MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 14TH MARCH, 2017
AT 7.00 PM
VENUE
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
10.	EXTERNAL AUDIT OF PENSION FUND 2016- 2017	3 - 26
11.	INVESTMENT STRATEGY REVIEW: INCOME MANAGERS AND INFRASTRUCTURE - **EXEMPT**	27 - 56
12.	INVESTMENT STRATEGY STATEMENT	57 - 72
14.	ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT - Admitted Bodies Update	73 - 86

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	AGENDA ITEM 10 **Pension Fund Committee** **14 March 2017**
Title	**External Audit Plan for the year ended 31 March 2017**
Report of	Chief Executive
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A - BDO External Audit Plan Work Plan 2016/17
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary

In line with International Standard on Auditing 260 (ISA 260) the Pension Fund's external auditors, BDO, should be provided with access to those charged with governance.
BDO are the Pension Fund's appointed external auditors for the 2016/17 financial year.

Appendix A to this report sets outs the audit plan for external audit activities for 2016/17 which will be presented to Pension Fund Committee by BDO.

Recommendations

1. **That the Pension Fund Committee note the audit strategy for the 2016/17 external audit of the Pension Fund.**

1. WHY THIS REPORT IS NEEDED

1.1 The audit plan contained at appendix A of the report highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendations are required in order for the Council to comply with statutory audit requirements.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The external auditor will report to the next Pension Fund Committee to provide a follow up on the previous period's detailed audit findings.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

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

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

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

5.2.1 The external audit fees for 2016/17 are £21,000 (external audit fees were £31,000 in 2015/16).

5.3 Social Value

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

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Part 15 – Annex A - Responsibility for Functions, Responsibility for Council Functions outlines the terms of reference of the

Pension Fund Committee which include the approval of the Pension Fund Statement of Accounts; to consider advice given by independent advisors at Pension Fund Committee meetings and to determine the appropriate course of action on any matter that pertains to the leadership and/ or strategic management of the Pension Fund.

5.5 **Risk Management**

5.5.1 The external audit progress report attached highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

5.6 **Equalities and Diversity**

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

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None

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LONDON BOROUGH OF BARNET PENSION FUND

AUDIT PLAN TO THE PENSION FUND COMMITTEE

Audit for the year ending 31 March 2017

3 March 2017

BDO

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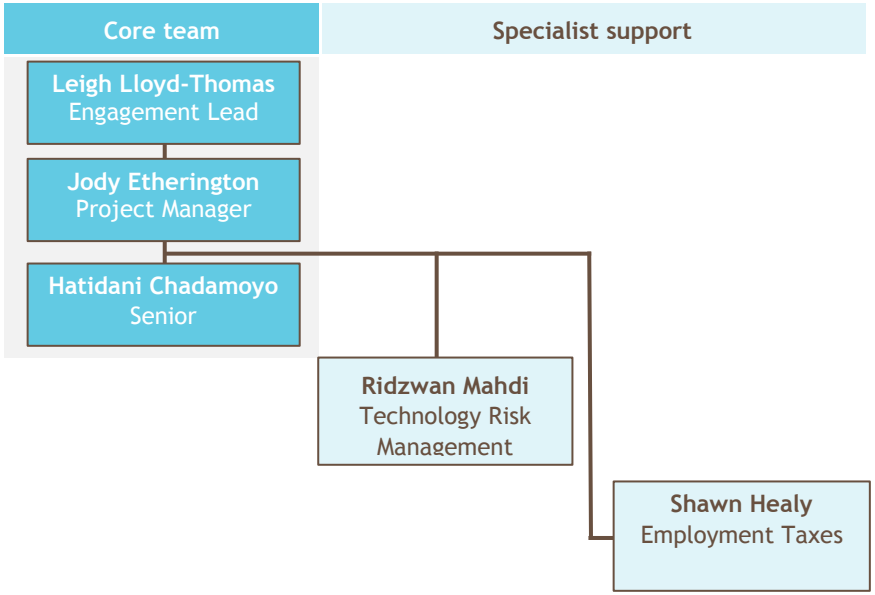
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

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

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Jody Etherington Project Manager	Tel: 01473 320790 jody.etherington@bdo.co.uk	Management of the audit
Hatidani Chadamoyo Senior	Tel: 020 7893 3155 hatidani.chadamoyo@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan .x.mahdi@bdo.co.uk	Manage IT review for audit purposes
Shawn Healy Employment Tax Principal	Tel: 020 7893 2433 shawn.healy@bdo.co.uk	Manage employment tax review for audit purposes

