

<u>MEETING</u> PENSION FUND COMMITTEE
<u>DATE AND TIME</u> TUESDAY 13TH SEPTEMBER, 2016 AT 7.00 PM
<u>VENUE</u> HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
1.	PENSION FUND ANNUAL REPORT AND EXTERNAL AUDITOR'S REPORT UNDER INTERNATIONAL STANDARD ON AUDITING (ISA) 260 FOR THE YEAR 2015/16	1 - 88

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LONDON BOROUGH OF BARNET PENSION FUND

REPORT TO THE PENSION FUND COMMITTEE

Audit for the year ended 31 March 2016 - Issued 12 September 2016

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PURPOSE AND USE OF THIS REPORT

We present our report to the Pension Fund Committee which details the key findings arising from the audit to date for the attention of those charged with governance. 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.

We will issue an updated report should any further significant issues arise from completion of the remaining audit procedures and resolution of outstanding issues.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the pension fund financial statements. As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the Pension Fund Committee and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit to date and throughout the period.



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- Matters subject to further audit procedures and responses awaited from management are set out on page 16 below.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated February 2016. However, significant difficulties were experienced during the audit agreeing the financial statements to the underlying accounting records and significant additional testing was undertaken as a result.
- Our materiality levels have been reduced slightly since our audit plan was issued as a result of the fall in asset values at 31 March 2016.

AUDIT OPINION

- Subject to the successful resolution of the matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016

KEY AUDIT AND ACCOUNTING MATTERS

The key matters that have arisen in the course of our audit are summarised below:

- i. We encountered significant difficulties in reconciling the draft accounts through the trial balance to the general ledger, which was caused in part by a number of adjustments, including some off-ledger adjustments, in both the current and prior year.
- ii. Investigation found material errors in the prior two years' financial statements which has resulted in these having to be restated.
- iii. Material corrections have been made to the 2015/16 draft financial statements to reflect contributions receivable that should be accounted for on an accruals rather than on a cash receipts basis, and removing creditor balances from previous years that had been paid.
- iv. Year end bank reconciliations identified a number of transactions which had not been correctly recorded in the ledger. Further details are provided on page 10.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated February 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council’s and pension fund internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We are required to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p>	<p>We have tested all material journals with a relevant source code and all post-trial balance journals for agreed corrections to the financial statements.</p> <p>We encountered significant difficulties in reconciling the draft accounts through the trial balance to the general ledger, which was caused in part by a number of adjustments, including some off-ledger adjustments, in both the current and prior year.</p> <p>As a result, we found numerous errors in both the current and prior year debtor and creditor balances which has required material correction in the current year and a restatement of prior year financial statements (detail provided in this report).</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>REVENUE RECOGNITION</p>	<p>Auditing standards presume that income recognition presents a fraud risk.</p> <p>For pension funds, the risk can be identified as affecting the completeness, accuracy and existence of contributions income.</p>	<p>We have carried out audit procedures to gain an understanding of the pension fund's internal control environment for receiving and recording contributions income in accordance with the schedule of contributions, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p>	<p>Our audit found that in previous years contributions have been accounted for on a cash basis, with no adjustment made for amounts due for the March payroll from some employers where the amounts due were not paid over until the following month.</p> <p>Management has reviewed this in detail and adjusted both the current year and prior year financial statements to include contributions receivable on an accruals rather than cash basis. Overall, the Council had accounted for some £4 million of contributions due in the incorrect financial periods.</p> <p>Our work to vouch a sample of contributions from employers and analytics comparing overall income to changes in active membership numbers has been completed and we have no issues to report with regard to the corrected financial statements.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit.

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
INVESTMENT MANAGEMENT EXPENSES	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>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 any 'hidden' or transactional fees included in investing activities. These fees are deducted when the investment is made by the fund manager and hence are included in realised gains or losses or the change in market value of investments.</p> <p>The Financial Conduct Authority criticised the investment management industry for not reporting charges to investors sufficiently clearly. In particular, it criticised the annual management charge as failing 'to provide investors with a clear, combined figure for charges.'</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately in 2015/16, there is a clear expectation that LGPS fund accounts do observe this guidance.</p>	<p>We have reviewed investment management expenses and have found that fund managers have not provided the relevant information for management to separate out these fees in the financial statements.</p> <p>We recommend that management liaise with fund managers as soon as possible to encourage them to implement the necessary steps in order for them to provide relevant management expense information for the 2016/17 accounts.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
FUND MANAGER CONFIRMATIONS	<p>Fund manager valuation reports have obtained for each of the three main fund managers. We have compared these reports to the financial statements and found that £150,000 placed in the London Collective Investment Vehicle was incorrectly included within the Legal and General investment total. This has since been corrected by management.</p> <p>We have written directly to the fund managers to request direct confirmation of valuation reports and to custodians. These have been received, except as noted below, and agreed to balances stated in the financial statements.</p> <p>We have received confirmation of the money transferred to London CIV for the purchase of B-shares. We have been told we cannot receive a valuation report as the stock is not listed and valuation is done only for the whole pool. However we are yet to receive official communication clarifying the type of investment and its cost/valuation from London CIV</p>	<p>The £150,000 investment placed with London Collective Investment Vehicle which was incorrectly included within Legal and General investments in the financial statements has been corrected.</p> <p>We await responses from custodians London CIV to obtain assurance over controls for recording transactions and safe custody of investments.</p>
MEMBERSHIP DISCLOSURE	<p>A number of issues have been found relating to the Fund's membership numbers disclosed in the draft financial statements:</p> <ul style="list-style-type: none"> • These were based initially on a report generated from the membership database on 1 April 2016, but there is a significant delay in updating membership information, meaning that a number of events which took place during the year were not captured within the draft figures. We therefore requested that these numbers be recalculated using the most up to date information. • Active members and pensioners disclosed at the start of the year did not agree to the numbers reported at the end of the previous year, due to updates to the 2014/15 data made during 2015/16 (again due to processing delays). • A significant number of duplicates on the membership lists where employees that have more than one employment contract are counted as more than one member. Our view is an individual should only be counted once regardless of separate employments. 	<p>New figures for the membership disclosure have now been provided along with a supporting lists of members.</p> <p>Our audit work in this area has been completed to confirm the completeness and accuracy of membership data disclosed within the accounts. The membership numbers are based on reports extracted on the 17 July 2016.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CONSIDERATION OF RELATED PARTY TRANSACTIONS	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p>	<p>No significant issues have been identified.</p>
CASH BALANCE	<p>There were delays in receiving bank reconciliations in respect of some accounts. In addition, we identified one bank account which is not recorded in the general ledger. This is because the account usually holds a nil (or trivial) balance, which is regularly swept into one of the Fund’s other bank accounts. However, at 31 March 2016, the account held a total balance of £190,000 (per the bank statement), which had not been accounted for in the financial statements. Upon further investigation, we found that the majority of this balance relates to a VAT refund that should have been included as cash rather than debtors at year-end.</p> <p>When we did receive the bank reconciliations, they identified a number of errors and mispostings. For example, one on account the statement balance was £170,000 higher than the cash book balance due to a misposting which had incorrectly reduced revenue by £179,000.</p>	<p>There is a misclassification of £190,000 between debtors and cash as a result of the late receipt of a VAT refund into a bank account.</p> <p>Through the bank reconciliation process the finance team has also identified receipts totalling £365,000 and payments totalling £226,000 which appear on the bank statements but have not been reflected in the 2015/16 accounts. We are still working with the finance team to satisfy ourselves that the gross level of underlying transactions is not material.</p> <p>There is also a difference of £170,000 on another account as a result of a misposting to the ledger.</p> <p>Whilst these amounts are not material, this is potentially indicative of wider issues in controls over cash. We therefore recommend that bank reconciliations are reviewed on a monthly basis and reconciling items cleared as indicated under Control Environment significant deficiencies on page 17.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
DEBTORS BALANCE	<p>We noted that the debtors balance disclosed in the draft accounts did not agree to the general ledger. Management has spent the past two months investigating these differences and we have now been provided with revised figures that restate the debtors balance and is some £4 million less than that included in the draft financial statements. Similar errors were also found in previous years and the prior year financial statements have also been corrected.</p>	<p>Management has corrected the current year and prior year financial statements for the errors found in the debtors balance.</p>
CREDITORS BALANCE	<p>We noted that the creditors balance disclosed in the draft accounts did not agree to the general ledger. Management has spent the past two months investigating these differences and we have now been provided with revised figures that restate the creditors balance and is some £5 million less than included in the draft financial statements. Similar errors were also found in previous years and the prior year financial statements have also been corrected.</p> <p>A considerable amount of this appears to relate to accruals balances brought forward at the beginning of the year for which no subsequent reversals were made. This means that management have been posting accruals using non reversing codes.</p>	<p>Management has corrected the current year and prior year financial statements for the errors found in the creditors balance.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CONTRIBUTIONS	<p>As noted above in revenue recognition, management has been accounting for contributions on a cash basis, with no adjustment made for amounts due for the March payroll from some employers where the amounts due were not paid over until the following month.</p> <p>This affects the current and prior year financial statements, and adjustments have been made to restate the opening balances at 1 April 2014, to report the correct amount of contributions receivable in 2014/15 and 2015/16, and the amounts due at 31 March 2016.</p> <p>We noted that the draft financial statements did not appear to treat contribution income and other income consistently across the years. Management has since investigated postings to the various income codes and made adjustments to classify income appropriately.</p> <p>Adjustments included reclassifying £1.3 million of HECFE income, increasing pension fund strain by £911,000, and increasing contributions by £783,000.</p>	<p>Management has corrected the current year and prior year financial statements for the errors found in the contributions income.</p> <p>Adjustments have also been made to the financial statements to correct for the misclassifications of income across various headings.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below:

