MEETING **PENSION FUND COMMITTEE**
DATE AND TIME **TUESDAY 4TH SEPTEMBER, 2012** **AT 7.00 PM**
VENUE **HENDON TOWN HALL, THE BURROUGHS, NW4 4BG**

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Anthony Finn (Chairman),
Vice Chairman: Councillor Mark Shooter (Vice-Chairman)

Councillors

Jack Cohen	Geoffery Johnson	Susette Palmer
Jim Tierney		

Substitute Members

Geof Cooke	Lord Palmer	Rowan Turner
Andrew Harper	Ansuya Sodha	

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

Aysen Giritli – Head of Governance

Maria Lugangira: Governance Service 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

CORPORATE GOVERNANCE DIRECTORATE

ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	
2.	Absence of Members	
3.	Declaration of Members' Personal and Prejudicial Interests	
4.	Public Question Time (if any)	
5.	Members Items (if any)	
6.	Barnet Council Pension Fund Performance for Quarter April to June 2012	1 - 30
7.	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2011/12	31 - 98
8.	Update on Admitted Body Organisations	99 - 104
9.	Any Items that the Chairman decides are urgent	

FACILITIES FOR PEOPLE WITH DISABILITIES

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AGENDA ITEM 6

Meeting	Pension Fund Committee
Date	4 September 2012
Subject	**Barnet Council Pension Fund Performance for Quarter April to June 2012**
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter April to June 2012

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Iain Millar, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards Affected	None
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix A – Pension Fund Market Value of Investments Appendix B – JLT Image Report Quarterly Update 30 June 2012
Contact for Further Information:	Iain Millar Head of Treasury and Pensions Tel: 0208 359 7126

1. RECOMMENDATIONS

1.1 That, having considered the performance of the Pension Fund for the quarter to June 2012, the Committee instruct the Deputy Chief Executive and Chief Finance Officer to address any issues that it considers necessary.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th September 2007 – Minute 64.

2.2 Pension Fund Committee – 4 February 2010, Item 6

2.3 Pension Fund Committee – 13 June 2012, Item 6

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

4. RISK MANAGEMENT ISSUES

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

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

5. EQUALITIES AND DIVERSITY ISSUES

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

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

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

6.1 As Administering authority for the London Borough of Barnet Pension Fund, the Council is required to invest any funds not required for the payment and administration of pension fund contributions and benefits.

6.2 The Pension Fund has appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and volatility of investment return is expected, though in the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield The Growth portfolio targets of the respective DGF funds are LIBOR +5% and the RPI+5%.

6.3 The total value of the pension fund's investments including internally managed cash as at 31 June 2012 was £716.617million This compares to £708.877million at 31 March 2011 and £678 .876million as at 31 December 2011 The graph in Appendix A shows how the market value of the fund has appreciated since 2006. Excluding internally managed cash of £5.6 million and a £5 million funds transferred to the managers in the quarter, the total market value of externally managed investments rose by £2.3 million over the quarter.

6.4 At a total scheme level the Fund's externally managed investments produced a return of 0.3% over the quarter. In relative terms the Fund underperformed the liability benchmark return for the quarter by -1.6%.This was due to a combination of weak equity markets and falling bond yields which caused the expected value of liabilities to rise, (for all Local Government Pension Funds). However positive absolute return was generated, as expected, as the Diversified Growth Funds (DGF) outperformed equities in falling markets.

6.5 Over the 12 months to 30 June 2012, the total Scheme return (ex property) was 0.2% versus the liability benchmark return of 4.6%.. The corporate bond portfolios managed by Schroders and Newton under performed against the 'Over 15 years Gilts Index' by 3.9% and outperformed the 'Over 5 Years Index Linked Gilts Index' by 2%..

6.5 At a manager level, Schroders have under performed the benchmark in the last year for both DGF and corporate bonds and Newton have underperformed on the diversified growth fund. However when compared to the 60/40 global equity benchmark over 12 months ,the Newton real return fund outperformed by 3.3% but Schroders Diversified Growth Fund underperformed by 0.6%.

6.6 The Newton Corporate Bond portfolio marginally outperformed, returning 3.7% against its benchmark for the quarter of 3.6% and over the year the Fund returned 15.4% compared to the benchmark return of 14.7%. Schroder underperformed the benchmark for the quarter by 0.2% returning 1.9% but underperformed for the year with a 6.3% performance against benchmark return of 9.3%.

6.6 Over the quarter for diversified growth, the Newton DGF has underperformed, 1.1% versus a benchmark return of 1.2% while one year return was 0.2% compared to a benchmark return of 4.7%. Schroder has underperformed, -2.5% versus a benchmark return of 1.6% while one year return was -4.1% compared to a benchmark return of 7.9%.

6.7 Legal and General equity performance was -3.6% marginally over the benchmark of -3.7% and the fixed interest fund outperformed with a return of 2.3% compared to benchmark return of 2.1%.

7. LEGAL ISSUES

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

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

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

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

9. BACKGROUND INFORMATION

9.1 **History**

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

9.2 **Tax Status**

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

9.3 Operation and Administration

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

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

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

9.4 Scheme Governance

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

The Fund's investment objectives and policies are published in a Statement of Investment Principles, details of this statement can be found on the Council's Web Site
http://www.barnet.gov.uk/statement_of_investment_principles_oct_2010.pdf).

