/12.

2.6 Sundry Debtors

The sundry debtors balance included old debtors amounting to £0.3m not considered recoverable by the Pensions team.

An adjustment has therefore been proposed, accepted by the Pensions Team and has been processed within the financial statements having the effect of reducing the net asset value of the Fund by £0.3m.

Recommendation: We recommend that the review of aged debtors is carried out more frequently.

Management response: Accepted. This will form part of the 2011/12 year end process.

2.7 First time adoption of IFRS

In order for the Fundto comply with the code of practice "the code" on local authority accounting the Fundis required to adopt International Financial ReportingStandards ("IFRS") for the first time for the year ended 31 March 2011.

The Pension Fund has adopted 'Option C' under International Accounting Standard 26 Accounting and Reporting by Retirement Benefit Plans ("IAS 26"). On this basis the Pension Fund has not included the pension liability within the net assets statement but included the value as an appendix "IAS 26 disclosures as at 31 March 2011" as provided by the actuary Barnett Waddingham Public Sector Consulting.

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3 Resolution of prior year findings

This section provides an update on observations made during the audit for the year ended 31 March 2010 which had implications for the 2010/11 audit.

3.1 Use of shared bank accounts

We reported last year that the Authority did not operate separate bank accounts in the name of the Pension Fund. The result of this was that separate reconciliations were required to ensure that monies in connection with the Pension Fund are "ring fenced" from that of the Authority. Cash allocated for investment with fund managers was also physically held by the Authority. In the prior year, we noted that management intended to improve the SAP accounting system to alleviate the time spent on reconciling the monies and strengthen controls.

Update for 2010/11:
The Fund started operating its own bank account from March 2011. Approximately £22m was transferred to Santander. Initially the Pensions team were unable to provide supporting documentation, however, subsequently, supporting documentation was received from the management team. The fund managers now also hold cash allocated for investments.

We refer you to section 2.3 for recommendations in respect of bank reconciliations.

3.2 Timeliness of contributions receipts

See section 2.4 above.

3.3 Accuracy of contribution deductions

In 2009/10, we identified one instance where the employer contribution rate had not been updated to the rate of 24% and therefore contributions were being deducted at the prior year rate of 23.3%. This occurred as a member joined the scheme in April 2009 and the employer rate was incorrectly entered.We recommended that the Treasury Manager, in conjunction with the Benefits Team, carried out an annual review of contribution rates to avoid any future errors.

Update for 2010/11:
We have not identified any similar instances in the sample selected for testing in the current year.

3.4 New pensioners

In 2009/10, we identified that in one death in service case the monthly pension for a widower had been incorrectly calculated. This error was not identified by a subsequent review.We recommend that the review controls in this area are strengthened.

Update for 2010/11:
We have not identified any similar instances during our audit work for the current year.

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3.5 Discharge of future fund liabilities

Members are not required to confirm within their standard transfer out request form that they understand by transferring out of the Fund this discharges any further liabilities by the fund to those members. We recommend that the standard transfer out request forms is amended to include this statement.

Update for 2010/11:
Arrangements have been made for the transfer forms to be updated.

3.6 Connaught Partnerships

The scheduled body, Connaught Partnerships formally entered administration on 8 September 2010. The consequences of the administration will not be known until the process has been completed. The notes to the pension fund accounts include a statement to this effect.We recommend that the situation is closely monitored

Update for 2010/11:
We understand that Barnet's legal department are liaising with KPMG, the administrator, to recover the outstanding payment. The Fund actuary has reported that the impact on the deficit will be less that 0.1% of the payroll.

We recommend that the matter is continued to be disclosed in the financial statements.

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A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: We are independently appointed by the Audit Commission. The firm has been assessed by the Audit Commission as complying with its required quality standards. The appointed auditor and client service manager are subject to rotation every 5 years We comply with the Auditing Practices Board's Ethical Standards.
Audit Approach	Our approach to the audit was set out in our 2010/11 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.

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Area	Key Messages
Accounting Policies	We consider that the Fund has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the Local Government Pension Scheme Regulation 2007 (As Amended) and with guidelines set out in the Code of Practice of Local Authority Accounting in the United Kingdom 20010/11. The financial statements also comply with Statement of Recommended Practice, Financial Reporting of Pension Schemes (Revised May 2007), as applicable to Local Government Pension Schemes. The Pensions Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.
Audit Adjustments	We have discussed with management a number of adjustments to the accounts having the effect of reducing the value of net assets by £3.6m and also to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These adjustments are summarised in Appendix B.
Unadjusted Errors	There were no unadjusted errors.
Other Matters	The following material weaknesses in internal control was identified during our audit: Reconciliation of nominal ledger balances, accrued income, unrecorded benefits, creditors and sundry debtors as documented in our findings.

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B Adjustments misstatements

The following table presents all significant adjustments made to the accounts arising from the audit process which have been agreed with the Treasury Manager to amend the draft accounts.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the financial statements.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

The overall effect of the adjustments listed below is to decrease Fund assets by £7.0m

Adjustment type	Accounts balance	Impact on financial statements
Misstatement	Accrued income	Reversal on investment accrued income of £1.6m which had been received by investment managers before the year end and therefore accrued in error.
Misstatement	Other income	Reversal of double counted exchange differences £1.55m (reclassification only, no affect to fund account)
Misstatement	Benefit accruals	Increase of benefit accruals amounting to £1.7mto account for members who had selected their options before the year end, but were awaiting payment
Misstatement	Cash netting off adjustment	Adjustment to cash balance arising from mapping errors £1.3m
Misstatement	Creditors	Increase to creditors arising from mapping errors £1.8m
Misstatement	Creditors	Increase to creditors arising from mapping errors £0.3m
Misstatement	Other debtors	Provision for aged debtors £0.3m.

