

<u>MEETING</u> PENSION FUND COMMITTEE
<u>DATE AND TIME</u> TUESDAY 18TH JULY, 2017 AT 7.00 PM
<u>VENUE</u> HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

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.	BARNET COUNCIL PENSION FUND – ANNUAL REPORT AND STATEMENT OF ACCOUNTS 201617 (APPENDIX A)	3 - 46

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PENSION FUND

ANNUAL REPORT

DRAFT

2016/17

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1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

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

The Fund is financed by contributions that employees and employers pay into the Fund to meet the cost of paying pensions at a later date. The Fund builds up assets at the same time as paying out pensions. Employer contributions are set by the Fund's actuary at the actuarial valuation which is done every three years. The last actuarial valuation was completed as at 31 March 2016. 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.

As a statutory pension scheme it is secure because its benefits are set by law and paid out of a fund which is managed professionally. Under the LGPS we 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.

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

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

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

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended), the LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016 with effect from 14 March 2017 as set out in the Investment Strategy Statement.

The Pension Fund is a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (CIV). The Pension Fund Committee approved the investment of £150,000 as regulatory capital in 2015/16. The Fund has transferred pooled assets into the CIV in 2016/17. This has delivered additional savings in fees. It is also consistent with the Government's LGPS pooling arrangements which require local government pension scheme administering authorities to set out their proposals to invest their assets through one of the approved LGPS investment pools.

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

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

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

1.2 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, the new investment strategy statement, funding strategy statement, governance compliance statement and the communication policy 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 2016/17

Chairman: Councillor Mark Shooter

Vice-Chairman Councillor John Marshall

Members: Councillor Andreas Ioannidis
Councillor Arjun Mittra
Councillor Rohit Grover
Councillor Jim Tierney
Councillor Peter Zinkin

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

Officers

LB Barnet

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

Capita CSG (Customer and Support Group)

Gillian Clelland Assistant Director of Finance
Iain Millar Head of Treasury

Observers

John Burgess Unison
David Woodcock Middlesex University

Actuary

Hymans Robertson LLP from August 2016
Barnett Waddingham until August 2016

Investment Advisors

Hymans Robertson LLP

Auditor

BDO LLP

Legal Advisors

HB Law

Performance Monitoring

Hymans Robertson
WM Company

Custodians

JP Morgan
The Bank of New York Mellon
Northern Trust
State Street

Pensions Administration Manager

Karen Scott (left) then Colin Barker Interim Service Delivery Manager (Pensions), Capita Employee Benefits, PO Box 215, Mowden Hall, Darlington, DL3 9GT

2. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the Fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the Fund's assets is delegated to investment managers who are regulated by the Financial Conduct 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 started a review of 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 Schroders Investment Management. The Committee also agreed a 15% allocation million 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 was completed in first quarter of 2016/17 from the sale of corporate bonds.

In 2016/17 the Pension Fund Committee agreed a target investment strategy which is set out in the investment strategy statement. In March 2017, the Committee considered the proposals for allocation of additional funds through a 10% allocation to liquid multi-asset credit. They appointed Insight and M&G and made a further allocation to Partners Group. A 5% infrastructure allocation was made and IFM were appointed. The infrastructure fund will be funded from the sale of diversified growth funds. The reallocation of multi-asset credit funds started in the first quarter of 2017/18.

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 Hymans Robertson LLP, the Investment Advisor to the Fund.

The Fund also subscribes to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other local authority pension funds which operate under the same regulations. This service was provided by WM Company Limited until 31 March 2017. The new provider is PIRC.

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
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 Equity	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
Alcentra	Global multi credit	3 month LIBOR plus 4% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Barings (was Babson)	Global High Yield Credit Strategies Fund	3 month LIBOR plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Alcentra	European direct lending	8-10% per annum	To outperform the benchmark over a market cycle (typically 5 years)
Partners Group	Private Market Credit Strategies Fund	3 month LIBOR plus 4% p.a.	To outperform the benchmark over a market cycle (typically 5 years)

Fund allocation from Investment Strategy Statement March 2017

Asset class	Fund	Benchmark Proportion (%)
EQUITY		36.0
LGIM (LCIV)	Passive Global Equity	18.0
LGIM (LCIV)	FTSE RAFI AW 3000 Equity Index Fund	18.0
DIVERSIFIED GROWTH		22.0
Schroder	Diversified Growth Fund	11.0
Newton (LCIV)	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
IFM	Infrastructure from 2017	5.0
Total		100.0

Investment Ranges

Note Local Government Pensions (Management and Investment of Funds) Regulations 2009 applied in 2016-17. Revised Investment Regulations adopted by Pension Fund Committee, March 2017.