ESTIMATES

AUDIT FINDINGS AND CONCLUSIONS

PENSION LIABILITY ASSUMPTIONS

There is a risk the valuation uses inappropriate assumptions to value the liability.

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 the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

We have reviewed the assumptions used by the actuary for reasonableness by reference to a consulting actuary's report commissioned by the National Audit Office. We found that, whilst all assumptions used fall within the expected range, assumptions in respect of life expectancy were at the lowest extreme of this range, whilst assumptions about the percentage of employees taking up the option under the new LGPS scheme to pay 50% of contributions for 50% of benefits was at the top of the range. Both of these factors will have a downwards impact on the pension liability, which has led us to conclude that the assumptions around the liability in general tend towards being aggressive but remain within a reasonable range for the valuation of the future liability to pay pensions.



PRUDENT

AGGRESSIVE

KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
FINANCIAL STATEMENTS, NOTES AND DISCLOSURES	<p>The financial statements generally follow the CIPFA model template for local government pension fund financial statements.</p> <p>We have suggested a number of amendments and corrections to the pension fund financial statements including:</p> <ul style="list-style-type: none"> • improvements to the financial instruments notes to ensure adequate disclosure of all material risks, including quantitative information • spelling and typographical corrections • casting and removing rounding errors • consistency of the financial instruments note with the net assets statement • other general tidying up. <p>Management have considered these suggestions in the revised set of financial statements.</p>
ACCOUNTING POLICIES	<p>The accounting policies adopted are consistent with the CIPFA Code.</p>
ANNUAL REPORT	<p>We have suggested a number of amendments to the content of the annual report to ensure consistency with the audited financial statements.</p> <p>When comparing the annual report with the CIPFA good practice guidance for annual reports, while all required information has been provided, we have suggested that additional information could be provided around the funding risks and risk management policies of the fund.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

	MATTER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements.	See our audit planning report to you dated 22 February 2016.
2	An overview of the planned scope and timing of the audit.	See our audit planning report to you dated 22 February 2016.
3	Significant difficulties encountered during the audit.	The initial working papers provided did not support a number of balances in the draft financial statements. As a result, a number of requests for additional information were required, which prolonged the duration of the audit. Significant additional work was required by management which identified material misstatements in the draft accounts on debtors, creditors and contributions and prior period figures as well on contributions and debtors.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process.	We encountered significant difficulties in reconciling the draft accounts to underlying accounting records.
5	Written representations which we seek.	These have been provided to management separately
6	Any fraud or suspected fraud issues.	See our planning report to you dated 22 February 2016 and additional matters included within this report.
7	Any suspected non-compliance with laws or regulations.	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure.	A schedule of uncorrected misstatements is included at Appendix I.
9	Significant matters in connection with related parties.	We have no matters to report.

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the **Pension Fund committee** at which this report is considered:

- 1 Clearance of outstanding issues on small queries we have raised with management

- 2 Receipt of remaining fund management, custodian and bank confirmations.
We await responses from London CIV

- 3 Completion of our internal manager and partner review process
All reviews to be done by week ending 16 September 2016

- 4 Technical clearance

- 5 Subsequent events review

- 6 Management representation letter to be approved and signed.



CONTROL ENVIRONMENT

Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the pension fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal controls. We have identified significant control deficiencies in the following areas:

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
MEMBERSHIP DATA	There is a delay in processing membership changes and the membership records provided for audit are not sufficiently accurate or up to date.	Membership numbers are not up to date.	Membership data should be updated in a timely manner in the Hartlink membership data system.
BANK RECONCILIATIONS	Our review of year-end bank reconciliations identified a number of reconciling items which had not been cleared.	There were a number of income and expenditure transactions on the bank statements which were not reflected in the financial statements.	Bank reconciliations should be reviewed on a monthly basis and reconciling items cleared.
REVIEW OF DEBTORS AND CREDITORS BALANCES	The debtors and creditors balances included amounts from the previous year that had not been removed once cash had been received (debtors) or paid out to others to settle the liabilities (creditors).	Errors in the debtors and creditors balances were not identified by management.	Periodic review of aged debtors and creditors, and reconciliation to underlying records, should be undertaken.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Pension Fund Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of both the prior years and the current year as noted on the following page.

- The opening net assets at 1 April 2014 of £829.782 million has been restated and increased by £4.241 million, to £834.023 million.
- The 2014/15 fund account increase in net assets of £94.592 million has increased by £0.290 million, to £94.882 million. The closing net assets at 31 March 2015 of £924.374 million has increased by £4.531 million, to £928.905 million.
- The 2015/16 fund account decrease in net assets of £9.025 million has increased by £3.547 million, to £12.572 million. The closing net assets at 31 March 2016 of £915.349 million has increased by £0.984 million, to £916.333 million.

UNADJUSTED AUDIT DIFFERENCES

The unadjusted audit differences identified by our audit work would increase the net assets by £0.309 million to £916.642 million (from £916.333 million) if adjusted.

We request that you correct these misstatements. Misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

APPENDIX I: ADJUSTED DIFFERENCES

Continued

ADJUSTED AUDIT DIFFERENCES	IMPACT £'000	FUND ACCOUNT		NET ASSETS		Opening balance £'000
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	
Previously reported opening net assets at 1 April 2015				924,374		
Contributions receivable previously accounted for on cash basis & prior year accrual reversal entries				4,531		
Restated opening net assets at 1 April 2015				928,905		
Net decrease in funds during 2015/16 / Net assets at 31 March 2016	9,025			915,349		
Dr Contributions income		1,993				
Dr Other Income		1,665				
Dr Debtors - Sundry debtors				30		
Cr Prior year adjustment						(3,687)
Cr Creditors - Accrued expenses					(1)	
<i>Net reduction to contributions (accrue March 2016 income due less March 2015 income recognised in current year) and reclassifications of income</i>	3,658					
Dr Benefits Payable - Pensions		15				
Dr Other income			(311)			
<i>Net adjustment to prior year's income that was rolled forward as a balance account</i>	(296)					
Continued over						

APPENDIX I: ADJUSTED DIFFERENCES

Continued

ADJUSTED AUDIT DIFFERENCES	£'000	FUND ACCOUNT		NET ASSETS		Opening balance £'000
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	
Dr Creditors - Accrued expenses				844		
Cr Prior year adjustment						(844)
<i>Net adjustment to previous years' accruals not reversed</i>	-					
Dr Creditors - Accrued expenses				4,160		
Cr Other income			(39)			
Cr Debtors - Sundry debtors					(4,121)	
<i>Net adjustment for March contributions debtor to match CEB schedule</i>	(39)					
Dr Investment management expenses - Administration, management and custody		298				
<i>Net adjustment to investment management expenses</i>	298					
Dr Creditors - Accrued expenses				74		
Dr Administrative Expenses - Administration and processing		5				
Cr Benefits Payable - Lump sum death benefits			(65)			
Cr Administrative Expenses - Audit fees			(14)			
<i>Items of prior year's accruals not reversed</i>	(74)					
Continued over						

APPENDIX I: ADJUSTED DIFFERENCES

Continued

ADJUSTED AUDIT DIFFERENCES	£'000	FUND ACCOUNT		NET ASSETS		Opening balance £'000
		Dr £'000	Cr £'000	Dr £'000	Cr £'000	
Dr Investment management expenses - Administration, management and custody		133				
Cr Investment management expenses - Other advisory			(133)			
Dr Administrative Expenses - Audit fees		11				
Cr Administrative Expenses - Administration and processing			(11)			
Dr Debtors - Employer contributions				2,060		
Dr Debtors - Employer strain contributions				142		
Cr Debtors - Sundry debtors					(1,691)	
Cr Cash					(512)	
Dr London CIV				150		
Cr L&G					(150)	
<i>Reclassification adjustments</i>						
TOTAL ADJUSTED AUDIT DIFFERENCES	3,547	4,120	(573)	7,460	(6,476)	(4,531)
Net decrease in funds during the year / net assets at 31 March 2016	12,572			916,333		