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

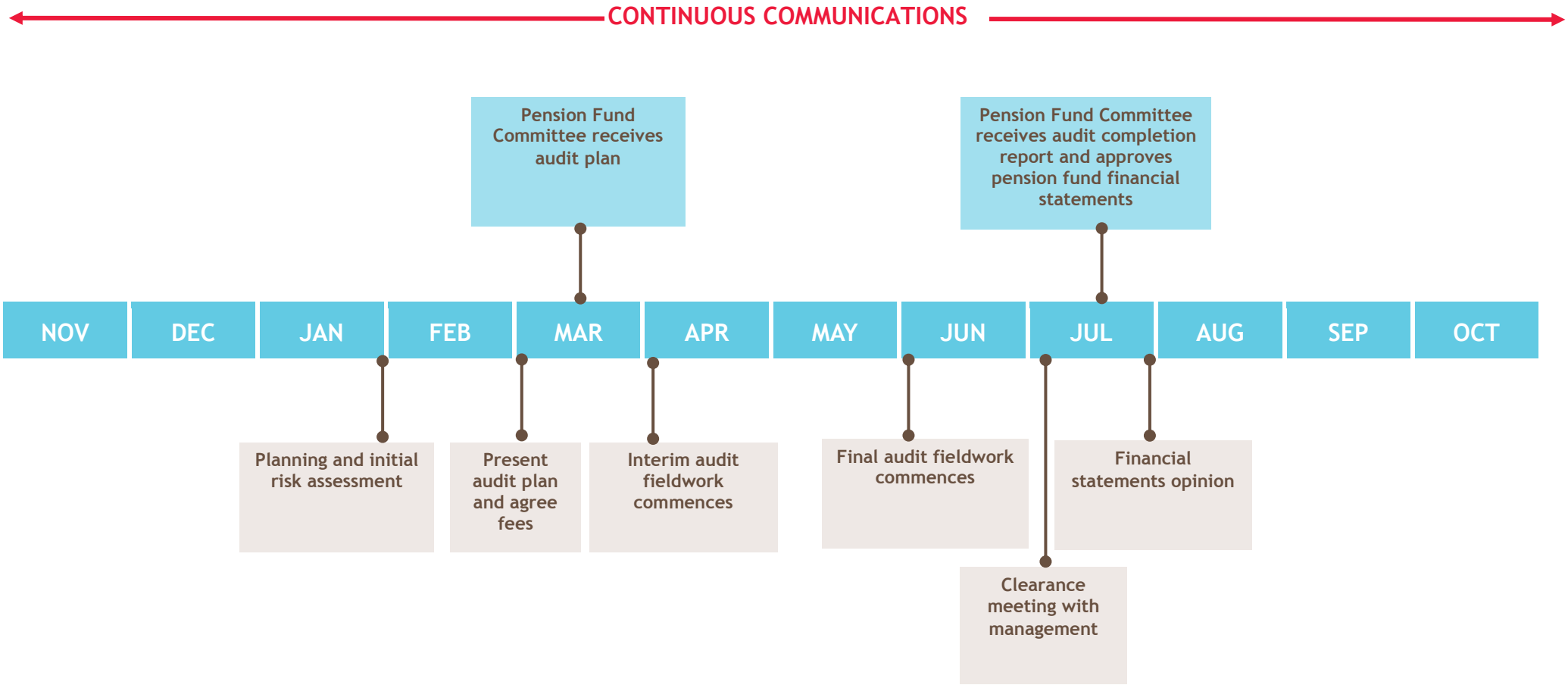
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error

He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

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



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

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

To form an opinion on whether:

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

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£9,100,000	£180,000
Specific materiality for other financial statement areas:		
- Fund account	£2,600,000	£50,000