9.5 Funding

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

9.6 Investment Performance & Benchmark

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

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

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

9.7 Internally managed funds

9.7.1 The property unit trust portfolio accounted for 3.5% of the total market value of the fund and realised £23.9m on disposal. In accordance with Pension Fund Committee decision of, 21 March 2011, (Agenda Item 7), almost all of the property unit trust portfolio holdings were sold in the previous quarter, realising £22.850 million. The remaining units in Rockspring Hanover Property Unit Trust were valued at £1.122 million at 31 December and sold at the end of March 2012,

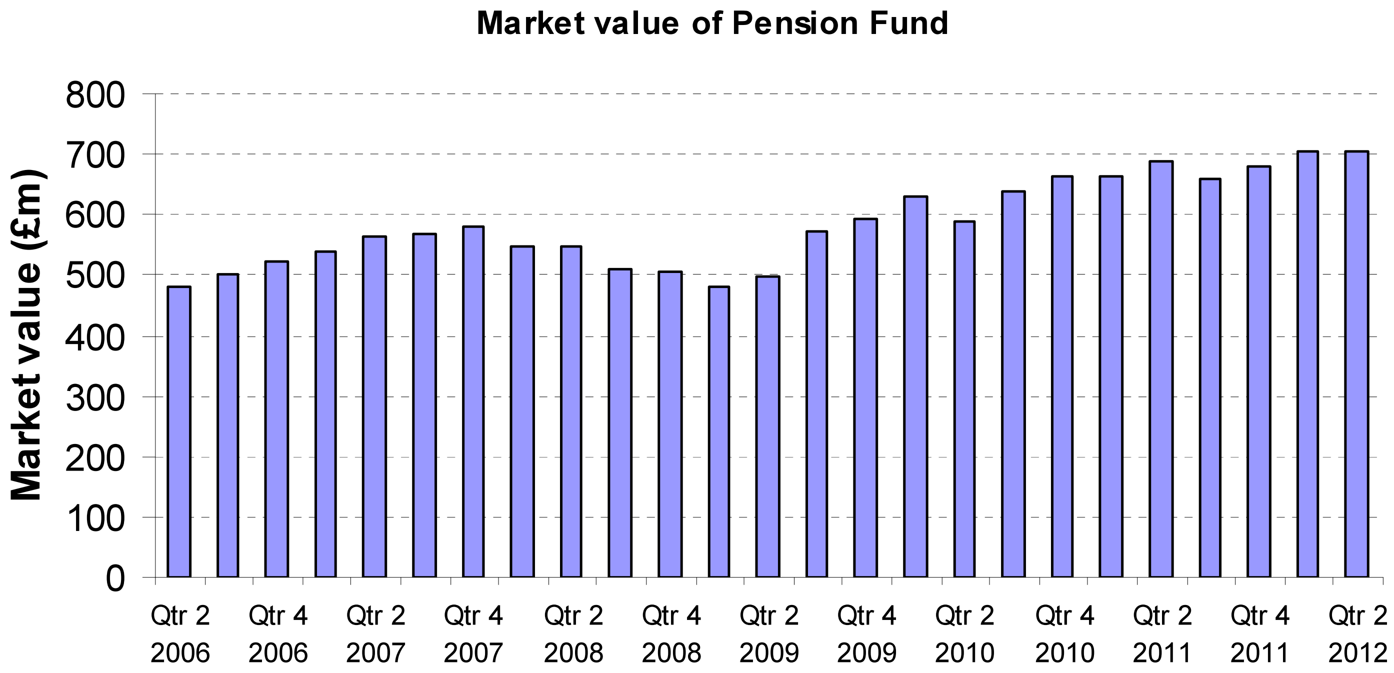
9.7.2 As at 3O June 2012 £5.6 million Pension Fund cash was held compared to £5.2 million as at 31 March 2012. These funds were invested internally pending transfer to the external fund managers if not required for the payment and administration of pension benefits.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**TE**

Appendix A - Pension Fund Market Value of Investments



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Appendix B

Performance Report - Quarterly Update
30 June 2012

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

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Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Head of Investment Consulting - South
August 2012

Section One – Market Update

Introduction

This summary covers the key market data for the three months to the end of June 2012.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	-2.6	-3.1
Overseas Equities	-3.7	-4.2
USA	-1.0	7.8
Europe	-7.2	-20.2
Japan	-5.5	-4.8
Asia Pacific (ex Japan)	-4.7	-10.6
Emerging Markets	-7.3	-13.6
Property	0.3	4.8
Hedge Funds	-1.6	-1.5
Commodities	-10.7	-8.6
High Yield	2.3	6.7
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.7	27.9
Index-Linked Gilts (>5yrs)	0.8	16.9
Corporate Bonds (>15yrsAA)	5.3	18.3
Non-Gilts (>15 yrs)	4.2	15.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.8	-2.3
Against Euro	3.0	11.6
Against Yen	-4.8	-3.5

Yields as at 30 June 2012	% p.a.
UK Equities	3.7
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.2
Non-Gilts (>15 yrs)	4.6

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.3	-1.3
Index-Linked Gilts (>5 yrs)	0.0	-0.6
Corporate Bonds (>15 yrs AA)	-0.4	-1.3
Non-Gilts (>15 yrs)	-0.3	-0.9

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.4	2.8
Price Inflation - CPI	0.1	2.4
Earnings Inflation *	1.0	1.7

* is subject to 1 month lag

Statistical highlights

- The Consumer Price Index ("CPI") stood at 2.8% in June 2012, down from 3.5% in March and significantly down from its peak of 5.2% in September 2011. The Retail Price Index ("RPI") stood at 3.1% in June 2012 down from 3.5% in March. The largest downwards pressures have been from fuel, food, and non alcoholic beverages.
- The Bank of England's ("BOE") Monetary Policy Committee ("MPC") maintained interest rates at 0.5%. But announced at its July meeting that it will inject a further £50 billion into the economy be extending its quantitative easing ("QE") programme to £375 billion.
- Britain's public finances sank deeper into the red as weaker tax receipts and increased Government borrowing further increased the budget deficit. Figures from the ONS showed that net borrowing, excluding financial help to Britain's banks, stood at almost £18bn in May. The ONS said income tax receipts were down more than 7% on May 2011 while government spending was up by 8%. This combination of worsening public finances and poor domestic output led the Government to introduce further QE in an attempt to stimulate economic growth.
- The UK banking industry is currently engulfed in a fresh scandal after Barclays Bank was fined a total of £290m, levied by UK and US authorities for its role in attempting to manipulate the London interbank offered rate ("LIBOR"), a benchmark rate that is used globally to set the price of everything from credit card fees to corporate loans
- The European Central Bank ("ECB") has cut interest rates to a new record low in a bid to boost economic growth. The headline figure for interest rates was cut from 1.00% to 0.75%, while the deposit rate has been cut from 0.25% to 0%.
- China's Central Bank cut its interest rates from 6.31% to 6.00%, while deposit rates fell from 3.25% to 3.00%. This is the second time in two months in a bid to boost slowing economic growth.
- After rallying into the end of April, the S&P 500 fell almost constantly during the first three weeks of May. The index made some gains early in June as the market began to price in the possibility of policy intervention.
- While the first three months of the year was characterized by steady global growth and elevated investor optimism, the second quarter brought a steady stream of negative news. UK gilts, having rallied sharply in May with the other favoured government bond markets of Germany and the US, posed a -1.0% return for the month, producing a 3.9% return for Q2 and 1.9% for the first half of 2012. Q2's performance was dominated by May's 4.4% return.
- Sterling investment grade corporate bonds were up 0.3% in June, 2.1% in Q2 and posted a return for the first half of 2012 of 5.0%. The average yield differential between Gilts and the whole of the investment grade corporate bond market fell from 2.89% to 2.74% in June, down from 3.13% at the end of 2011 but still above the 2.25% average over that year.