APPENDIX I: UNADJUSTED DIFFERENCES

Continued

UNADJUSTED AUDIT DIFFERENCES	£'000	FUND ACCOUNT		NET ASSETS	
		DR £'000	CR £'000	DR £'000	CR £'000
Net decrease in funds during 2015/16 / net assets at 31 March 2016	12,572			916,333	
Dr Cash				499	
Dr Expenditure		56			
Cr Income			(365)		
Cr Debtors - Sundry debtors					(190)
<i>Being unposted transactions identified from bank reconciliations</i>	(309)				
IMPACT OF TOTAL UNADJUSTED AUDIT DIFFERENCES	(309)	56	(365)	499	(190)
Net decrease in funds during 2015/16 / net assets at 31 March 2016	12,263			916,642	

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS					
INVESTMENT MANAGEMENT EXPENSES	We have reviewed investment management expenses and have found that fund managers have not provided the relevant information for management to separate out these fees in the financial statements.	We recommend that management liaise with fund managers as soon as possible to encourage them to implement the necessary steps in order for them to provide relevant management expense information for the 2016/17 accounts.	< Add responses >	< Add responsibility >	< Add timing >
ROLL FORWARD OPENING BALANCES	The opening ledger balances did not agree to last year’s closing financial statements.	We recommend that management undertaken a review of the classification of all nominal ledger codes to ensure that they are correctly mapped to income and expenditure or the balance sheet.	< Add responses >	< Add responsibility >	< Add timing >
LEDGER MAINTENANCE	We encountered significant difficulties in agreeing the draft accounts to the trial balance and ledger. There were a number of manual and off-ledger adjustments, and some mapping from the trial balance to the accounts was inconsistent from year to year.	Management reviews the chart of accounts and accounts closedown procedures to minimise the level of manual adjustment required to the draft accounts, and to ensure that these can be reconciled back to the trial balance.	< Add responses >	< Add responsibility >	< Add timing >

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT					
MEMBERSHIP RECORDS	There is a delay in processing membership changes and the membership information in the first draft accounts was not sufficiently up to date.	Membership records should be kept up to date with minimal delay in processing changes. As part of the accounts closedown procedures the membership information in the draft accounts should be updated as close as possible to the publication date.	< Add responses >	< Add responsibility >	< Add timing >
BANK RECONCILIATION	There were delays in the receipt of year-end bank reconciliations in respect of a number of bank accounts, and reconciling items show a number of accounting entries which should have been made in 2015/16 but were not.	Management should ensure that bank reconciliations are completed on a regular and timely basis, particularly as part of the year-end closedown process, to ensure that all transactions are accounted for in the correct period.	< Add responses >	< Add responsibility >	< Add timing >
REVIEW DEBTORS AND CREDITORS	We were unable to agree the debtor analysis and creditor analysis to accounting records on the first draft accounts.	Periodic review of aged debtors and creditors, and reconciliation to underlying records, should be undertaken.	< Add responses >	< Add responsibility >	< Add timing >

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£9,100,000	£9,200,000
Fund account specific materiality	£2,700,000	£2,700,000
Clearly trivial threshold	£180,000	£184,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account. The clearly trivial amount is based on 2% of the overall materiality level.

Our revised final materiality levels have been reduced slightly since our audit plan was issued as a result of the fall in asset values at 31 March 2016.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Engagement Partner	1 st year	31 March 2021
JODY ETHERINGTON - Audit Lead	1 st year	31 March 2026

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have confirmed that we have not provided any non audit services.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the pension fund.

We confirm that the firm complies with the FRC's Ethical Standards 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.

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

APPENDIX V: FEES SCHEDULE

	CURRENT YEAR	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£		
Scale audit fee	21,000*	N/A	
TOTAL AUDIT	21,000		
Audit related assurance services	-		
Other assurance services	-		
TOTAL ASSURANCE SERVICES	21,000		

* Our final audit fee is yet to be confirmed, as a result of the significant difficulties encountered during the audit and significant additional audit work required.

APPENDIX VI: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices, or be firm-wide, and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more widespread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.





FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS

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leigh.lloyd-thomas@bdo.co.uk

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 and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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DRAFT UNAUDITED

**The London Borough of Barnet
Pension Fund**

Annual Report

For the year ended 31 March 2016

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1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

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.

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

The regulations governing the Fund are The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

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

The LGPS was introduced in 1972 and 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 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

To help people save more for their retirement, the Government requires employers to enrol their workers into a workplace pension scheme. This legislation is separate from the Local Government Pension Scheme (LGPS) Regulations and applies to those employees that are not members of the Local Government Pension Scheme, including those who have previously opted out. The automatic enrolment of our workers into the LGPS came into effect from 1 June 2013.

In May 2014 the Government launched a second consultation on further proposed changes to the LGPS which included proposals for cost savings and efficiencies through the establishment of Collective Investment Schemes. The Pension Fund is a participant in the establishment of the London Councils' Pensions Collective Investment Vehicle.

The new Local Pension Board enacted through the Public Services Pensions Act 2013 has been established as a Council committee.

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 will be transferring pooled assets into the CIV in 2016/17. This will deliver additional savings in fees. It is also consistent with the Government's LGPS pooling proposals which require local government pension scheme administering authorities to come forward with proposals to invest their assets through pools of at least £25 billion.

1.2 Administration of the London Borough of Barnet Pension Fund

The Council is the administering authority for the Pension Fund. Capita provide pension financial management and pensions administration on behalf of the Council.

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

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

1.3 Management Structure

Administering Authority

London Borough of Barnet

Pension Fund Committee Members 2015/16

Chairman: Councillor Mark Shooter

Vice-Chairman Councillor John Marshall

Members: Councillor Andreas Ioannidis
Councillor Arjun Mittra
Hugh Rayner
Councillor Jim Tierney
Councillor Peter Zinkin

Substitutes: Councillors Dean Cohen; Anthony Finn; Ross Houston;
Adam Langleben; Pauline Coakley Webb; Stephen Sowerby

Officers

LB Barnet

John Hooton	Interim Chief Executive and Statutory 151 Officer.
Anisa Darr	Director of Resources
Patricia Phillipson	Interim Head of Finance

Capita CSG (Customer and Support Group)

Paul Thorogood	Assistant Director of Finance
Gillian Clelland	Assistant Director of Finance
Iain Millar	Head of Treasury

Observers

John Burgess	Unison
David Woodcock	Middlesex University

Actuary

Barnett Waddingham

Investment Advisors

Hymans Robertson from June 2015
JLT Benefit Solutions (formally HSBC Actuaries and Consultants) until May 2015

Auditor

BDO LLP

Legal Advisors

HB Law

Performance Monitoring

Hymans Robertson
WM Company

Custodians

JP Morgan
The Bank of New York Mellon

Pensions Administration Manager

Karen Scott	Service Delivery Manager (Pensions), Capita Employee Benefits, PO Box 215, Mowden Hall, Darlington, DL3 9GT
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2. Investment Policy

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

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

The Fund

In 2015/16 the Pension Fund Committee reviewed the investment strategy which had been in place since 2010 and agreed a reallocation of investment assets. The Committee set an investment strategy to reduce the weightings in diversified growth funds and corporate bonds to improve long term investment returns. During the year £280 million was transferred from diversified growth funds and invested in passive overseas equity with Legal and General Investment Management. £90 million was moved from Newton Investment Management Corporate Bonds to a Strategic Bond Fund managed by Schrodgers Investment Management. The Committee also agreed an allocation to both illiquid and liquid credit strategies. Following a procurement process, three new fund managers were appointed in March 2016: Alcentra, Babson Capital and Partners Group. The reallocation of funds took place in the first quarter of 2016/17.