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

1. Investment strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. Corporate governance issues, including socially responsible investment and the Council's 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 until June 2016 when Hymans Robertson were awarded the contract to provide actuarial service following a public procurement process. The actuary's role is to place a value on the Fund's accumulated pension promises. A formal valuation of the Fund is required legally every three years; the most recent valuation of the Fund took place as at 31 March 2016.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The primary contribution rate for 2017/18 is 17.9% of pensionable pay plus a secondary contribution of £13.374 million. This is the average required employer contribution to give a 66% chance of returning to a fully funded position over 20 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 both for the assets managed by Schroders Investment Managers and for Alcentra. The Bank of New York Mellon (BNYM) acted as custodian for assets managed by Newton Investment Managers and for Partners Group. Following the transition of the Newton Real Return to the London CIV, Northern Trust took over the custody role from BNYM. State Street provide custody services for Barings.

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 2016/17

3.1 Fund Performance

Over the 12 months to 31 March 2017, the Fund returned 15.3% (net of fees) versus a combined benchmark return of 14.0%.

The table below details the Fund's performance for the 12 months, 3 years and 5 years ending 31 March 2017.

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Total Fund	15.3%	8.1%	6.6%
Combined benchmark	14.0%	9.0%	8.0%
Relative	1.1%	-0.9%	-1.3%

Note: Total Fund performance excludes cash holding.

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

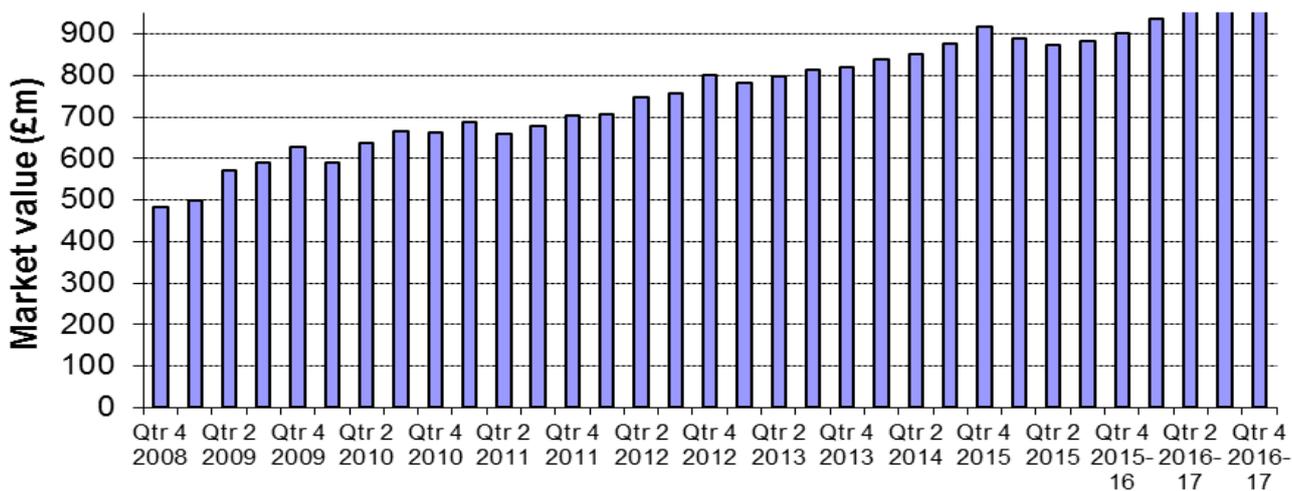
Performance Summary (Net of fees)

	LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund	
3 Months (%)	Absolute Benchmark	4.9 4.9	2.4 1.1	2.1 1.1	2.3 2.3	2.8 1.8	0.7 0.6	3.3 2.8	
	Relative	0.0	1.2	1.0	0.0	1.4	1.0	0.1	0.5
12 Months (%)	Absolute Benchmark	27.2 27.5	N/A N/A	2.3 4.4	9.9 8.6	N/A N/A	11.4 9.3	5.0 2.4	15.3 14.0
	Relative	-0.2	N/A	-2.0	1.3	N/A	2.0	2.5	1.1
3 Years (% p.a.)	Absolute Benchmark	13.3 13.4	N/A N/A	3.2 4.5	4.8 7.0	N/A N/A	7.8 7.5	N/A N/A	8.1 9.0
	Relative	-0.1	N/A	-1.2	-2.0	N/A	0.2	N/A	-0.9
Since Inception (% p.a.)	Absolute Benchmark	10.6 10.7	10.1 4.1 5.8	3.3 4.6	4.5 7.7	11.4 4.4 6.7	7.5 7.4	2.8 2.5	6.6 8.0
	Relative	-0.1		-1.2	-3.0		0.1	0.3	-1.3

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the investments in the Fund from 2009/10 2016/17.

Market value of Pension Fund



3.3 Investment Report

Summary

As at 31 March 2017, the value of the Fund's investment assets and cash balances was £1,041.3 million comprising investment funds of £1,039.0 million and cash held of £2.3 million. This represents an increase of £135 million compared with the previous year reflecting the recovery of global equities in the last 12 months.

In June 2015, Hymans Robertson LLP was appointed as the Fund's new investment adviser. 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.

As part of reviewing the Fund's investment strategy and exploring alternative asset classes that could potentially deliver 'equity-like' returns, the Pension Fund Committee subsequently agreed to implement further changes over the remainder of 2016. This included 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. In March 2016, the Council agreed to appoint Babson Capital and Alcentra to each manage a 3.5% allocation. These mandates were implemented midway through 2016.
- Introduce a 13% allocation to illiquid alternatives based on expectations that the Fund will remain cash flow 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 has explored 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 Pensions Fund Committee considered the proposals of allocation of additional funds to liquid multi-asset credit and infrastructure.
- The Pension Fund Committee confirmed to make direct appointments in accordance with the following allocations of total fund investments:

10% to be invested in liquid multi-asset credit strategies and therefore agreed:

- i. a further allocation of 3%,(circa £30 million) to Partners Group
- ii. 4% ,(circa £40 million) to Insight Investment
- iii. 3 %,(circa £30 million) to M &G Investments High Grade Asset Backed Securities Fund.

5% to be invested to invested in infrastructure (circa £50 million) to IFM Global Infrastructure Fund

The table below details the Fund's new long term investment strategy as at 31 March 2017

	Allocation at 31 March 2017 %	Long term strategic target %
Equities	38.9	36.0
<i>Legal and General (Global)</i>	19.6	18.0
<i>Legal and General (RAFI)</i>	19.3	18.0
Diversified growth	26.8	22.0
<i>Schroder</i>	13.9	11.0
<i>Newton</i>	12.9	11.0
Multi-credit (liquid)	15.8	17.0
<i>Schroder</i>	9.1	10.0
<i>Barings Capital</i>	3.5	3.5
<i>Alcentra</i>	3.2	3.5
Corporate bonds	11.0	12.0
<i>Schroder</i>	11.0	12.0
<i>Newton</i>	0.0	12.0
Illiquid alternatives	5.2	13.0
<i>Alcentra</i>	1.5	4.0
<i>Partners Group</i>	3.7	4.0
<i>Infrastructure</i>	0.0	5.0
Money market funds	2.3	0.0
<i>Standard Life</i>	2.3	0.0

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%

Membership of the Pension Fund 2016/17

	31 March 2017	31 March 2016 Restated
Number of employers with active members	65	64
Number of employees in scheme		
London Borough of Barnet	4,436	4,739
Other employers	3,733	3,999
Total	8,169	8,738
Number of pensioners		
London Borough of Barnet	5,086	5,077
Other employers	2,588	2,534
Total	7,674	7,611
Deferred pensioners		
London Borough of Barnet	6,719	6,171
Other employers	3,404	3,019
Total	10,123	9,190
Total number of members in pension scheme	25,966	25,539

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

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

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

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

4. 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. Council delegates responsibility to the Pension Fund Committee which meets quarterly, see: https://barnet.moderngov.co.uk/documents/s33855/15AResponsibilityforFunctionsAnnexA.doc.pdf
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 London Borough of Barnet Pension Fund will be presented to the Pension Fund Committee for approval on 18 July 2017.