Section Two – Total Scheme Performance

		Start of Quarter		Net New Money	End of Quarter	
Manager	**Fund**	**Value** £	**Proportion of Total** %	£	**Value** £	**Proportion of Total** %
Newton Investment Management Limited (Newton)	Real Return	226,349,214	31.9	1,750,000	230,644,847	32.2
Schroder Investment Management Limited (Schroder)	Diversified Growth	220,342,394	31.1	1,750,000	216,903,474	30.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	34,190,632	4.8	-	32,956,378	4.6
Newton	Corporate Bond	106,365,810	15.0	750,000	111,066,646	15.5
Schroder	All Maturities Corporate Bond	100,766,889	14.2	750,000	103,423,975	14.4
L&G	Active Corporate Bond – All Stocks	15,208,696	2.1	-	15,563,025	2.2
Schroders	Cash	406,965	0.1	-	418,753	0.1
Internal	Cash	5,246,367	0.7		5,640,289	0.7
ASSET SPLIT						
Growth assets		486,535,572	68.6	-	486,563,741	67.9
Bond assets		222,341,395	31.4	-	230,053,646	32.1
TOTAL		**708,876,967**	**100.0**	**-**	**716,617,387**	**100.0**

Source: Investment managers, bid values. Please note that the internal property was fully disinvested during Q1 2012. The Internal Cash is assumed to have earned no interest over the quarter. The Schroders Cash is assumed to be held in respect of the Growth portfolio.

Total Scheme Performance

	Portfolio Return Q2 2012 %	Benchmark Return Q2 2012 %
Total Scheme	0.3	1.9*
Growth Portfolio		
Growth v Global Equity	-0.7	-3.0
Growth v RPI+5% p.a.	-0.7	1.6
Growth v LIBOR + 4% p.a.	-0.7	1.2
Bond Portfolio		
Bond v Over 15 Year Gilts	2.8	6.7
Bond v Index-Linked Gilts (> 5 yrs)	2.8	0.8

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 17).

The Bond portfolio excludes L&G corporate bond fund.

The total scheme return is shown against the liability benchmark return (see page 17). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder corporate bond portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

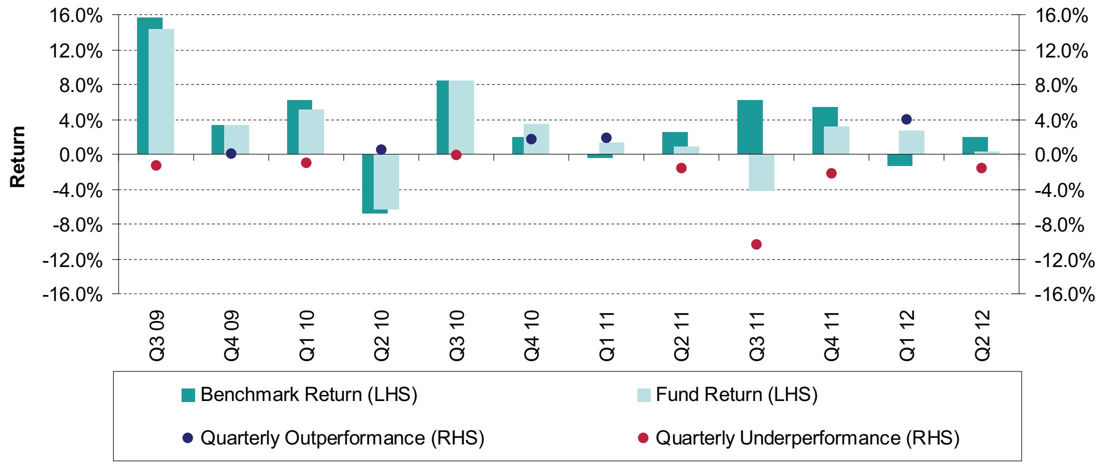
Individual Manager Performance

Manager/Fund	Portfolio Return Q2 2012 %	Portfolio Benchmark Q2 2012 %
Newton Real Return	1.1	1.2
Schroder Diversified Growth	-2.5	1.6
L&G – Overseas Equity	-3.6	-3.7
Newton Corporate Bond	3.7	3.6
Schroder Corporate Bond	1.9	2.1
L&G – Corporate Bond	2.3	2.1

Source: Investment managers, Thomson Reuters. Performance is money-weighted.

The previous table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks.

Total Scheme - performance relative to liability benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 0.3% over the quarter but underperformed the liability benchmark return by 1.6%. This was due to a combination of weak equity markets and falling bond yields which caused the expected value of the liabilities to rise.