Benchmark

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

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

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

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

Manager	Fund	Monitoring Benchmark	Target
Newton	Corporate Bond	Merrill Lynch Non-Gilt Over 10 years Investment Grade Index	To outperform the benchmark by 1% p.a. over a rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	Strategic Bond Fund	3 Month LIBOR	To outperform the benchmark by 2% pa over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
Legal and General Investment Management	Global ex UK	50% FTSE All World Index 50% FTSE RAFI All World Equity GBP Hedged Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over a rolling 3 years

Investment Ranges

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

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

Investment	Limits Adopted
1. Any single sub-underwriting contract	1%

Investment	Limits Adopted
2. All contributions to any single partnership	2%
3. All contributions to partnerships	5%
4. The sum of all loans and any deposits with – <ul style="list-style-type: none"> • Any local authority, or • Any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act 	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (with certain exclusions described in paragraph 3 of Schedule 1 of the Regulations)	35%
10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (with certain exclusions described in paragraph 3 of Schedule 1 of the Regulations)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Independent Advisor

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

1. Investment Strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. Corporate governance issues, including socially responsible investment and the Council's Statement of Investment Principles
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.

Actuary

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

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

Custodian

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

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the Fund's corporate governance and proxy voting policy.

3 Management and Financial Performance of the Fund for the Year 2015/16

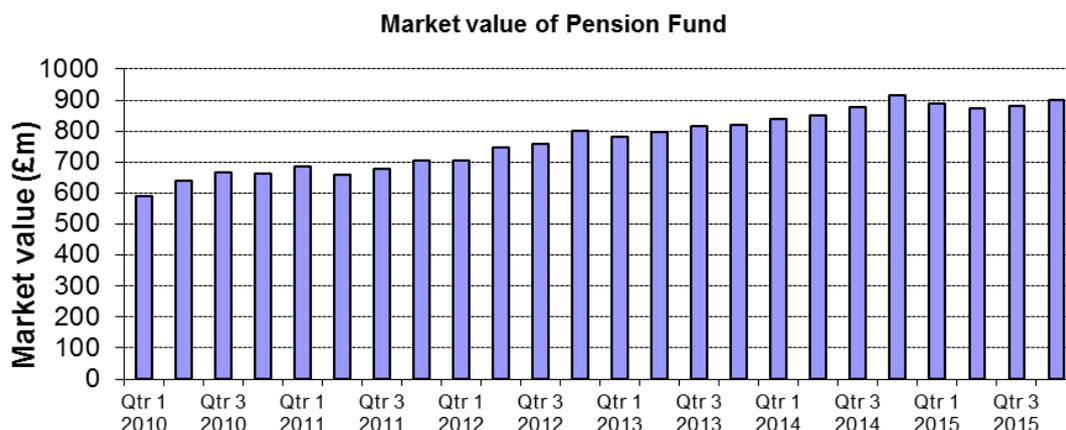
3.1 Fund Performance

The current investment strategy was reviewed and amended during 2015/16. The revised asset allocation was the result of the ongoing consultation the Fund has with its investment advisors. After a review of the available diversified growth market the Fund retained the services of its two investment managers, Schroder Investment Management and Newton Investment Management, for the efficient implementation of the revised asset allocation. It also retained pooled funds with Legal and General.

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

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the investments in the Fund from 1 April 2010 to 31 March 2016.



3.3 Investment Report

Market review

Global equity markets struggled over the 12 months to 31 March 2016 – the FTSE All World index fell by almost 7% in local currency terms. For unhedged UK investors, however, dividend income and the weakness of sterling offset almost all of these losses.

Global GDP growth in 2015 was a little lower than in 2014, falling short of forecasts at the start of the period. A similar pace is expected in 2016, but forecasts are again being trimmed.

Falling oil prices helped to keep headline inflation low, both in the UK and elsewhere. As the year progressed, there were signs that any disinflationary pressures were easing, but monetary policy remained very accommodative.

The Federal Reserve did raise US interest rates in December, but seem in no hurry to do it again. The Bank of England has made little effort to counter market conviction that UK interest rates will not be rising in 2016. Both the Bank of Japan and the European Central Bank expanded existing quantitative easing programmes and cut official deposit rates below zero and further below zero, respectively.

Subdued growth and inflation provided a helpful background for the major government bond markets. 10 year gilt yields did rise initially, but had retreated to their lows of January 2015 by the first quarter of 2016. The background was less supportive of corporate bond markets, which underperformed equivalent government bonds over the period.

UK property continued to rally with the IPD Monthly Index returning 11.7% over the period. Key events during the 12 months to 31 March 2016 included:

Global economy

- December's rise in US interest rates was the first for nearly 10 years.
- The Bank of England expects headline CPI inflation to stay below 1% p.a. throughout this year.
- Sterling's trade-weighted index fell to its lowest level since 2013 as the EU referendum approached.

- Brent crude fell to a 12-year low of \$28 per barrel in January 2016.
- A slowdown in the Chinese economy continued as GDP growth fell below 7% for the first time since 2009.

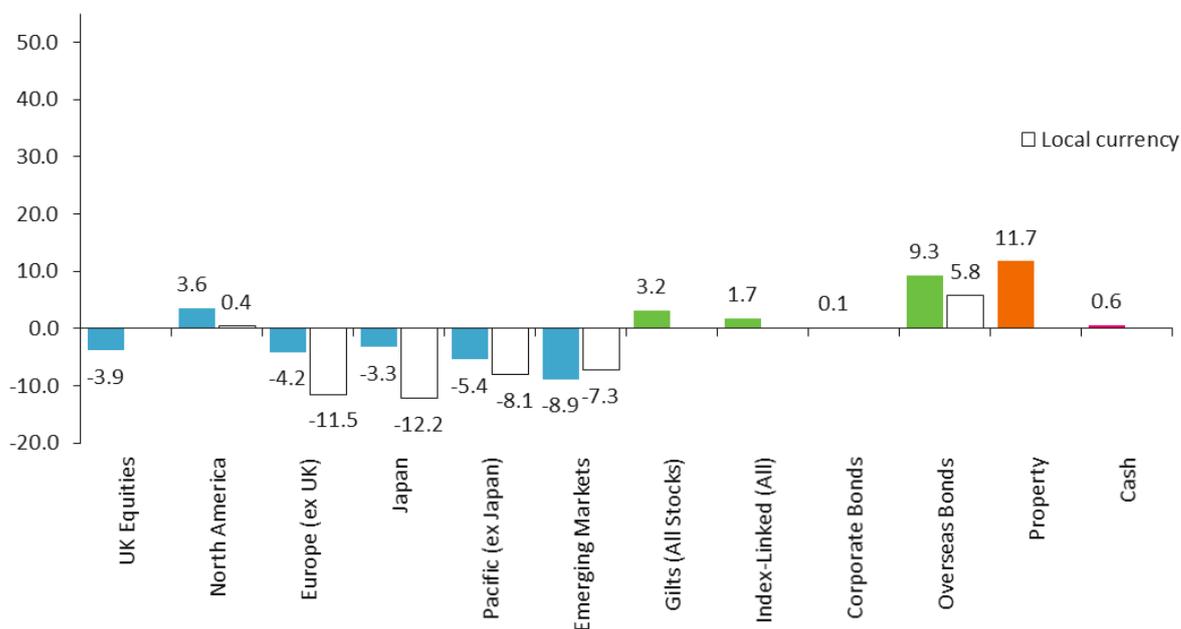
Equities

- The strongest sectors relative to the FTSE All World Index were Utilities (+9.6%) and Technology (+7.5%); the weakest were Basic Materials (-10.4%) and Oil & Gas (-9.9%).
- Monetary easing did little to support Japanese and European equities, returning -12.2% and -11.5%, respectively, to local investors.

Bonds and currencies

- Sterling appreciated against the euro but depreciated against the dollar and the yen.
- Yield spreads over gilts on sterling investment-grade corporate bonds reached their highest level for over three years in February 2016.

Chart: Market returns 12 months to 31 March 2016



Fund review

Summary

As at 31 March 2016, the value of the Fund's assets was £906.3m (bid value) comprising investment funds of £900.4 million and cash held of £5.9 million. This represents a decrease of £13.6m compared with the previous year.

In June 2015, Hymans Robertson LLP was appointed as the Fund's new investment adviser, replacing JLT. Following an in-depth review of the Fund's existing investment strategy during the third quarter of 2015, it was determined that the Fund's investment strategy had a low chance of delivering the return required to reach full funding over the next 15 years. As a result, the Council agreed to amend the Fund's investment strategy in order to increase the Fund's expected return and overall efficiency by diversifying the sources of risk and return within the Fund.

In summary, the following actions were implemented via a phased approach over Q4 2015 and Q1 2016:

- **Increase the Fund's global equity target allocation by 30%, funded by a 15% reduction to each of the Fund's diversified growth managers.** The Council agreed that the entire global equity portfolio would be managed passively by Legal and General, with half being allocated to Legal and General's RAFI AW 3000 Equity Index fund (GBP Hedged). The purpose of this was to introduce a value tilt through the use of a fundamental indexation equity strategy where the method of index construction was non-market cap weighted. In addition, the Council agreed to begin hedging 50% of its overseas equity exposure by allocating to the GBP hedged version of Legal and General's RAFI equity fund.
- **Introduce a new 10% allocation to a liquid multi-credit fund, funded by a 10% reduction to Newton's corporate bond fund.** The Council agreed to utilise one of the Fund's incumbent managers, Schroder, by allocating to Schroder's ISF strategic bond fund.