<http://barnet.moderngov.co.uk/documents/s41049/Appendix%20A%20Funding%20Strategy%20Statement%20FSS.pdf>

6. Investment Strategy Statement

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.

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.

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". The Statement is published on the Council's website at:

<https://barnet.gov.uk/citizen-home/search.html?keywords=investment+strategy+statement>

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 (“the Fund”) Actuarial Statement for 2016/17

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

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017 (subject to Pension Fund Committee approval July 2017.) In summary, the key funding principles are as follows:

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

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

Funding Position as at the last formal funding valuation

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

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

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

*Aged 45 at the 2016 Valuation.

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

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

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



Peter Summers FFA
For and on behalf of Hymans Robertson LLP
16 May 2017
Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

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

DRAFT

XX SEPTEMBER 2017



PENSION FUND

STATEMENT OF ACCOUNTS

2016/17

STATEMENT OF RESPONSIBILITIES

PENSION FUND’S RESPONSIBILITIES

London Borough of Barnet Pension Fund is required to:

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

CHIEF FINANCE OFFICER’S RESPONSIBILITIES

The chief finance officer is responsible for the preparation of London Borough of Barnet Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2016-17* (the Code).

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

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

CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Pension Fund Statement of Accounts 2016/17 present a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund (the Balance Sheet) and its income and expenditure for the year ended 31 March 2017.

Signed:.....

Date:
Anisa Darr
Director of Resources and Section 151 Officer

CHAIRMAN OF PENSION FUND COMMITTEE CERTIFICATE

In accordance with the Accounts and Audit (England) Regulations 2016, I certify that the Statement of Accounts was approved by the Pension Fund Committee.

Councillor:.....

Date:
Mark Shooter
Chairman, Pension Fund Committee

MAIN STATEMENTS

FUND ACCOUNT

		2016/17	2015/16
	Notes	£000	£000
Dealings with members, employers and others directly involved in the fund			
Contributions	6	(58,614)	(52,300)
Transfers in from other pension funds	7	(950)	(1,907)
Other Income		0	(31)
		(59,564)	(54,238)
Benefits	8	51,067	49,346
Payments to and on account of leavers	9	5,577	6,656
		56,644	56,002
Net (additions)/withdrawals from dealings with members		(2,920)	1,764
Management expenses	10	4,904	5,095
Net withdrawals including fund management expenses		1,984	6,859
Returns on investments			
Investment income	11	(1,620)	(12)
(Profit) and losses on disposal of investments and changes in the market value of investments	13	(136,188)	5,725
Net return on investments		(137,808)	5,713
Net (increase)/decrease in the net assets available for benefits during the year		(135,824)	12,572
Opening net assets of the scheme		916,333	928,905
Closing net assets of the scheme		1,052,157	916,333

NET ASSETS STATEMENT

		31 March 2017	31 March 2016
	Notes	£000	£000
Investments			
Pooled investment vehicles	13	1,038,872	902,772
Long term investments		150	150
Total investments		1,039,022	902,922
Current assets	17	14,524	15,935
Current liabilities	18	(1,389)	(2,524)
Net assets of the fund available to fund benefits at the end of the reporting period		1,052,157	916,333

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

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

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

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

The following description of the Fund is a summary only. For more detail, reference should be made to the *London Borough of Barnet Pension Fund Annual Report 2016/17* and the underlying statutory powers underpinning the scheme.

General

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

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

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

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

The Fund's accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The Fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council and has authority under the Council's constitution to approve the Pension Fund Annual Report and Pension Fund Statement of Accounts.

Membership

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

- Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector
- Scheduled Bodies – local authorities and similar bodies whose staff are automatically entitled to be members of the Fund

The number of employees contributing to the Fund decreased during the year from 8,738 to 8,169 at 31 March 2017. During the same period the number of pensioners increased from 7,611 to 7,674 and the number of deferred pensioners increased from 9,190 to 10,123.