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

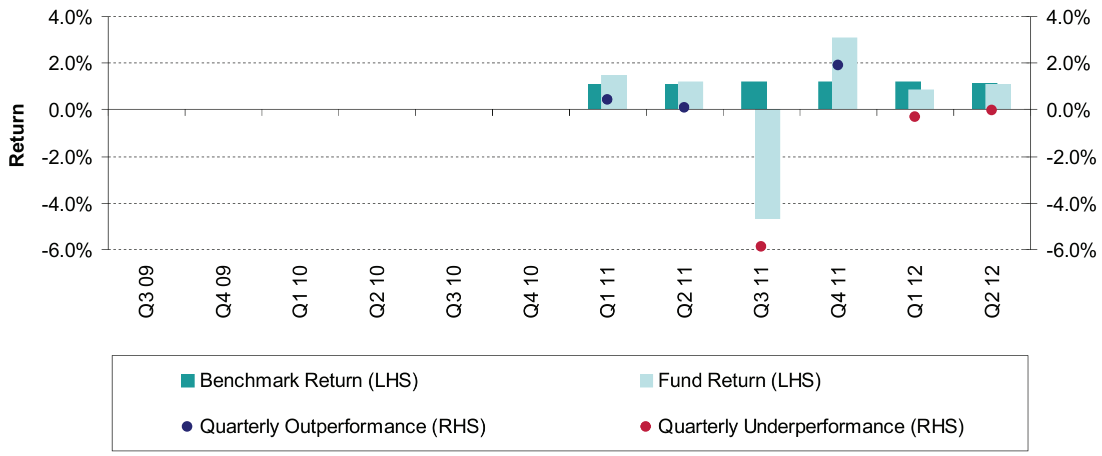
The positive absolute return was generated due to the positive absolute return of Newton Real Return fund and the bond portfolio.

The Growth Portfolio, comprising the two DGF funds, outperformed the notional 60/40 global equity benchmark, by 2.3%, as the DGF funds performed well compared to the equity market. It is usual to expect DGF funds to outperform equities in falling markets. The Growth portfolio returned less than both of the LIBOR +4% and the RPI +5% target returns of the respective DGF funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 3.9%) and outperformed the Over 5 Years Index Linked Gilts Index (by 2.0%).

Section Three – Manager Performance

Newton - Real Return Fund- performance relative to portfolio benchmark



Source: Investment manager.

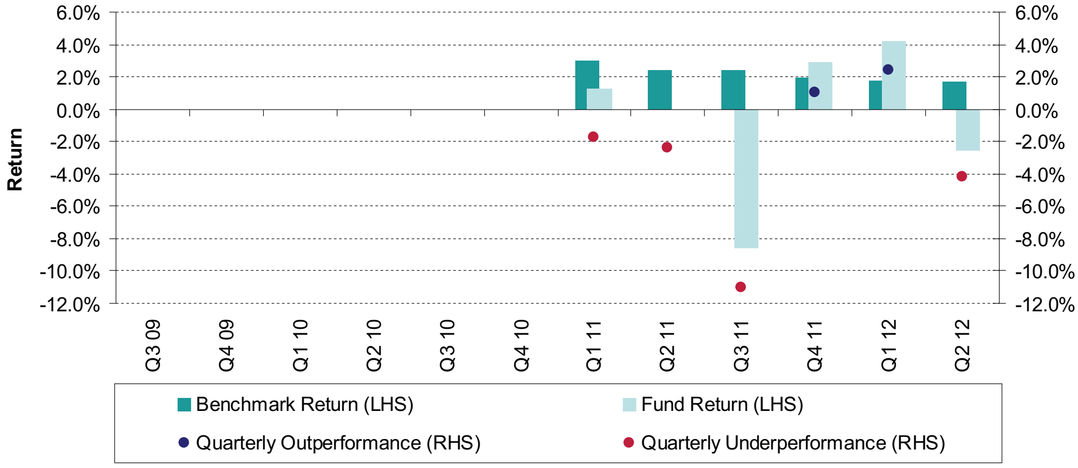
The portfolio return was 1.1% compared to its LIBOR + 4% p.a. benchmark return of 1.2% underperforming by 0.1%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 4.1%.

The Fund's holdings in New Zealand and Australian government bonds benefited from a slowdown in the Australasian region as a whole. Holdings in US TIPS (US index linked bonds) benefited from both the falling yield and the appreciation of the US dollar against sterling.

Equity holdings in the healthcare, telecommunications, utilities and consumer staples sectors all performed well amid investors' flight into the more defensive areas of the market. Notable contributions were made from the holdings in Reynolds American, Severn Trent, GlaxoSmithKline and Vodafone Group. Equity index options on the S&P 500 index provided effective downside protection. Broadly, the Fund's high-yield corporate debt holdings held up well.

Over the 12 month period, the Fund returned 0.2% versus the benchmark return of 4.7%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 3.3%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The portfolio return was -2.5% compared to its RPI + 5% p.a. portfolio benchmark return of 1.6%, underperforming by 4.1%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 0.5%.

Like the Newton Real Return Fund, the Schroder DGF outperformed global equity comparator (60% FTSE All Share and 40% FTSE World ex UK hedged to GBP) which was down 3.0% over the quarter. The exposure to cyclical assets was a drag on performance as these assets produced negative results following an increase in market volatility. Exposure to UK, US and Europe equities detracted from performance as equity markets suffered over the period.