As part of reviewing the Fund's investment strategy and exploring alternative asset classes that could potentially deliver 'equity-like' returns, the Council has subsequently agreed to implement further changes over the remainder of 2016. This is to include the following actions:

- **Allocate a further 7% to liquid multi-credit strategies, funded by a full redemption of the Fund's corporate bond mandates managed by Newton and Legal and General.** Since the end of March 2016, the Council has agreed to appoint Babson Capital and Alcentra to each manage a 3.5% allocation. These mandates are expected to be implemented midway through 2016.
- **Introduce a c. 13% allocation to illiquid alternatives based on expectations that the Fund will remain cashflow positive for the next five to ten years.** Following advice from the Fund's investment adviser regarding current opportunities within both liquid and illiquid credit, the Council has also agreed to appoint Alcentra and Partners Group to each manage a 4% allocation of total Fund assets to illiquid credit strategies. Each of these investment managers are specialists within this asset class and were appointed following presentations from a selection of different managers. Both allocations will be funded over time with monies made available by a further reduction to the Fund's diversified growth allocation. The Council are set to explore further forms of illiquid alternatives towards the end of 2016 in order to complete the transition to the Fund's new long term investment strategy.

The table below details the Fund's new long term investment strategy once all of the above changes have been completed.

	Allocation at 31 March 2016 %	Long term strategic target %
Equities	37.7	36.0
<i>Legal and General (Global)</i>	18.9	18.0
<i>Legal and General (RAFI)</i>	18.8	18.0
Diversified growth	28.8	22.0
<i>Schroder</i>	14.4	11.0
<i>Newton</i>	14.4	11.0
Multi-credit (liquid)	9.9	17.0
<i>Schroder</i>	9.9	10.0
<i>Babson Capital</i>	-	3.5
<i>Alcentra</i>	-	3.5
Corporate bonds	22.9	12.0
<i>Schroder</i>	14.6	12.0
<i>Newton</i>	6.1	-
<i>Legal and General</i>	2.2	-
Illiquid alternatives	0.0	13.0
<i>Alcentra</i>	-	4.0
<i>Partners Group</i>	-	4.0
<i>Manager C (TBC)</i>	-	5.0
Cash	0.7	0.0

Fund asset valuation

The table below details the Fund's asset split across its investment managers, compared against the Fund's position at the same time last year.

Manager	Asset class	31 March 2016		31 March 2015	
		£m	Actual %	£m	Actual %
Legal and General	Global equity	342.1	37.7	52.0	5.6
Newton	Diversified growth	130.4	14.4	276.1	30.0
Schroder	Diversified growth	130.8	14.4	284.4	30.9
Schroder	Multi-credit	89.5	9.9	-	-
Schroder	Corporate bonds	132.8	14.6	132.1	14.4
Newton	Corporate bonds	54.9	6.1	147.3	16.0
Legal and General	Corporate bonds	19.9	2.2	19.8	2.2
Fund bank account	Cash	5.9	0.7	8.2	0.9
Total		906.3	100.0	919.9	100.0

Note: Bid values shown where applicable.

Fund performance

Over the 12 months to 31 March 2016, the Fund returned -0.8% (gross of fees) versus a combined benchmark return of 3.9%.

The table below details the Fund's performance for the 12 months, 3 years and 5 years ending 31 March 2016.

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Total Fund	-0.8%	4.6%	5.5%
Combined benchmark	3.9%	6.0%	6.9%
Relative	-4.5%	-1.3%	-1.4%

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.

This being said, the relative underperformance of the Fund over the year to 31 March 2016 has also been due to the negative absolute performance of Schroder's Diversified Growth Fund and marginal underperformance from each of the Fund's active corporate bond mandates.

3.4 Scheme Administration

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

Performance Indicator <i>(from point at which all required information has been received)</i>	Local Government Pension Committee Target	Authority Target	Achieved (%)
Letter detailing transfer <i>in</i> quote	10 days	10 days	100.0%
Letter detailing transfer <i>out</i> 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%

Barnet Pension Fund Membership Movement Analysis 2015/16

Employees

Number of employees at start of year		7,439
Employees joining during the year		<u>2,390</u>
		9,829
Members leaving during the year:		
Normal retirements	217	
Ill-health retirements	8	
Deaths in service	9	
Refunds of contributions	43	
Deferred pensions	543	
Transferred out	3	
Undecided leavers	253	<u>1,076</u>
Number of employees at end of year		<u>8,753</u>

Pensioners

Number of Pensioners at start of year		7,488
New pensioners during the year:		
Normal retirements	234	
Enhanced teachers not included in previous data	-	
Ill-health retirements	8	
Dependants' pensions	65	
Deferred pensions becoming payable	173	<u>480</u>
		7,968
Deaths/dependants ceasing to be eligible		<u>363</u>
Number of pensioners at end of year		<u>7,605</u>

Deferred Pensioners

Number of deferred pensioners at start of year		8,736
New deferred pensioners during the year:		543
Backdated deferred pensioners during the year:		<u>107</u>
		9,386
Deferred pensioners leaving the fund during the year		
Normal retirements	173	
Ill-health retirements	-	
Transferred	82	
Back to active status	-	
Deaths	15	<u>270</u>
Number of deferred pensioners at end of year		<u>9,116</u>
Total Membership at 31 March 2016		<u><u>25,474</u></u>

4. Governance Compliance Statement

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

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

5. Funding Strategy Statement

The funding strategy statement for the Barnet fund can be found on the Barnet website at https://www.barnet.gov.uk/dam/jcr:a56fe20a-6215-40ba-8800-b6d82674d280/funding_strategy_statement.pdf

6. Statement of Investment Principles

The authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, updated in July 2014, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Council's website at:

<http://barnet.moderngov.co.uk/documents/s16640/Appendix%20A%20Statement%20of%20Investment%20Principles%20July%202014.pdf>

7. Communication Policy Statement

An effective communications strategy is vital for the pension administration service (provided on behalf of the Council by Capita Employee Benefits) in its aim to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the pension administration service will communicate with:-

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

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

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

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

- **Capita Employee Benefits:** for day-to-day contact between the hours of 9am and 5pm.
- **Correspondence:** the Fund utilises both surface mail and e-mail to receive and send correspondence.
- **Website:** A members' website is available and other information is available on the national websites at <http://www.lgps.org.uk/lge/core/page.do?pageld=97977>
- **Member Self-Service** as above
- **Annual Benefits:** An annual benefits statement is sent direct to the home addresses of deferred members where a current address is known and is available online for active members.
- **Pensions Roadshows:** The pension administration service also stages ad hoc roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.
- **Existence Validation – Pensioners Living Abroad:** Capita Employee Benefits undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.
- **All Employer Meetings:** Periodic meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant changes in legislation and triennial valuation matters.

Comments

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

barnetpensions@capita.co.uk

Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ

Telephone: 01325 746010/11/12/13/14

On behalf of the Pension Fund Committee

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

London Borough of Barnet Pension Fund

Actuary's Statement as at 31 March 2016

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Introduction

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

2013 valuation results

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

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

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter
Mortality	110% of the S1PA tables with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Assets

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

At 31 March 2013, the smoothed value of the assets used was £789m and this has increased over the period to an estimated £887m.

Updated position since the 2013 valuation

Since March 2013, investment returns have been less than assumed at the 2013 triennial valuation. The increase in liabilities due to the accrual of new benefits is likely to be offset by the increase in the real discount rate when measured on assumptions consistent with the 2013 valuation.

Using a funding model consistent to that adopted at the 2013 valuation, we anticipate that the financial position of the Fund would be similar to the position at the 2013 valuation.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017.

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

Independent auditor's statement to the members of London Borough of Barnet on the pension fund financial statements included in the pension fund annual report



DRAFT UNAUDITED

Pension Fund

Statement of Accounts

for the year ended

31 March 2016

Pension Fund Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of Barnet Council's Pension Fund Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (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 Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of Accounts

I certify that the Pension Fund Statement of Accounts gives a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund at 31 March 2016 and its income and expenditure for the year then ended.