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

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

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

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

OVERALL AUDIT STRATEGY

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

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

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

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

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

Risks and planned audit responses

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

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

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

Internal audit

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

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

Management assessment of fraud

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

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

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

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

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	The primary responsibility for the detection of fraud rests with management. Its role in the detection of fraud is an extension of its role in preventing fraudulent activity. Management is responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud. Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.	We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. We will obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Not applicable.
Membership disclosure	Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements. During last year's audit we identified significant issues within the draft membership disclosure, mainly as a result of the underlying data not being updated post year-end to reflect events which had occurred during the year but where processing was delayed. This was raised as a significant control deficiency. We have therefore recognised a significant risk that the membership database may not be accurate and up to date to support this disclosure this year.	We note that management is in the process of reviewing its internal controls over membership data in light of last year's audit findings. We will update our understanding of these controls during the final audit visit. We will request that management provide an analysis of movements for members in the year and that this is reconciled to the information on members held for employer contribution schedules, transfers in and out payments, and pensioner payroll. We will test a sample of movements of members to transactions recorded in the fund account, and other underlying supporting documentation.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Cash at bank	During last year's audit we encountered significant issues with the audit of cash at bank. This included delays in the receipt of bank reconciliations, and a number of errors when reconciliations were eventually received. As a result, we reported a significant control deficiency around the bank reconciliation process. We have therefore recognised a significant risk over the existence, completeness and accuracy of cash at bank.	We note that management is in the process of reviewing its bank reconciliation controls in light of last year's audit findings. We will update our understanding of these controls during the final audit visit. We will obtain year-end bank reconciliations and agree these to the general ledger and external bank confirmations of amounts held at year-end. We will substantively test a sample of reconciling items to supporting underlying documentation.	We will request external confirmation of all bank account balances held at year-end.
Contributions receivable (normal and augmented)	Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Augmented contributions are also required against pension strain for early retirements. There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund. During last year's audit, we identified that contributions had historically been incorrectly accounted for on a cash basis, rather than accruals basis, and also encountered significant difficulties in obtaining a reconciliation of the receivables balance to the general ledger. These issues were resolved, but we will be alert to the possibility of similar errors in this year's financial statements.	We will continue to refresh our 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. We will perform an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant. We will review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month. We will perform tests over augmented contributions due from employers for pension strain costs.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Fair value of investments	The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the custodians, and reported on a quarterly basis. These funds are quoted. There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We will obtain direct confirmation of investment valuations from the fund managers and agree independent valuations, where available, provided by the custodian. We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	Direct confirmation of investment valuations from fund managers and, where appropriate, from the custodian. Assurance report on the operating effectiveness of internal controls within each of the fund managers and custodian.
Pension liability assumptions	An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on 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 note that the pension fund has changed actuaries to Hymans Robertson this year. There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.	We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data, and also enquire of management as to the reasons for any changes to assumptions applied by the new actuary, and the extent to which management has challenged these. We will compare the disclosure in the financial statements to the information provided by the actuary.	We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Investment management expenses	Local Government Pension Fund Accounts are required to disclose investment management expenses. Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments. 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'. CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance. CIPFA intends to make this a mandatory disclosure requirement from 2017/18. We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.	We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Fair value hierarchy disclosures	The IFRS 13 scope exclusion for fair value investment disclosures for IAS 26: *Accounting and reporting by retirement benefit plan* has been removed and IFRS 13 fair value measurement disclosures apply in 2016/17. This will require enhanced disclosures around the fair value hierarchy of investments, and in particular any disclosed as 'level 3.' These types of valuations are subject to a significant level of assumption and estimation and valuations may not be based on observable market data. Information from the custodian, fund manager and /or other parties involved in valuing the investments will need to be required in order to disclose the information needed by IFRS 13. There is a risk that the pension fund may not be able to obtain the information needed in order to make the required IFRS 13 fair value investment disclosures in the financial statements.	We will review the fair value hierarchy disclosures and ensure that investment valuations have been correctly classified as a level 1, 2 or 3 in accordance with guidance issued by PRAG/Investment Association: *Practical Guidance on Investment Disclosures 2016*. Where investment valuations have been classified as level 3 we will ensure that the assumptions and estimation techniques used to value the investments have been disclosed and are consistent with information provided by either the custodian, fund manager and/or other parties that are responsible for valuing the investments.	Not applicable.
Remuneration of key management personnel disclosure	The 2016/17 CIPFA Code requires that amounts incurred by the pension fund for the provision of key management personnel services that are provided by a separate management entity shall be disclosed. Key management personnel include officers employed by the Council therefore a percentage of their remuneration will be required to be disclosed to reflect the cost charged to the pension fund. We consider there to be a risk in the presentation of key management personnel services are provided by a separate management entity (the Council).	We will review the service level agreement between the pension fund and Council and ensure that costs relating to the provision of key management personnel services are accurately disclosed.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Benefits payable	Benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations. Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.	We will substantively test a sample of benefits payable in year to underlying supporting documentation. We will review the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches. We will also review any life certification exercises undertaken for members that are excluded from the National Fraud Initiative. Payments are cross checked to movements in the membership statistics.	Review of NFI data matching.
Other payables	During last year's audit we encountered significant difficulties in obtaining a reconciliation of amounts payable to the general ledger. We have therefore identified a risk over the completeness, existence and accuracy of payables at year-end.	We note that management is in the process of reviewing its internal controls over payable reconciliations in light of last year's audit findings. We will update our understanding of these controls during the final audit visit. We will obtain a breakdown of payables at year-end and a reconciliation of these to the ledger and draft financial statements. We will select a sample of these for substantive testing.	Not applicable.
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review Member and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.