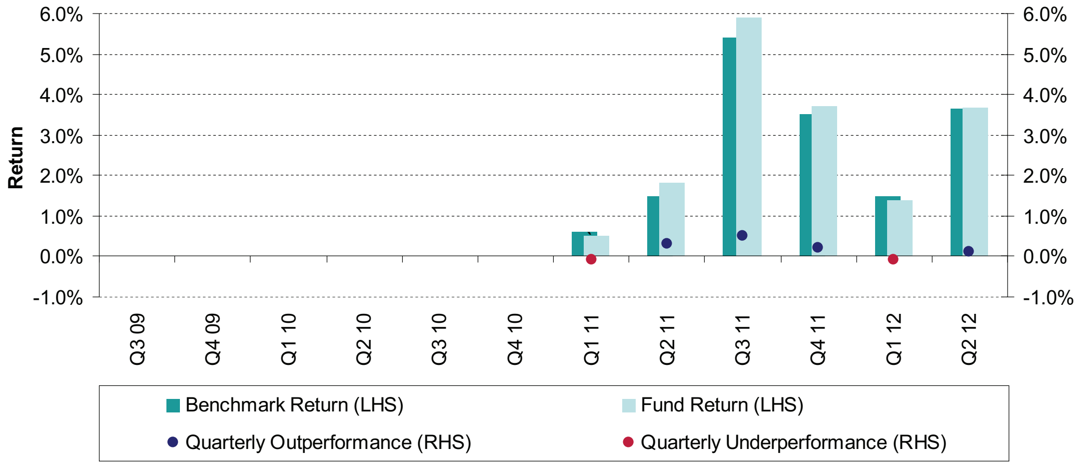
Over the 12 month period, the Fund returned -4.1% versus the benchmark return of 7.9%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 0.6%.

Asset allocation for growth managers: movement over the quarter

	Q2 '12 Newton %	Q2 '12 Schroder %	Q1 '12 Newton %	Q1 '12 Schroder %
UK Equities	13.3	2.2	13.1	3.5
Overseas Equities	37.2	38.1	38.1	39.3
Government Bonds	9.8	-	8.8	-
Corporate Bonds	9.7	6.1	9.4	5.7
High Yield	-	22.8	-	19.8
Private Equity	-	1.2	-	1.2
Commodities	3.6	7.0	3.9	7.7
Absolute Return	-	9.1	-	8.0
Index-Linked	3.3	-	2.4	-
Property	-	4.5	-	4.3
Cash/Other	23.1	9.0	24.3	10.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

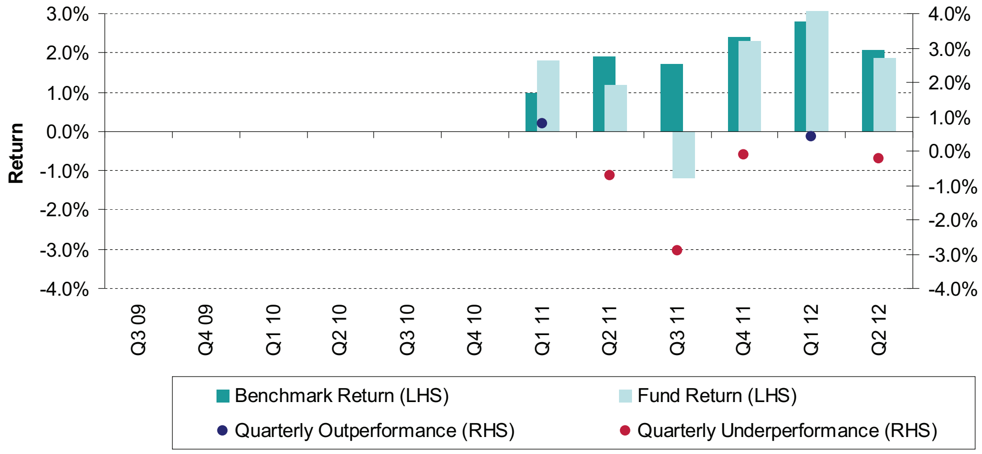


Source: Investment manager.

The Newton Corporate Bond portfolio marginally outperformed its benchmark, returning 3.7% versus the benchmark return of 3.6%. Performance was driven by slowing growth, falling inflation and bouts of anxiety concerning the Eurozone, which provided a favourable backdrop, for high quality long-dated bonds. The fund's sector allocation contributed to performance with its underweight positions in banks, utilities and telecommunications, and overweight positions in asset-backed and consumer noncyclical sectors.

Over the 12 month period, the Fund returned 15.4% versus the benchmark return of 14.7%.

Schroder - All Maturities Corporate Bond portfolio - performance relative to portfolio benchmark

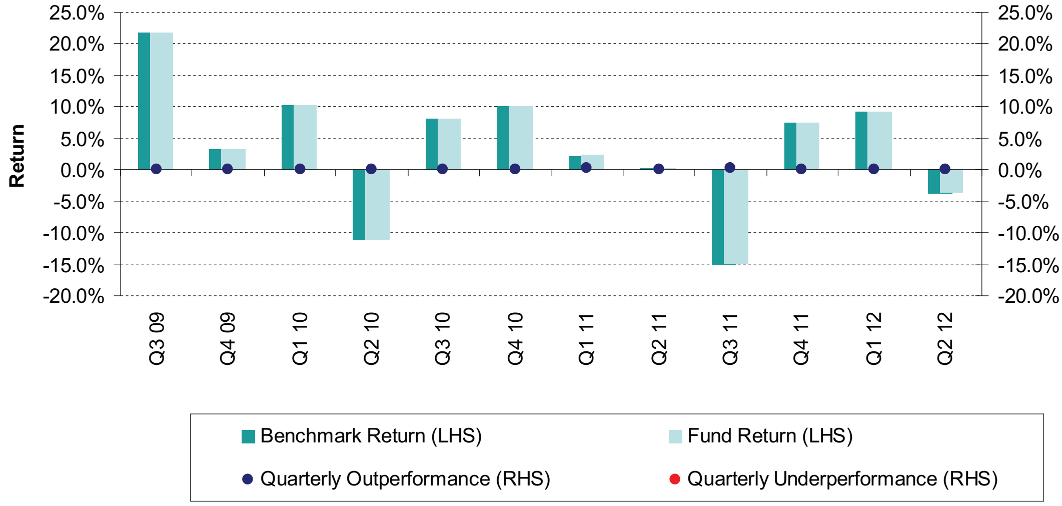


Source: Investment manager.

The Schroders Corporate Bond portfolio underperformed the benchmark by 0.2%, returning 1.9%. The underperformance was driven by the exposures to lower-rated credit securities and financials; two sectors which saw large increases in spreads, which in turn caused falls in values.

Over the 12 month period, the Fund returned 6.3% versus the benchmark return of 9.3%.