John Hooton, Interim Chief Executive(Section 151 Officer)

Approval of Accounts

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 Mark Shooter, Chair of Pension Fund Committee

Pension Fund Account

	Note	2015/16		2014/15 Restated	
		£000	£000	£000	£000
Contributions and Benefits					
Contributions receivable	5	(52,300)		(53,935)	
Transfer in	6	(1,907)		(1,391)	
Other income		(31)		(12)	
			(54,238)		(55,338)
Benefits payable account	7	49,346		45,541	
Payments to and on behalf of leavers	8	6,656		2,593	
Administrative expenses	9	1,349		1,889	
			57,351		50,023
Net reductions / (additions) from dealings with members			3,113		(5,315)
Return on investments					
Investment income	10	(12)		(29)	
Losses / (profits) on disposals and change in market value of investments	11	5,725		(92,163)	
Investment management expenses	13	3,746		2,625	
Net returns on investments			9,459		(89,567)
Net decrease/(increase) in the net assets available for benefits during the year			12,572		(94,882)

	2015/16 £000	2014/15 Restated £000	2013/14 Restated £000
Net Assets of the Scheme			
Net assets at 1 April	928,905	834,023	798,337
Net Assets at 31 March	916,333	928,905	834,023

Net Assets Statement

	Note	31 March 2016 £000	31 March 2015 £000	31 March 2014 £000
Investment assets	11	900,420	911,724	819,561
Current assets	14	18,437	22,085	17,231
Current liabilities	15	(2,524)	(4,904)	(2,769)
Net assets of the scheme available to fund benefits at the period end		916,333	928,905	834,023

Notes to the Pension Fund Accounts for the year ended 31 March 2016

1. Introduction

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

The day to day administration of the fund and the operation of the management arrangements and investment portfolio are delegated to the Interim Chief Executive (Section 151 Officer) of the Council.

Further details of the management, operation and investment objectives of the Fund are provided in the Fund's Annual Report for 2015/16, the Actuary's report (appended to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the statutory powers underpinning the scheme.

General

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

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

The 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 set out below and are classed as admitted and scheduled bodies:

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

Absolutely Catering 1 - Queenswell	Hartwig
Absolutely Catering 2 - St James	Housing 21 (2)
Allied Healthcare	London Care plc
BEAT (Barnet Education Arts Trust)	Mears Group
Birkins - St James School	NSL Ltd
Blue 9 Security Ltd	OCS Group UK Ltd
Capita CSG	Personnel & Care Bank
Capita RE	Ridge Crest Cleaning
Fremantle Trust (2)	Viridian Housing
Greenwich Leisure	

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

Barnet Voluntary Service Council
Enterprise Cleaning

Barnet MENCAP
KGB Cleaning Services Ltd

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

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

Contributions made by employees are tiered and related to salary and range from 5.5% to 12.5%. These rates are applicable to all employees including manual workers. The employer common contribution rate is 24% with individual employer contribution rates ranging from 11.9% to 28.2%.

The number of employees contributing to the Fund increased during the year from 7,439 to 8,753 at 31 March 2016*. During the same period the number of pensioners increased from 7,488 to 7,605 and the number of deferred pensioners increased from 8,736 to 9,116.

* The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2016, including the comparative figures. An analysis of membership movement in the year is provided in note 20 of these accounts.

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

2. Accounting Policies

Accounting Standards

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes supported by International Financial Reporting Standards (IFRS).

Basis of Preparation

Accruals Concept

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

The financial statements summarise the transactions of the scheme and the net assets of the Fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 17 and these financial statements should be read in conjunction with this.

Financial Assets

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

- a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2016.
- b) Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2016.
- c) Transactions in foreign currencies are accounted for at the ruling rate of exchange at the time of the transaction and valued in the financial statements at the rates prevailing on 31 March 2016.
- d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

Sale and Purchase of Investments

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

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

Administration Expenses

Administration expenses include the recharge from the London Borough of Barnet for administration and processing which includes the cost of pension administration provided by Capita Employee Benefits and financial administration provided by Capita Customer Support Group.

Benefits Payable

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

Contribution Income

Normal contributions both from the members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

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

Investment Income

- i. **Interest Income:** Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument and its amount as at the date of acquisition or origination. Income includes the amount of any amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis
- ii. **Dividend Income:** Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii. **Distribution from pooled funds:** Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iv. **Movement in the net market value of investments:** Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

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.

Related Parties

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(3) of the Accounts and Audit Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

Taxation

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

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

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included in investment management expenses.

3. Assumptions Made About the Future and Other Major Sources of Uncertainty

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

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the 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. (See Note 17).

4. Restatement of Prior Years

	2013/14 Original	Restate- ment	2013/14 Restated	2014/15 Original	Restate- ment	2014/15 Restated
Pension Fund Account						
Contributions receivable and other income	(54,822)	4,241	(50,581)	(55,892)	554	(55,338)
Benefits payable and other expenditure	49,780		49,780	50,867	(844)	50,023
Net additions from dealings with members	(5,042)	4,241	(801)	(5,025)	(290)	(5,315)
Net returns on investments	(26,402)		(26,402)	(89,567)		(89,567)
Net increase in the fund during the year	(31,444)	4,241	(27,203)	(94,592)	(290)	(94,882)
Net Assets of the Scheme						
At 1 April	798,338		798,338	829,782	4,241	834,023
At 31 March	829,782	4,241	834,023	924,374	4,531	928,905
Net Assets Statement						
Investment Assets	819,561		819,561	911,724		911,724
Current Assets	12,990	4,241	17,231	18,397	3,688	22,085
Current Liabilities	(2,769)		(2,769)	(5,748)	844	(4,904)
	829,782	4,241	834,023	924,373	4,532	928,905

5. Contributions Receivable

	2015/16 £000	2014/15 Restated £000
Employers		
Council	(21,249)	(23,074)
Scheduled bodies	(17,745)	(17,627)
Admitted bodies	(3,037)	(2,894)
	(42,031)	(43,595)
Members		
Council	(4,613)	(4,819)
Scheduled bodies	(4,366)	(4,237)
Admitted bodies	(1,290)	(1,284)
	(10,269)	(10,340)
Total Contributions	(52,300)	(53,935)

6. Transfers In

	2015/16 £000	2014/15 £000
Individual transfers in from other schemes	(1,907)	(1,391)

7. Benefits Payable

	2015/16 £000	2014/15 Restated £000
Pensions	41,154	39,172
Commutations and lump sum payments	7,276	5,577
Lump sum death benefits	916	792
	49,346	45,541

8. Payments to and on Account of Leavers

	2015/16 £000	2014/15 £000
Refunds to members leaving service	113	56
Group transfers to other schemes	3,303	-
Individual transfers to other schemes	3,240	2,537
	6,656	2,593

9. Administrative Expenses

	2015/16 £000	2014/15 £000
Administration and processing	1,266	917
Actuarial fees	62	51
Audit fees	21	21
Provision for bad debts	-	900
	1,349	1,889

10. Investment Income

	2015/16 £000	2014/15 £000
Interest on cash deposits	(12)	(29)
Total investment income	(12)	(29)

11. Investments

2015/16	Value at 1/4/2015	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/3/2016
	£000	£000	£000	£000	£000
Pooled investment vehicles	910,564	473,682	(478,208)	(5,725)	900,313
Cash deposits	1,160				107
	911,724				900,420

2014/15	Value at 1/4/2014	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/3/2015
	£000	£000	£000	£000	£000
Pooled investment vehicles	818,587	5,640	(5,742)	92,079	910,564
Cash deposits	974				1,160
	819,561				911,724

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

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

All the investment assets of the Fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund's investment managers at 31 March 2016 including cash deposits totalled £900.420 million. This was split as follows:

Investment Portfolio	31 March 2016 £000	%
Schroder Investment Management	353,092	39.2
Newton Investment Management	185,247	20.6
Legal and General	361,931	40.2
London Collective Investment Vehicle (Share Capital)	150	0.0
	900,420	100.0

	31 March 2015 £000	%
Investment Portfolio		
Schroder Investment Management	416,520	45.7
Newton Investment Management	423,456	46.4
Legal and General	71,748	7.9
	911,724	100.00

Major Investment

The fund investments are all held in pooled funds.

	31 March 2016 £000	31 March 2015 £000
Pooled Investment Vehicles		
UK managed funds	538,231	838,816
UK unit trusts	362,082	71,748
	900,313	910,564
Cash Deposits		
Sterling	107	1,160
	900,420	911,724

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

	31 March 2016		31 March 2015	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker	170,482	18.93	-	-
Legal and General Index Linked Tracker Fund	145,389	16.15	51,958	5.70
Schroder All Maturities Corporate Bond Fund	132,787	14.75	132,131	14.49
Schroder Life Diversified Growth Fund	130,767	14.52	283,658	31.11
Newton Real Return Fund	130,294	14.47	275,693	30.24
Schroder Strategic Bond	89,503	9.94	-	-
Newton Long Corporate Bond Fund	52,583	5.84	139,977	15.35
	851,805	94.60	883,417	96.89

Both Schroders and Newton run their portfolios on a unitised or pooled basis. Fund managers may use derivatives to dampen down volatility of returns, including protecting against adverse market movements. As any point in time, these derivatives will be showing a profit or loss depending upon how the 'protection' is working versus the assets held. The manager is also required to hold cash to meet the margin payments.