INDEPENDENCE

INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

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

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

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

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

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

ENGAGEMENT TEAM ROTATION	
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	2
Jody Etherington - Project manager	2

ENGAGEMENT QUALITY CONTROL REVIEWER
NUMBER OF YEARS INVOLVED
2

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17	2015/16
	£	£
Code audit fee (pension fund)	21,000	31,000[1]
Fees for audit related services	-	-
Fees for non-audit services	-	-
TOTAL FEES	**21,000**	**31,000**

(1) Subject to agreement by PSAA Ltd.

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1: £10,500 (July 2016)
- Instalment 2: £10,500 (January 2017)

Our fee is based on the following assumptions

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

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

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

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

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

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

CALCULATION AND DETERMINATION

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

APPENDIX I: MATERIALITY
Continued

REASSESSMENT OF MATERIALITY

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

UNADJUSTED ERRORS

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

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

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

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

AGENDA ITEM 11

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of the Local Government Act 1972.

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	AGENDA ITEM 13 **Pension Fund Committee** **14 March 2017**
Title	**Investment Strategy Statement**
Report of	Chief Executive and Section 151 Officer
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Draft Investment Strategy Statement
Officer Contact Details	Iain Millar Iain.millar@barnet.gov.uk 0208 359 7126

Summary

The Local Government Scheme (Management of Funds) Regulations were revised in 2016. The regulations require the Pension Fund to agree an Investment Strategy Statement which sets out the appropriate mix of investments for the Pension Fund by 1 April 2017.

Recommendations

That the Pension Fund Committee considers the draft Investment Strategy Statement set out in Appendix 1 and, subject to comments on the draft, approves

1. WHY THIS REPORT IS NEEDED

1.1 Administering authorities are required to prepare, maintain and publish a written investment strategy statement which must be in accordance with the guidance issued by the Secretary of State.

1.2 The Investment Strategy Statement document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Proper advice has been taken from the Pension Fund Committee's investment advisor Hymans Robertson LLP.

2. REASONS FOR RECOMMENDATIONS

2.1 The London Borough of Barnet is required to ensure the proper management of the London Borough of Barnet Pension Fund in its capacity as administering authority. This includes compliance with the requirement of the revised Pension Fund Regulations to ensure the Pension Fund sets out its investment strategy for achieving its funding objectives.

2.2 The Investment Strategy Statement (ISS) replaces the Pension Fund Statement of Investment Principles and includes the Fund's approaches to investment pooling and risk; Asset classes and fund managers; Stewardship; Voting Rights; Environmental, Social and Governance Engagement and Fund Compliance with the "Myners Principles".

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable as this a Scheme requirement

4 POST DECISION IMPLEMENTATION

4.1 Officers will update the draft and publish the approved Investment Strategy Statement.

4.2 The is a requirement to amend the Pension Fund Committee Terms of Reference to replace references to the statutory document "Statement of Investment Principles" with "Investment Strategy Statement".

5 IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. This in return protects LB Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

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

5.2.1 The financial issues are set out in the draft ISS.

5.2.2 There are no performance and value for money, staffing, IT, Property or Sustainability implications arising from this report.