L&G – Overseas Equities



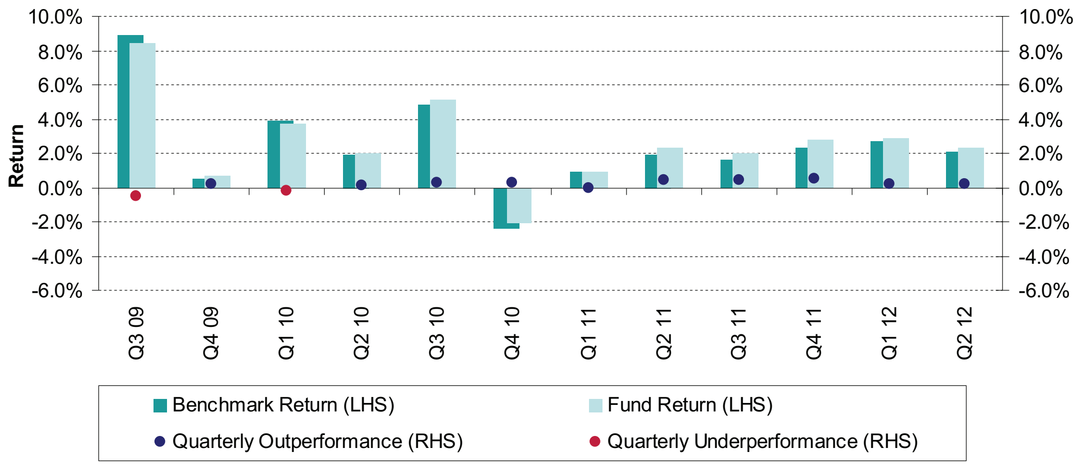
Source: Investment manager.

Over the second quarter of 2012, the Fund return was -3.6% against the benchmark return of -3.7%.

Over the 12 month period, the Fund return was negative at -3.5%, outperforming the benchmark return by 0.7%.

The Fund has performed broadly in line with its benchmark over the 3 year period.

L&G – Active Corporate Bond - All Stocks - Fund



Source: Investment manager.

Over the quarter the Fund return was 2.3% outperforming the benchmark by 0.2%.

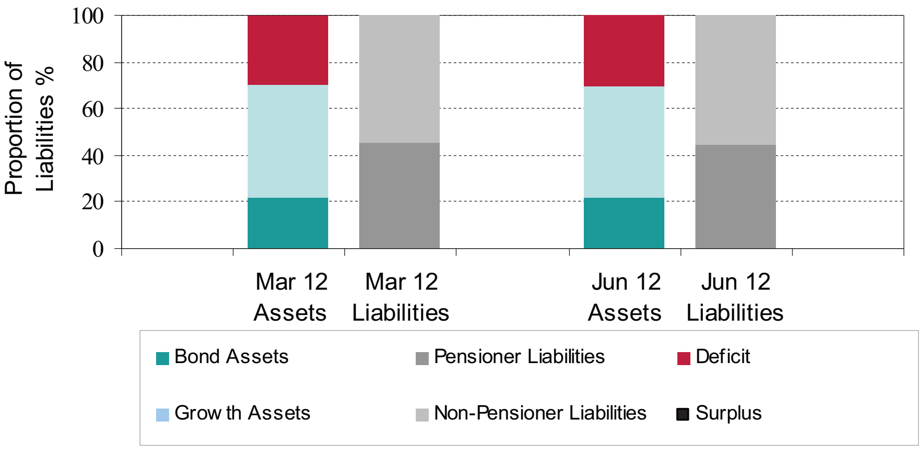
The drivers of the performance were good stock selection and a bias towards collateralised issues. The fund's cautious view towards credit risk and relatively large holdings in gilts underpinned the fund's return.

Over the 12 month period, the Fund has performed well with a return of 10.4% compared with the benchmark return of 9.0%.

Section Four – Consideration of Funding Level

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

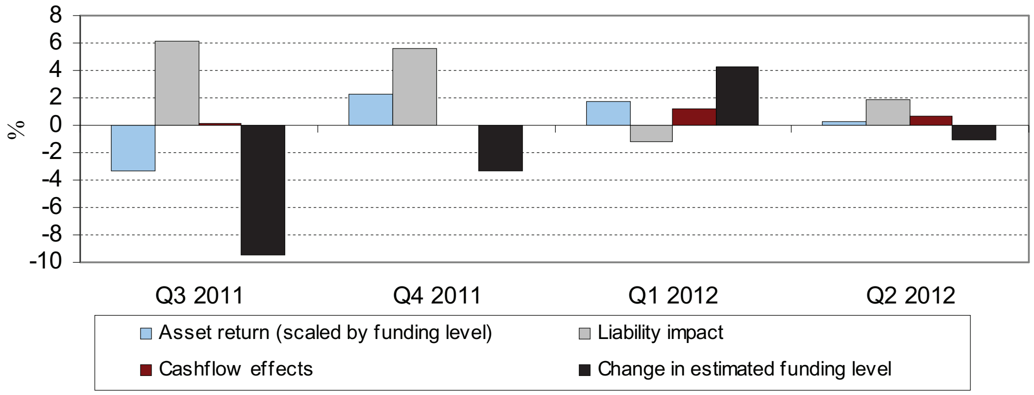
Allocation to Bond and Growth assets against estimated liability split



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

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

Scheme performance relative to estimated liabilities



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

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

Although the value of the Scheme's assets rose marginally over the quarter, the estimated funding level fell by 1% over the quarter, to 69%, due to a rise in the expected value of the liabilities.

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

Section Five – Summary

Overall this has been a challenging quarter for the Scheme against a backdrop of weak equity markets and falling bond yields.

In absolute terms, the Scheme's assets produced a return of 0.3% over the quarter. All bond portfolios produced positive absolute returns as did the Newton Real Return Fund.

In relative terms, the Scheme underperformed the liability benchmark return (see page 17) by -1.6%. Of the funds, both the Schroders portfolios underperformed and Newton Real Return marginally underperformed.