A summary of pooled fund asset allocations, provided by fund managers, is shown below.

Newton as at 31 March 2016	Long Corporate Bond %	Long Gilt %	Index- Linked Gilt %	Global Dynamic Bond %	Real Return %
EQUITIES					
UK	-	-	-	-	7.30
North America	-	-	-	-	16.90
Europe ex UK	-	-	-	-	12.00
Japan	-	-	-	-	3.00
Asia ex Japan	-	-	-	-	1.80
Other	-	-	-	-	1.70
Total Equities	-	-	-	-	42.70
FIXED INTEREST					
UK Gilts	-	91.53	-	1.74	-
UK Index Linked Gilts	-	1.44	92.32	-	1.53
UK Corporate Bonds	55.19	3.80	0.32	19.32	1.20
Overseas Government Bonds	-	1.93	5.67	28.01	35.64
Overseas Corporate Bonds	38.54	0.51	-	43.30	2.00
Overseas Index Linked Corporate Bonds	-	-	--	4.03	1.30
Total Fixed Interest	93.73	99.21	98.31	96.40	41.67
OTHER ASSETS					
Shares	-	-	-	0.51	-
Commodities	-	-	-	-	5.00
Derivatives	-	-	-	(7.04)	(0.70)
Other assets	-	-	-	-	10.33
Cash	6.27	0.79	1.69	10.13	1.00
Total Other Assets	6.27	0.79	1.69	3.60	15.63
Total Assets	100.00	100.00	100.00	100.00	100.00

Schroder as at 31 March 2016

Diversified Growth Fund

Equities

Schroder QEP Global Value Portfolio	14.70%
Schroder QEP Global Quality Portfolio	2.70%
Stable Energy Basket	2.00%

Global Equities

S&P500 Index Future	11.00%
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North America Equities

FTSE 100 Index Future	5.20%
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UK Equities

Japan Corporate Reform Basket	3.30%
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Nikkei 225 Index Future	(1.50%)
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Japan Equities

Total Equities

Schroder ISF Emerging Market Debt Absolute Return	6.20%
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Diversified Trend Strategy	2.90%
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Schroder GAIA Sirius US Equity	2.40%
--------------------------------	-------

RWC Partners Europe Absolute Alpha	1.70%
------------------------------------	-------

Henderson UK Absolute Return Fund	1.20%
-----------------------------------	-------

Gam Star Global Rates	1.00%
-----------------------	-------

Brevan Howard Macro	0.90%
---------------------	-------

Absolute Return

Schroder UK Real Estate Fund	4.20%
------------------------------	-------

Property

John Laing Infrastructure Limited	1.50%
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International Public Partnerships Ltd	1.30%
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HICL Infrastructure Company Limited	0.80%
-------------------------------------	-------

Bilfinger Berger Global infrastructure	0.60%
--	-------

Infrastructure

Insurance-Linked Securities Portfolio	3.40%
---------------------------------------	-------

Insurance-Linked Securities

Gold ETF	2.90%
----------	-------

Commodities

Private Equity¹

Total Alternatives

Credit and Government Debt

Schroder High Yield Portfolio	7.30%
-------------------------------	-------

High Yield Debt

UK Gilt Future	3.00%
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US 10 Year Bond Future	(0.80%)
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Australia 10 Year Bond Future	2.10%
-------------------------------	-------

Government Debt

Schroder Securitised Loans Portfolio	3.20%
--------------------------------------	-------

Securitised Loans

iShares USD Corporate Bond ETF	3.20%
--------------------------------	-------

Investment Grade

RWC Global Convertibles Fund	2.00%
------------------------------	-------

Oaktree Global Convertible Bond Fund	1.20%
--------------------------------------	-------

Convertible Bonds

TSY Inflation Linked Bond	4.00%
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Inflation-Linked Bonds

Total Credit and Government Debt

Cash

Total

All Maturities Corporate Bond Fund

Schroder ISF Strategic Bond Fund

	% Market Value		% Market Value
Corporate	55.47%	Corporate	48.00%
Securitised	20.81%	Securitized	17.50%
Sovereign	0.35%	T-Bills	16.62%
EMD Sovereign	(0.17%)	Treasuries	3.42%
Government	8.34%	Sovereign	1.62%
Net Derivatives	11.94%	Government Related	8.62%
Cash	3.26%	Cash	3.75%
Total	100.00%	Other	0.95%
		Net Derivatives	(0.48%)
		Total	100.00%

12. AVC Investments

The Authority holds assets invested separately from the main Fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC). These amounts are not included in the pension fund accounts in accordance with Regulation 4(2)(b) of The Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

2015/16	1 April 2015	Contributions	Income	Expenditure	31 March 2016
	£000	£000	£000	£000	£000
AVC Investments					
Aviva /Norwich Union (amended)	543	8	20	(27)	544
Prudential					
With Profits	581	79	13	(32)	641
Deposit	419	93	2	(177)	337
Unit Linked	968	172	6	(80)	1,066
Total Prudential AVCs	1,968	344	21	(289)	2,044
Total AVC's	2,511	352	41	(316)	2,588

2014/15	1 April 2014	Contributions	Income	Expenditure	31 March 2015
	£000	£000	£000	£000	£000
AVC Investments					
Aviva /Norwich Union (amended)	551	11	20	(39)	543
Prudential					
With Profits	559	74	28	(80)	581
Deposit	390	83	2	(56)	419
Unit Linked	762	141	123	(58)	968
Total Prudential AVCs	1,711	298	153	(194)	1,968
Total AVC's	2,262	309	173	(233)	2,511

The Additional Voluntary contributions in respect of 2015/16 and 2014/15 are revised to reflect updated termination figures.

13. Investment Management Expenses

	2015/16 £000	2014/15 £000
Administration, management and custody	3,721	2,573
Performance measurement services	11	11
Other advisory fees	14	41
	3,746	2,625

14. Current Assets

	31 March 2016 £000	31 March 2015 Restated £000	31 March 2014 Restated £000
Contributions due from employers in respect of			
Employer strain contributions	4,740	5,808	1,292
Employer contributions	5,834	6,021	3,381
Member contributions	845	1,787	1,214
Sundry debtors	1,139	1,210	2,180
Cash balance	5,879	8,159	9,164
Bad debt provision	-	(900)	-
	18,437	22,085	17,231

15. Current Liabilities

	31 March 2016	31 March 2015 Restated £000
Unpaid benefits	(873)	(65)
Sundry creditors	(1,651)	(4,839)
	(2,524)	(4,904)

16. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in July 2014 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at:

<http://barnet.moderngov.co.uk/documents/s16640/Appendix%20A%20Statement%20of%20Investment%20Principles%20July%202014.pdf>

17. Related Party Transactions

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

	2015/16 £000	2014/15 £000
Human resources	965	717
Accountancy administration	283	173
Oversight and governance	44	11
	1,292	901

The recharge from the London Borough of Barnet for administration and processing includes the cost of pension administration provided by Capita Employee Benefits and financial administration and financial accounting from Capita Customer Support Group.

One member of the Pension Fund Committee is in receipt of a pension from the Pension Fund.

18. Actuarial Valuation

Barnett Waddingham LLP undertook the last formal triennial actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by the Authority, as an employer, to meet the administering authority's funding objectives.

The funding level at 31 March 2013 was 79%. The common contribution rate from 1 April 2014 to 31 March 2017 is 24.0% of pensionable pay. This is the average required employer contribution to restore the funding position to 100% over the next 15 years.

The actuarial method used by the actuary is known as the “projected unit credit method”. The key feature of this method is that in assessing the future service cost, the actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

Assumptions as at 31 March 2016	Rate
Assumed retail price inflation (RPI)	3.2%
Assumed customer price inflation (CPI)	2.3%
Future pension increases	2.3%
Future salary increases	4.1%
Discount rate	3.5%

Mortality assumptions as at 31 March 2016

Assumed life expectations from age 65:	Males	Females
- Retiring today	22.1	24.5
- Retiring in 20 years	24.4	26.9

The 2013 actuarial valuation actuarially assessed the value of the Fund’s assets as being sufficient to meet 79% of the Fund’s liabilities. This corresponded to a deficit of £211 million. The latest valuation as at 31 March 2016 as per the requirements of IAS26 is attached to the accounts. The figures below relate to the IAS 26 valuation as at 31 March 2015, and are given for comparison;

Assumptions as at 31 March 2015	Rate
Assumed retail price inflation (RPI)	3.1%
Assumed customer price inflation (CPI)	2.3%
Future pension increases	2.3%
Future salary increases	4.1%
Discount rate	3.2%

Mortality assumptions as at 31 March 2015

Assumed life expectations from age 65:	Males	Females
- Retiring today	22.1	24.4
- Retiring in 20 years	24.2	26.8

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 18 March 2014. The next actuarial valuation will be based on the value of the fund as at 31 March 2016.