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AGENDA ITEM: 10 Page nos. 55 - 60

Meeting	Pension Fund Committee
Date	1 September 2011
Subject	**Update on Admitted Body Organisations Issues and Revised Monitoring Arrangements**
Report of	Deputy Chief Executive
Summary	This report updates the Committee on admitted body organisation issues.

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Hansha Patel, Pension Services Manager Mark Rudd, Head of HR Service Delivery
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix A - LB Barnet Admitted Body Update
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: John Hooton, Asst Director Strategic Finance, 020 8358 2460

1. RECOMMENDATIONS

1.1 That the Committee note the update to issues in respect of Admitted Body Organisations within the Pension Fund.

1.2 For ease of reference, the admitted body information for future committee meetings may be displayed in a tabular format, as shown below in appendix A. Committee approval is requested for this amendment.

1.3 That the Committee approve admitted body status for Housing 21 (new contract).

2. RELEVANT PREVIOUS DECISIONS

2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Maintain the integrity of the Pension Fund by ensuring robust monitoring of admitted body organisations and ensuring all third-parties comply fully with admission agreements and bond requirements. The principle supports the corporate priority of getting the best value from our resources.

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to reviews and actuarial assessments 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.

4.2 There is a possibility of financial losses on the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. The new monitoring arrangements are being put in place to ensure that Admissions Agreements and, where relevant, bonds, are in place and that bonds are renewed, as appropriate, during the lifetime of the, relevant Admission Agreement.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to the Equalities Act 2010, the council is under an obligation to have due regard to eliminating unlawful discrimination, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation.

5.2 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 Paragraph 4, above, deals with the financial implications of this report.

6.2 There are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) provide that a Local Authority may admit a contractor into the Local Government Pension Scheme.

7.2 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 admission body shall enter into an indemnity or bond to meet the level of risk identified.

7.3 The Council's standard Admissions Agreement makes provision for the admission 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.

8. CONSTITUTIONAL POWERS

8.1 The Council's constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, paragraph 2.2.13 empowers the Pension Fund Committee to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

9. BACKGROUND INFORMATION

9.1 Officers have undertaken a review of all admitted body arrangements. This report provides a further update on issues previously reported at the Committee meeting held in June 2011.

10. UPDATE OF CURRENT ISSUES:

10.1 **Connaught Partnership**
The legal service is continuing to deal with KPMG regarding the recovery of the outstanding pension fund deficit. On 19th May a letter was received from KPMG confirming that the deficit ranks as an unsecured debt and not as a preferential debt. KPMG, also, informs that LBB has been added to the list of unsecured creditors in the administration. As an unsecured creditor, it is unlikely that LBB will recover this debt.

10.2 **Housing 21**
Housing 21 is an Adults Service contract. The old contract has expired, and the service has now been spilt. Housing 21 has secured a new contract for the Enablement part of the service, with 56 staff. 10 other contractors have secured contracts to provide Home Care and Community Service. Of these 10 contractors, Amonet have 5 staff in the LGPS;

Goldsborough have 2 staff in the LGPS; and Allied have 2 members of staff in the LGPS.

Housing 21 (new contract) – As part of the contract negotiations, the Council has entered into a risk sharing arrangement with Housing 21, and will fund increases (and receive benefit of decreases) in the contribution rate as a result of investment performance and actuarial fluctuations. This is considered to be the most appropriate and cost effective way of managing this risk. The committee is asked to approve admitted body status for Housing 21 (new contract).

Amonet (5 employees – staff already transferred)
The Council's legal team are in the process of drawing up the required Admissions Agreement.

Goldsborough (2 employees – staff already transferred)
The Council's legal team are in the process of drawing up the required Admissions Agreement.

Allied (2 employees already transferred and put into contractor's scheme)
The new contractor has proposed a government actuary department (GAD) scheme for the transferring employees. The Pension's team is investigating if this scheme meets the requirements of relevant legislation.

10.3 **Viridian Housing**
The bond expired on 20/04/2011. An updated Bond figure has been obtained from the Actuaries and supplied to Viridian. Viridian is currently liaising with the Bondsman (Euler Hermes) to renew the Bond.

10.4 **Woodhouse – Caterlink** (2 employees – staff already transferred)
Officers are giving consideration to the question of pension requirements, with respect to this arrangement.

10.5 **Freemantle Trust**
An admissions agreement and bond are in place.

10.6 **Birkins Cleaning Services**
An admissions agreement and bond are in place. Bond is due to expire 31/08/2011. The pension's team have written to Birkins to arrange renewal of the Bond.

10.7 **Go Plant**
An admissions agreement and bond are in place. Bond due to expire 02/10/2011. The Pensions Team are liaising with the actuary for a re-assessment of the Bond level.

10.8 **Turners Industrial Cleaning Systems LTD.** (2 members of staff)
An Admissions Agreement and bond are in place. The Council's legal team are investigating if a new admissions agreement is required as a result of the extension of the service contract.

10.9 **Greenwich Leisure Ltd**
An admissions agreement and bond are in place.

10.10 **Friends of Moat Mount**
An admissions agreement is in place. A bond is not required as this is a community admissions agreement.

10.11 **Y-Gen**
An admissions agreement and bond are in place for the one year extension of the contract to 31/03/2012.

Legal: SS
CFO: JH

Appendix A

LB BARNET ADMITTED BODY UPDATE

Committee Date: 01/09/2011

ADMITTED BODY	ADMISSION START DATE	BOND EXPIRY DATE	COMMENTS
Fremantle	02/04/2001	08/02/2012	