The combined Growth portfolio outperformed a notional 60/40 global equity return but produced a return of -0.7%, underperforming the benchmarks which are cash-based.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 3.9% and outperformed the Index Linked Gilts (>5 Years) Index by 2.0%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a negative impact (-1%) on the Scheme's estimated funding level which was 69% as at 30 June 2012.

Appendix

Liability benchmarking

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

Summary of current funds

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

Summary of current funds (continued)

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

Glossary of Terms

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

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

Manager Research Tier Rating System

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

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AGENDA ITEM 7

Meeting	Pension Fund Committee
Date	4 September 2012
Subject	**External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2011/12**
Report of	Deputy Chief Executive
Summary	This report considers the detailed report from the external auditors on matters arising from the audit of the 2011/12 pension fund accounts

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Iain Millar, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards Affected	None
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix A – ISA260 report Appendix B – Pension Fund Annual Report 2011/12
Contact for Further Information:	Iain Millar Head of Treasury and Pensions Tel: 0208 359 7126

1. RECOMMENDATIONS

1.1 That the Committee approve the audited Pension Fund Account 2011/12 and they be signed by the Chairman as having been approved.

1.2 That the matters raised by the external auditor relating to detailed aspects of the 2011/12 accounts audit, including the pension fund accounts be noted.

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

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

2. RELEVANT PREVIOUS DECISIONS

2.1 The draft (un-audited) Pension Fund Annual Report and Statement of Accounts for 2011/12 was approved, subject to audit, by the Pension Fund Committee on 13 June 2012.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

4. RISK MANAGEMENT ISSUES

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

5. EQUALITIES AND DIVERSITY ISSUES

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

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

6.1 The Pension Fund Account shows the financial position as at 31st March 2012.

7. LEGAL ISSUES

7.1 None other than contained in the body of the report and appendices.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Governance Compliance Statement. The functions of the Pension Fund Committee include acting as "those charged with governance" in respect of the Pension Fund accounts

9. BACKGROUND INFORMATION

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

9.2 The ISA 260 report has to be considered by "those charged with governance" before the External Auditor can sign the accounts, which legally has to be done by 30 September 2012.

9.3 The External Auditor, Grant Thornton (GT) was presented with the draft financial statements in June 2012. GT identified a number of adjustments which are set out in their report.

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

- The audit has been concluded earlier than in previous years
- The auditor will issue an unqualified audit opinion
- There were a number of accounting adjustments that needed to be made which resulted in a £1.2 million reduction to the net assets statement.
- The adjustments required related to;
    - irrecoverable aged and sundry debtors,
    - benefits paid after 31 March 2012 but not provided for in the financial statements,
    - incorrect accounting for accrued income for early retirement costs (unrecorded retirement benefits),
    - a late accrual for investment management fees,
    - investment income classification.
- There have been improvements over the systems and controls areas identified in five of the seven control findings issued in the previous year.
- Control finding issues raised for the remaining two areas were unrecorded retirement benefits and irrecoverable debtors.
- Action has been taken to address the control issues raised in the audit.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**TE**

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Grant Thornton

London Borough of Barnet Pension Fund

Audit of Financial Statements 2011/12
Report to those Charged with Governance

Contents **Page**

1 **Executive Summary** 2

2 **Our findings** 4

3 **Resolution of prior year findings** 8

Appendices

A **Reporting requirements of ISA 260**

B **Adjustments to accounts**

1 Executive Summary

ISAUK 260 requires communication of:

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

1.1 Purpose of Report

The London Borough of Barnet ('the Authority') is responsible for the preparation of accounts which record its financial position as at 31 March 2012 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's accounts present fairly the financial position of the Authority. Those accounts are required to include, as a separate appendix, the accounts of the Authority's Pension Fund.

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Pension Fund Committee of the London Borough of Barnet Pension Fund ('the Fund'), to specifically consider the key issues affecting the Fund arising from our audit, and the preparation of the Fund's accounts for the year ended 31 March 2012. We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the accounts of the Authority.

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

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

1.2 Audit Conclusions

In summary, of the seven control findings identified in the prior year, the pensions team have made improvements over the systems and controls in all but two areas being unrecorded retirement benefits and irrecoverable debtors. Adjustments have been identified, having the effect of reducing net assets in the Fund by £1.2m. Of the total £1.2m adjustments identified, £260k related to the late receipt of a creditor invoice. Section 2 provides further details of the adjustments identified.

In Appendix B, we set out our proposed adjustments which the Authority has agreed to process in the financial statements. There are no unadjusted items to report.

We will be issuing an unqualified audit report.

1.3 Acknowledgements

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

Grant Thornton UK LLP

4 September 2012

2 Our findings

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

2.1 Aged Debtors

Aged sundry debtors

The sundry debtors balance at year end included £0.3m of amounts which have not been recovered for at least twelve months and the pensions team do not consider these amounts recoverable. An adjustment has therefore been proposed and processed to provide for these balances in full, reducing net assets of the fund by £0.3m.

The same balances were identified in 2010/11 and an adjustment was posted to provide for the balance of £0.3m in 2010/11. On further investigation it was identified that although this adjustment had been processed in the financial statements, it had not been posted onto SAP and therefore the respective balances had been included in 2011/12 financial statements. This has now been resolved by the pensions team and the adjustment has been processed in the 2011/12 financial statements.

Management response:

The 2010-11 adjustments were omitted in error. The £0.3m balance has been posted as a 2011-12 closing journal For 2011-12 there are five irrecoverable debts less than 12 months old which will be written off in 2012-13. The five debts total £1,316.

Pension strain

Sundry debtors included £305k relating to accrued income in respect of pension costs from early retirement "pension strain". The amount was received in the year by the Fund but the financial statements incorrectly recorded these amounts as outstanding. An adjustment has therefore been proposed and posted having the effect of reducing net assets of the fund by £305k.

In addition, at year end amounts recoverable in respect of pension strain costs incurred during the year amounting to £312k had not been processed. An adjustment has therefore been proposed and processed to increase contributions receivable accordingly, having the effect of increasing net assets at year end by £312k.