19. 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 2016	Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets			
Pooled investments	900,313	-	-
Cash deposits	107	5,879	-
Debtors	-	12,558	-
Financial Liabilities			
Creditors	-	-	(1,651)
	900,420	18,437	(1,651)

31 March 2015 Restated	Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets			
Pooled Investments	910,564	-	-
Cash Deposits	1,160	8,159	-
Debtors	-	13,926	-
Financial Liabilities			
Creditors	-	-	(4,839)
	<u>911,724</u>	<u>22,085</u>	<u>(4,839)</u>

20. Nature and Extent of Risks Arising from Financial Instruments

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

Overall procedures for managing risk

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

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

The Pension Fund has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, 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.

Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external investment managers by review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in 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 2016 working capital was held in the Pension Fund bank account with NatWest Bank 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.

	Long Term Credit Rating	Source	Holding 31 March 2016 £000	Holding 31 March 2015 £000
Schroder Group	A-1	Moody's		
JP Morgan (Schroder Custodian)	A-1	S & P	353,092	415,520
Bank of New York Mellon (Newton Custodian)	A-1	S & P	185,247	423,456
Standard Life	AAA	Moody's	2,502	4,508
Natwest Bank	BBB+	Fitch	12	212
Royal Bank of Scotland CEB	BBB+	Fitch	3,775	3,367

Liquidity risk

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

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

Market risk

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

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

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

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

2015/16

Asset Type	Market Value 31 March 2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Pooled investments	900,313	10.0	990,344	810,282
Cash deposits	5,879	1.0	5,938	5,821

2014/15

Asset Type	Market Value 31 March 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Pooled investments	910,564	10.0	1,001,620	819,508
Cash deposits	8,159	1.0	8,241	8,077

Exchange rate risk

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

Refinancing risk

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

21. Membership of the Pension Fund

Barnet Pension Fund Membership Movement Analysis 2015/16

Employees

Number of employees at start of year		7,439
Employees joining during the year		<u>2,390</u>
		9,829
Members leaving during the year:		
Normal retirements	217	
Ill-health retirements	8	
Deaths in service	9	
Refunds of contributions	43	
Deferred pensions	543	
Transferred out	3	
Undecided leavers	253	<u>1,076</u>
Number of employees at end of year		<u>8,753</u>

Pensioners

Number of pensioners at start of year		7,488
New pensioners during the year:		
Normal retirements	234	
Enhanced teachers not included in previous data	-	
Ill-health retirements	8	
Dependants' pensions	65	
Deferred pensions becoming payable	173	<u>480</u>
		7,968
Deaths/dependants ceasing to be eligible		<u>363</u>
Number of pensioners at end of year		<u>7,605</u>

Deferred Pensioners

Number of Deferred Pensioners at start of year		8,736
New deferred pensioners during the year:		543
Backdated deferred pensioners during the year:		<u>107</u>
		9,386
Deferred pensioners leaving the fund during the year		
Normal retirements	173	
Ill-health retirements	-	
Transferred	82	
Back to active status	-	
Deaths	15	<u>270</u>
Number of deferred pensioners at end of year		<u>9,116</u>

Total Membership at 31 March 2016

25,474

22. Events after the Balance Sheet date

On 23 June, a referendum took place to establish if the United Kingdom would remain part of the European Union (EU). The result of the vote was for the United Kingdom to leave the EU. As the referendum took place after 31 March 2016, there was no impact on the figures contained within the Pension Fund accounts. However, this decision has the potential to significantly impact on future bases of assumptions, estimates and the value of investments and the Council will need to ensure this is considered in future years.

London Borough of Barnet Pension Fund

Pension accounting disclosure as at 31 March 2016
Prepared in accordance with IAS26

Contents

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1. Introduction

We have been instructed by the London Borough of Barnet, the administering authority to the London Borough of Barnet Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2016.

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

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

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

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

2. Valuation data

Data sources

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

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2016;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2013, 31 March 2015 and 31 March 2016, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2016; and
- Details of any new early retirements for the period to 31 March 2016 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

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

Employer membership statistics

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

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	6,702	141,943	47
Deferred pensioners	8,992	14,264	46
Pensioners	6,738	33,831	71

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2016 is estimated to be -2%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2016 is as follows:

Employer asset share - bid value	31 Mar 2016		31 Mar 2015	
	£000s	%	£000s	%
Equities	432,085	48%	613,735	67%
Gilts	89,503	10%	n/a	n/a
Other bonds	378,574	42%	296,829	32%
Cash	6,396	1%	9,339	1%
Total	906,558	100%	919,903	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2016 is likely to be different from that shown due to estimation techniques.

Unfunded benefits

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

3. Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2016, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2016 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2016 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2016	31 Mar 2015
Retiring today	Males	22.1	22.1
	Females	24.5	24.4
Retiring in 20 years	Males	24.4	24.2
	Females	26.9	26.8

We have also assumed that:

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

Financial assumptions

The financial assumptions used to calculate the results in Section 4 and the Appendices are as follows:

Assumptions as at	31 Mar 2016		31 Mar 2015		31 Mar 2014	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI increases	3.2%	-	3.1%	-	3.5%	-
CPI increases	2.3%	-0.9%	2.3%	-0.8%	2.7%	-0.8%
Salary increases	4.1%	0.9%	4.1%	1.0%	4.5%	1.0%
Pension increases	2.3%	-0.9%	2.3%	-0.8%	2.7%	-0.8%
Discount rate	3.5%	0.3%	3.2%	0.1%	4.4%	0.9%

These assumptions are set with reference to market conditions at 31 March 2016.

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

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

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 17 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.2% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.3% p.a. This is a slightly higher differential than last year. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

4. Results and disclosures

We estimate that the net liability as at 31 March 2016 is a liability of £665,602,000.

The results of our calculations for the year ended 31 March 2016 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2016; and
- Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

**Alison Hamilton FFA
Partner**

Appendix 1 Statement of financial position as at 31 March 2016

Net pension asset as at	31 Mar 2016	31 Mar 2015	31 Mar 2014
	£000s	£000s	£000s
Present value of the defined benefit obligation	1,572,160	1,601,171	1,344,574
Fair value of Fund assets (bid value)	906,558	919,903	829,020
Net liability in balance sheet	665,602	681,268	515,554

*Present value of funded obligation consists of £1,532,610,000 in respect of vested obligation and £39,550,000 in respect of non-vested obligation.

Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2016

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to
	31 Mar 2016	31 Mar 2015
	£000s	£000s
Opening defined benefit obligation	1,601,171	1,344,574
Current service cost	42,987	38,080
Interest cost	50,609	58,234
Change in financial assumptions	(83,433)	202,906
Change in demographic assumptions	-	-
Experience loss/(gain) on defined benefit obligation	-	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(49,603)	(53,763)
Past service costs, including curtailments	225	-
Contributions by Scheme participants	10,204	11,140
Unfunded pension payments	-	-
Closing defined benefit obligation	1,572,160	1,601,171

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	Year to
	31 Mar 2016	31 Mar 2015
	£000s	£000s
Opening fair value of Fund assets	919,903	829,020
Interest on assets	29,504	36,419
Return on assets less interest	(46,061)	57,452
Other actuarial gains/(losses)	2,535	637
Administration expenses	(1,049)	(945)
Contributions by employer including unfunded	41,125	39,943
Contributions by Scheme participants	10,204	11,140
Estimated benefits paid plus unfunded net of transfers in	(49,603)	(53,763)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	906,558	919,903

Appendix 3 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	1,545,929	1,572,160	1,598,862
Projected service cost	38,877	39,720	40,582
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	1,574,450	1,572,160	1,569,880
Projected service cost	39,739	39,720	39,701
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	1,596,861	1,572,160	1,547,879
Projected service cost	40,573	39,720	38,885
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	1,619,754	1,572,160	1,526,008
Projected service cost	40,734	39,720	38,732

For the adjustment to the life expectancy assumption, we are essentially assuming a member will live a year longer or a year less. For example, under +1 Year we assumed that a member with a 25 year life expectancy is actually expected to live for 26 years.

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