The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2017, including the comparative figures. An analysis of membership movement in the year is provided in the note below.

	31 March 2017	31 March 2016 (restated)
Number of employers with active members	65	64
Number of employees in scheme		
London Borough of Barnet	4,436	4,739
Other employers	3,733	3,999
Total	8,169	8,738
Number of pensioners		
London Borough of Barnet	5,086	5,077
Other employers	2,588	2,534
Total	7,674	7,611
Deferred pensioners		
London Borough of Barnet	6,719	6,171
Other employers	3,404	3,019
Total	10,123	9,190
Total number of members in pension scheme	25,966	25,539

Membership numbers as at 31 March are restated to reflect movements that were effective prior to 31 March 2016 but were not processed until after that date.

Funding

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.

Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. These are tabled in the actuarial valuation report

Benefits

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

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Fund account – revenue recognition

Contribution income

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

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

Transfers to and from other schemes

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

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

Investment income

- **Distributions from pooled funds** are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- **Movement in the net market value of investments**-changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.2 Fund account – expense items

Benefits payable

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

Taxation

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

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

Management expenses

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

- All **administrative expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity, based on estimated time spent, and charged as expenses to the Fund. A proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.
- All **oversight and governance expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- All **investment management expenses** are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the council's in-house Fund management team are charged direct to the Fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the Fund.

3.3 Net assets statement

Financial assets

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

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

Foreign currency transactions

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

Cash and cash equivalents

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

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

Financial liabilities

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

Actuarial present value of promised retirement benefits

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

Additional voluntary contributions

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

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

Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

The item in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are protected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund managers with expert advice about the assumptions to be applied. Sensitivity analysis and the effects of changes in individual assumptions on the net pension liability are shown in Note 21.

6. CONTRIBUTIONS RECEIVABLE

By category

	2016/17	2015/16
	£000	£000
Employees' contributions:	(10,962)	(10,269)
Employers' contributions:		
Normal contributions	(34,840)	(32,075)
Deficit recovery contributions	(5,496)	(5,171)
Augmentation contributions	(7,316)	(4,685)
Total employers' contributions	(47,652)	(42,031)
Total contributions receivable	(58,614)	(52,300)

By authority

	2016/17	2015/16
	£000	£000
London Borough of Barnet	(30,351)	(25,862)
Scheduled bodies	(24,269)	(22,111)
Admitted bodies	(3,994)	(4,327)
Total contributions receivable	(58,614)	(52,300)

7. TRANSFERS IN FROM OTHER PENSION FUNDS

	2016/17	2015/16
	£000	£000
Individual transfers	(950)	(1,907)
Total transfers in from other Pension Funds	(950)	(1,907)

8. BENEFITS PAYABLE**By category**

	2016/17	2015/16
	£000	£000
Pensions	44,603	41,154
Commutation and lump sum retirement benefits	5,723	7,276
Lump sum death benefits	741	916
Total benefits payable	51,067	49,346

By authority

	2016/17	2015/16
	£000	£000
London Borough of Barnet	34,863	33,958
Scheduled bodies	10,892	10,067
Admitted bodies	5,312	5,320
Total benefits payable	51,067	49,346

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17	2015/16
	£000	£000
Refunds to members leaving service	150	113
Group transfers	0	3,303
Individual transfers	5,427	3,240
Total payments to and on account of leavers	5,577	6,656

10. MANAGEMENT EXPENSES

	2016/17	2015/16
	£000	£000
Administrative costs	1,782	1,259
Investment management expenses	2,931	3,732
Oversight and governance costs	192	104
Total management expenses	4,904	5,095

10A. INVESTMENT MANAGEMENT EXPENSES

	2016/17	2015/16
	£000	£000
Management fees	2,918	3,708
Performance related fees	0	11
Custody fees	13	13
Total investment management expenses	2,931	3,732

11. INVESTMENT INCOME

	2016/17	2015/16
	£000	£000
Pooled investments	(1,582)	0
Interest on cash deposits	(38)	(12)
Total investment income	(1,620)	(12)