5.3 Social Value

5.3.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Part 15, Annex A, Responsibility for Functions details the responsibilities of the Committee, including to review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles in general and investment performance benchmarks and targets in particular and to appoint pension fund investment managers. The Pension Fund Committee's terms of reference as set out in Part 15 Annex A of the Constitution will need to be amended to replace references to the statutory document "Statement of Investment Principles" with "Investment Strategy Statement". According to the Council's constitution, Part 15, Responsibility for Functions paragraph 1.2 only Council can change the constitution. According to Part 15, Annex B Responsibility for Functions the Council's Monitoring Officer has authority to amend the constitution to give affect to the decisions of the Council and changes of fact and law.

5.4.2 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State and to take proper advice when making decisions in connection with the investment strategy of the Fund.

5.5 Risk Management

5.5.1 Risk management issues are addressed in the draft ISS and are included in the Pension Fund Risk Register.

5.6 Equalities and Diversity

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to all those eligible, as provided by the criteria set out within the relevant Regulations.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups

The broad purpose of this duty is to integrate considerations of equality and keep them under review in decision making, the design of policies and the

delivery of services.

5.7 Consultation and Engagement

5.7.1 The London CIV has been consulted on in the preparation of the ISS.

6 BACKGROUND PAPERS

6.1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

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

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

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Investment Strategy Statement (Published March 2017)

Introduction and background

This is the Investment Strategy Statement ("ISS") of the London Borough of Barnet Pension Fund ("the Fund"), which is administered by Barnet Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 14 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Draft Funding Strategy Statement dated March 2017.

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

Every three years following the actuarial valuation, the Fund undertakes an asset liability modelling exercise. This exercise focuses on key risk metrics of probability of success (how likely is the Fund to be fully funded over the agreed funding period) and downside risk (how poor could the funding position become in the worst economic outcomes).

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each

investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation; the Fund does not have a formal rebalancing policy at present, however, a suitable policy is currently under consideration. In the meantime the Fund's position is monitored both by Officers and the Fund's advisers. A rebalancing back towards target weightings was undertaken in January 2017.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 1: Fund allocation

Asset class	Fund	Benchmark Proportion (%)
EQUITY		**36.0**
LGIM	Passive Global Equity	18.0
LGIM	FTSE RAFI AW 3000 Equity Index Fund	18.0
DIVERSIFIED GROWTH		**22.0**
Schroder	Diversified Growth Fund	11.0

Newton	Real Return Fund	11.0
MULTI-ASSET CREDIT		**17.0**
Schroder	ISF Strategic Bond Fund	10.0
Barings	Global High Yield Credit Strategies Fund	3.5
Alcentra	Global Multi Credit Fund	3.5
CORPORATE BONDS		**12.0**
Schroder	Corporate Bond Fund	12.0
ILLIQUID ALTERNATIVES		**13.0**
Alcentra	European Direct Lending Fund	4.0
Partners Group	Private Market Credit Strategies Fund	4.0
TBC	TBC	5.0
Total		**100.0**

Consideration of the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Fund's assets underperforms relative to sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") - The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee is developing formal rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. Rebalancing is considered currently but not on a formal structured basis. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as liquid diversified growth funds, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Currently the Committee hedges 50% of its exposure to currency risk within its quoted equity allocation.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The Pension Fund Committee reviews its risk register annually with emerging risks reported to Pension Fund Committee as they arise.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix A. A separate schedule of risks that the Fund monitors is set out in the Fund's Draft Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. An indicative timetable for investing through the pool was set out in the July 2016 submission to Government. They key criteria for assessment of pool solutions will be as follows:

1. That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

Any assets not currently invested in the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds 36% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

In addition the Fund has already transitioned other assets into the London CIV with a value of 11% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds c.8% of its assets in illiquid strategies (private market credit and direct lending) and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest

through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

Structure and governance of the London CIV

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code. The Fund will be reviewing this position in 2017-18 with a view to formally adopting the Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this will be monitored on an annual basis.

The Fund is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix B.

Prepared by:-

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Mufaddal Jamali, Investment Analyst

For and on behalf of London Borough of Barnet Pension Fund Committee

Appendix A – Approach to Risk

Investment invariably involves an element of risk. The Committee, in recognition of this, has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

Funding risk: Asset values may not increase at the same rate as liabilities, resulting in an adverse impact on the funding position. The Committee monitors the funding position by considering the Fund's investment strategy and performance relative to the liabilities as part of the Fund's quarterly performance monitoring exercise.

Financial mismatch risk: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate this risk, the investment strategy is set such that it provides exposure to real assets (which provide some form of inflation-hedging) as well as income generating assets that, to some extent, match the Fund's liabilities.