12. AUDIT COSTS

	2016/17	2015/16
	£000	£000
Payable in respect of external audit	21	31
Total investment income	21	31

13. INVESTMENTS

2016/17	Market value	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value
	1 April 2016				31 March 2017
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	902,665	115,679	(115,680)	114,790	1,014,952
Money market funds	2,502	0	0	21,398	23,900
Long term investments	150	0	0	0	150
	902,815	115,679	(115,680)	136,188	1,039,002
Other investment balances:					
Cash deposits	107				20
Net investment assets	902,922				1,039,022

2015/16	Market value	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value
	1 April 2015				31 March 2016
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	910,564	473,532	(475,556)	(8,377)	900,163
Money market funds	0	0	0	2,502	2,502
Long term investments	0	150	0	150	150
	910,564	473,682	(475,556)	(5,725)	902,815
Other investment balances:					
Cash deposits	1,160				107
Net investment assets	911,724				902,922

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. The fund investments are all held in pooled funds.

13A. ANALYSIS OF INVESTMENTS

	31 March 2017	31 March 2016
	£000	£000
Pooled funds – additional analysis UK		
Unit trusts	538,864	361,931
UK managed funds	476,088	538,232
Money market funds	23,900	2,502
	1,038,852	902,665
Long term investments	150	150
Cash deposits	20	107
Total investment assets	1,039,022	902,922
Net investment assets	1,039,022	902,922

13B. INVESTMENTS ANALYSED BY FUND MANAGER

	Market value	31 March 2017	Market value	31 March 2016
	£000	%	£000	%
Legal and General	405,190	39.0	361,931	40.1
Schroder Investment Management	353,799	34.1	353,092	39.1
LCIV NW Real Return Fund	133,673	12.9	185,247	20.5
Alcentra	47,940	4.6	0	0
Partners Group	38,171	3.7	0	0
Babson	36,199	3.4	0	0
Standard Life	23,900	2.3	2,502	0.3
London Collective Investment Vehicle (Share Capital)	150	0.0	150	0
	1,039,022	100.0	902,922	100.3

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

	31 March 2017		31 March 2016	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker	201,179	19.4	170,482	18.9
Legal and General Index Linked Tracker Fund	173,017	16.7	145,389	16.1
Schroder Life Diversified Growth Fund	144,586	13.9	130,767	14.5
LCIV NW Real Return Fund	133,673	12.9	130,294	14.4
Schroder All Maturities Corporate Bond Fund	114,694	11.0	132,787	14.7
Schroder Strategic Bond	94,500	9.1	89,503	9.9
Newton Long Corporate Bond Fund	0	0.0	52,583	5.8

13C. FAIR VALUE – BASIS OF VALUATION

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

- Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2017.

13D. FAIR VALUE – HIERARCHY

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

Level 1

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

Level 2

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

Level 3

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

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

31 March 2017

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

31 March 2016

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
	Level 1	Level 2	Level 3
	£000	£000	£000
Financial Assets			
Designated at fair value through profit and loss	0	900,313	0
Loans and receivables	2,609	0	0
Total financial assets	2,609	900,313	0
Grand Total:			902,922

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2017			31 March 2016		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial assets						
Pooled investments	1,014,952			900,163		
Cash and cash equivalent	20	26,226		107	8,381	
Other investment balances		150			150	
Receivables		12,198			10,056	
Total financial assets	1,014,972	38,574	0	900,270	18,587	0
Financial liabilities						
Creditors			(1,389)			(2,524)
Total financial liabilities	0	0	(1,389)	0	0	(2,524)
Total	1,014,972	38,574	(1,389)	900,270	18,587	(2,524)
Total			1,052,157			916,333

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

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

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009/2016 (Revised investment regulation applied from 14 March 2017) 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 Committee has prepared an Investment Strategy Statement which sets out the Pension Fund's policy on matters such as the type of investments to be held, the balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external investment managers is reported to the Pension Fund Committee quarterly. Performance of Pension Fund investments managed by external Investment managers is compared to benchmark returns.

15A. Market risk

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

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016.

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

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset type	Potential market movements (+/-)
Other pooled investments	10.0%

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.