Liquidity/Cashflow risk: Investments are held until such time as they are required to fund payment of pensions. In 2016/2017 it is anticipated that the contributions due will exceed the net payments from the fund to pensioners. However, the liquidity risk is being closely monitored. The Committee manages its cashflows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager risk: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

Concentration risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly, and following a regular fund manager review process.

Demographic risk: This relates to the uncertainty around longevity. The Committee recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty risk: This risk relates to the counterparty in a financial transaction failing to meet its obligations to the Fund. The Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency risk: The strategic asset allocation adopted by the Committee provides for an overseas allocation to enhance diversification via exposure to different economies. Such investments are, however, subject to fluctuations in exchange rates with an associated impact on performance. As such, the Committee has opted to hedge 50% of the Fund's currency risk (based on overseas exposure of the passive global equity allocation). This is considered to strike a suitable balance between dampening the volatility associated with currency fluctuations and the cost associated with currency hedging.

Environmental, Social, and Governance Issues risk: The Committee recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Committee encourages managers to exercise votes in line with their stated ESG objectives.

Appendix B – CIPFA Compliance

The statements below state the extent to which the Fund complies with the principles of investment practice originally issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners.

Principle 1: Effective decision-making

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

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

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

Principle 2: Clear Objectives

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

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

Principle 3: Risk and Liabilities

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

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

Principle 4: Performance Assessment

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

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

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers and also the adviser, Hymans Robertson. The Committee is looking into how to assess the performance of decisions taken.

Principle 5: Responsible Ownership

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

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

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

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

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

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

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

AGENDA ITEM 14

Pension Fund Committee

14 March 2017

Title	**Update on Admitted Bodies Organisations**
Report of	Chief Executive
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Admitted Bodies Monitoring Sheet
Officer Contact Details	Colin Barker, Operational Delivery Manager, Capita colin.barker@capita.co.uk 01325 746008

Summary

This report updates the Committee on the admitted bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBB).

Recommendations

1. **That the Pension Fund Committee notes the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.**

1. WHY THIS REPORT IS NEEDED

1.1 The report is to update the Pension Fund Committee on the current position in relation to admitted bodies to the London Borough of Barnet Pension Fund.

2. REASONS FOR RECOMMENDATIONS

2.1 In accordance with the Best Value Authorities Staff Transfer (Pensions) Direction 2007, issued under s.101 of the Local Government Act 2003, former Council employees must be offered the same pension benefits and rights or a Government Actuary Department approved broadly comparable scheme.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

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

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

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

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

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

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

5.3 Social Value

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

5.4 Legal and Constitutional References

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

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

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

5.4.4 Under the Council's Constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.5 Risk Management

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

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

5.6 Equalities and Diversity

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

The 2010 Equality Act outlines the provisions of the Public Sector Equalities

Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups.

The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services

5.7 **Consultation and Engagement**

5.7.1 Not Applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Admitted Body Monitoring Spreadsheet
Appendix 1

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Housing 21 (2) New (employer 68)	56	06/09/2010	Barclays Bank	778	30/09/2015	NA	G	Housing 21 is no longer an admitted body in the fund from 01/08/2016. Actuary has confirmed that a cessation valuation is required. CEB (Capita) currently collating data. Data sent to actuary for cessation valuation calculation on 17/01/2017.
Viridian Housing	11	22/04/2006	Euler Hermes UK	65	16/08/2016	R	G	Awaiting confirmation of agreed actuarial assumptions before bond value can be calculated by actuary Data collated and sent to actuary