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

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

Asset type	Value as at	Potential value	Potential value
	31 March 2016	on increase	on decrease
	£000	£000	£000
Other pooled investments	900,313	990,344	810,282
Total	900,313	990,344	810,282

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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

Assets exposed to interest rate risk	Value as at	Potential movement on	Value	Value
	31 March 2016	1% change in interest rates	on increase	on decrease
	£000	£000	£000	£000
Cash and cash equivalents	5,986	60	6,046	5,926
Total	5,986	60	6,045	5,926

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

15B. Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the Pension Fund reviews its exposure to credit and counterparty risk through its external investment managers by review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in their activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by custodians who have acceptable credit ratings determined by three credit rating agencies. As at 31 March 2017 working capital was held in the Pension Fund bank account with the Royal Bank of Scotland and in a money market fund with Standard Life, in accordance with the credit rating criteria within the Council's Treasury Management Strategy. Pension administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

Summary	Rating	Source	Balances as at 31 March 2017 £000	Balances as at 31 March 2016 £000
Standard Life	AA	Moody's	23,900	2,502
Royal Bank of Scotland	Aa1	Moody's	2,326	3,377
Cash held by Fund Managers			20	107
Total			26,246	5,986

15C. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

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

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

16. ACTUARIAL VALUATION

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

Barnett Waddingham LLP undertook the previous actuarial valuation of the fund as at 31 March 2013. The funding level in 2013 was 79% with a fund deficit of £211 million.

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

The assumptions used for the triennial valuation were:

Financial assumptions

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

Demographic assumptions

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

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

17. CURRENT ASSETS

	31 March 2017	31 March 2016
	£000	£000
Contributions due – employees	791	845
Contributions due – employers	11,337	10,574
Sundry debtors	70	1,139
Cash balances	2,326	3,377
Total current assets	14,524	15,935

Analysis of debtors

	31 March 2017	31 March 2016
	£000	£000
Central government bodies	42	320
Other local authorities	8,910	
Other entities and individuals	3,246	
<i>Anaysis being obtained</i>		12,238
Total debtors	12,198	12,558

18. CURRENT LIABILITIES

	31 March 2017	31 March 2016
	£000	£000
Sundry creditors	(1,024)	(1,651)
Transfer values payable (leavers)	(365)	0
Benefits payable	0	(873)
Total current liabilities	(1,389)	(2,524)

Analysis of creditors

	31 March 2017	31 March 2016
	£000	£000
Central government bodies	(483)	(73)
Other local authorities	(246)	(7)
Other entities and individuals	(660)	(1,571)
<i>Analysis being obtained</i>		(873)
Total creditors	(1,389)	(2,524)

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market value 31 March 2017	Market value 31 March 2016
	£000	£000
Aviva	616	544
Prudential	2,436	2,044
Total AVC	3,052	2,588

AVC contributions of £454,000 (2015/16: £344,000) were paid directly to Prudential and £8,000 (2015/16: £8,000) were paid to Aviva during the year.

20. RELATED PARTY TRANASCTIONS

Fund administration expenses payable to the administering authority, the London Borough of Barnet, are shown in Note 10.

The recharge of £1.388 million 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 by the Capita Customer Support Group. As at 31 March 2017 the Council owed the Pension Fund £1.894 million in pension contributions (£2.059 million as at 31 March 2016).

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

21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Barnet Pension Fund ("the Fund").

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

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

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

Present value of promised retirement benefits Year ended

Year ended	31 March 2017	31 March 2016*
Active members (£m)	660	n/a
Deferred members (£m)	461	n/a
Pensioners (£m)	708	n/a
Total (£m)	1,829	1,572

* Please note, the figures as at 31 March 2016 were provided by Barnett Waddingham in their report dated 9 May 2016. A split of the liability by class of member was not shown in the report.

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £272m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £12m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.3%
Salary Increase Rate	2.7%	4.1%
Discount Rate	2.5%	3.5%

Longevity assumptions

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

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

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

Commutation assumptions

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

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	147
0.5% p.a. increase in the Salary Increase Rate	1%	19
0.5% p.a. decrease in the Real Discount Rate	9%	168

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Peter Summers FFA
25 April 2017
For and on behalf of Hymans Robertson LLP