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Freemantle Trust (2)	83	28/03/2014	Royal Bank of Scotland	770	27/03/2017		G	CEB contacted the employer on 20/02/2017 advising that their Bond is due for review on 27/03/2017. Employer advised of actuarial fees. Employer asked to confirm agreement to fees quoted. Reply currently awaited from employer.
Greenwich Leisure	22	31/12/2002	Zurich Insurance PLC	328	30/09/2017		G	In December 2016, data was sent to actuary for employer rate and bond. Reports have been received in February 2017 however these are FRS102 reports. CEB are currently liaising appropriately with regards to the correct information being supplied.
Birkin Cleaning Services (St James Catholic) Approved	6	24/10/2011	Technical & General Guarantee Company SA	13	30/08/2015	R	G	Await actuarial report in terms of alternatives.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Mears Group Approved	19	10/04/2012	Euler Hermes	320	30/09/2017		G	
NSL Approved	31	01/05/2012	Lloyds TSB	412	30/04/2017		G	CEB contacted Hymans in February 2017 for Bond and Contribution Rates. Employer advised of action taken.
Music Service (BEAT) Approved	2	01/03/2013	N/A	24	28/02/2016	R	G	Await actuarial report in terms of alternatives.
Capita (NSCSO) Approved	412	01/09/2013	Barclays Bank PLC	4,731	01/09/2017		G	CEB informed the employer on 20/02/2017 that a Bond review is due on 01/09/2017.
Capita (DRS) Approved	261	01/10/2013	Barclays Bank PLC	3,813	01/10/2017		G	CEB informed the employer on 20/02/2017 that a Bond review is due on 01/10/2017.

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
OCS Group Approved	13	31/05/2014	HSBC	102	31/05/2017		G	CEB contacted the employer on 20/02/2017 advising that their Bond is due for review on 31/05/2017. Employer advised of actuarial fees. Employer asked to confirm agreement to fees quoted. Reply currently awaited from employer.
Ridgecrest Cleaning Approved	4	03/11/2014	HCC International	14	03/11/2017		G	
Green Sky (2)(Claremont School) Approved	4	19/01/2015	TBC	23		R	G	Await actuarial report in terms of alternatives.
Hartwig Approved	1	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBB - no bond required
Allied Healthcare Approved	4	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBB - no bond required

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Absolutely Catering (Queenswell School Catering Contract) Approved	1	01/09/2015	TBC	17	01/09/2018		G	21/12/2016 no Bond or Admission Agreement has ever been received despite many chasers, CEB have now been advised this contract has been re-procured and awarded to Pride Catering. CEB have contacted the school for confirmation of the current situation. CEB, having not received a reply from the school, have chased for a reply on 01/03/2017. Cessation calculation will be required for Absolutely Catering.
Green Sky (3) (St Michaels School cleaning contract) Approved	5	01/09/2014	TBC	16		R	G	Await actuarial report in terms of alternatives.
Absolutely Catering (2) (St James' Catholic School) (previously on report as Brookwood) Approved	8	01/01/2016	TBC	33	01/01/2019		G	Admission Agreement and Bond documentation have been received and sent to legal for sealing.

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Servest (Henrietta Barnet School) Approved	1	01/10/2015	TBC	7	01/10/2018		G	Servest have been conversing with CEB in terms of paperwork and expect to send the Bond document shortly. Currently awaiting final information from their insurer. Bond and Admission Agreement documentation received and sent to legal for sealing on 15/02/2017
ISS (Education and Skills – LBOB Catering) Approved	233	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Admission Agreement needs to be amended to reflect the fact that a Bond is not required. CEB liaising with legal.
Cambridge Education (Mott Macdonald) (Education and Skills LBOB non-catering) Approved	113	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Admission Agreement received and sent to legal for sealing

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Hestia (Domestic violence service) Approved	1	18/04/2016	TBC	£15K	TBC		G	Admission Agreement received and sent to legal for sealing. Still awaiting Bond document but details are provided in the Admissions Agreement so it can be considered to be in place.
Allied Healthcare 2 (Home Care Procurement – Healthcare) (split between AH2 and Hartwig 1 & 2 which are being joined to form Hartwig 3) Approved	5	01/08/2016	NA	No Bond required LBB guarantor	NA		G	Admission agreement prepared by LBB and issued to legal advisor. In December 2016 CEB contacted legal for clarification on AA and views on cessation calculations. Reply awaited.

Admitted Body	No of Active Employees on Transfer	Start Date	Bonds man	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Aqualfo (Home Care Procurement – Enablement) Approved	31	01/08/2016	TBC	£572K	TBC		G	Admission Agreement and Bond has not been received. CEB have now been advised that this contract has been terminated due to service issues and the contract re-procured with Your Choice Barnet. A cessation valuation will be required, CEB currently liaising with legal advisor. Chaser action undertaken by CEB on 01/03/2017.

APCOA	1	14/11/2016						CEB have just been informed that one member of staff has TUPE'D from NSL. Currently awaiting details as have had no involvement previously. On 15/02/2017, CEB emailed Hymans for Bond and Contribution Rates. Employer advised accordingly.

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