Recommendation: We recommend that the pensions strain accounts are reconciled on a regular basis and reviewed at an appropriate level.

Management response:

Agreed. Pension fund strain is now recovered by invoice and will be subject to regular reconciliation and review.

Aged accounts receivable debtors

The accounts receivable debtor balance at year end included £0.2m of amounts which are aged greater than one year including £0.17m which is greater than two years old. The nature of these balances relate to old debtors and therefore it is considered unlikely by the pensions team that they will be recovered. An adjustment was proposed to provide for these balances in full, reducing net assets of the fund by £0.2m. This adjustment has subsequently been processed by the pensions team.

Recommendation: We recommend that a review of aged debtors is performed on a periodic basis, with debtors actively chased, and adjustments made as necessary.

Management response:
Agreed. The £0.2 million has been written off in 2011-12.

Aged debtors over two years old relate to debts raised and brought forward from previous legacy systems. Procedures are already in place to minimise the risk of overpayment of pensions. A specialist firm, (Faraday) provides a monthly mortality indexing service to ensure pensioner deaths are recorded promptly and the deceased's pension is stopped. Any pension overpayment will be offset against a dependant's pension if applicable. Action is taken to seek recovery of current overpayments and to write-off, if the debt is not recoverable.

2.2 Unrecorded benefits

By reviewing benefits paid after 31 March 2012, we identified £0.5m of retirement benefits that had not been provided for in the financial statements.

The financial statements have been adjusted to include these retirement benefits, with the effect of reducing net assets of the fund by £0.5m. However, this adjustment has no cash impact on the fund as it relates purely to the accounting treatment in respect of the timing of the transaction.

Recommendation: We recommend that an exercise is carried out annually to determine the extent of any unrecorded liabilities by reference to member movements in the year and benefit payments made after the year end.

Management response:
Agreed. An annual review process will be undertaken from February 2013 to identify the liability arising from active and deferred members reaching pensionable age by 31 March but not having activated their pension entitlement. The action will be included as a year-end requirement on the 2012-13 Pension Fund closedown timetable to produce a liability estimate report as at 31 March 2013.

2.3 Timeliness of contributions receipts

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

During our review of contributions, it was noted that for nine bodies, contributions were late for between 1 and 48 days. This included:

- four instances in July of contributions being late by 48 days, relating to total contributions of £40k
- one instance of contributions being late by 37 days, relating to total contributions of £142k

- six instances where contributions were late for more than 10 days, relating to total contributions of £192k
- 31 instances of contributions being late up to 10 days, relating to total contributions of £2.5m.

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

Management response:
Monthly contributions are required to be paid into the pension fund bank account on time. The employer is contacted if payment has not been made or if a supporting schedule has not been provided. Contact is made initially by phone and then by email. The process has been formalised to ensure that employers receive written notification of late payment and are notified that they will be invoiced for interest charges for any payment not received on time.

2.4 Contributions classification

Other income
Other income incorrectly included £2.6m of contributions from employers in respect of early retirements. A classification adjustment has been proposed to reclassify this income as contributions in the financial statements. The classification adjustment has no impact on the net assets of the Fund.

Contributions posted to other income
April contributions totalling £0.17m in respect of one body were posted to other income rather than the contributions account. We understand that this was an isolated error due to one of the member bodies not submitting all contributions schedules together in April.

The contributions have been reclassified in the financial statements from other income to contributions. The classification adjustment has no impact on the net assets of the Fund.

Recommendation: We recommend that the administration team carry out a monthly analysis of contributions received compared to previous months in order to identify any contributions which may have been missed.

Management response:
Agreed and this was an isolated error. Checks are made to ensure that all contributions are received in full and employers are contacted if they fail to provide supporting schedules.

2.5 Investment income classification

Classification of investment income
A classification adjustment has been proposed and posted to reclassify income from property unit trusts originally posted to fixed interest security income. A classification adjustment have been posted in the financial statements amounting to £0.8m. The classification adjustment has no impact on the net assets of the Fund.

Recommendation: We recommend that investment income be appropriately coded to ensure correct classification within the financial statements.

Management response:
Agreed. Regular checks will be made to ensure that all income has been coded correctly.

Processing of investment data
During the year, the majority of sales and purchases of investments were not recorded in the SAP accounting software and as such, the year end investment balance could not be reconciled to the trial balance presented for audit. Investments balances at year end did however reconcile to the closing funds on the investment manager reports.

There is a risk that purchases and sales of investments in the financial statements are not fully controlled due to the absence of this control.

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

Management response:
This is being actioned. Fund managers reports are to be mapped to SAP to ensure that investment transactions are reflected on SAP. Investment management reports can then be included in the monthly reconciliation to SAP and on 2012-13 trial balance.

Pension fund investment assets are held in accordance with the internal control systems of fund custodians and the external fund managers. Third party verification and independent reporting is undertaken quarterly by the pension fund investment consultant and the WM company in addition to the monthly and quarterly reports produced by the fund managers.

3 Resolution of prior year findings

This section provides an update on observations made during the audit for the year ended 31 March 2011 which had implications for the 2011/12 audit.

3.1 Processing of investment data

We reported last year that investment data was not processed through SAP and that reliance was placed on the year end fund manager reports. The absence of recording investment transactions represents a control risk relating to an over-reliance on the fund manager reports and the lack of a proper and up-to-date reconciliation procedure between the accounting system and the investment manager reports. There is also potentially a risk of misappropriation of assets in the absence of such controls.

We have identified similar instances in the current year and draw your attention to section 2.5.

3.2 Investment income

We reported last year that the financial statements prior to audit incorrectly included investment income totalling £1.6m from the December Investment Manager reports. This income had already been accounted for when received by the Fund and therefore had therefore been double counted.

Update for 2011/12:
We have not identified any similar instances during our audit work for the current year.

Other income

In 2010/11 we identified £1.6m of income included within the financial statements prior to audit relating to foreign exchange gains which had been included in error.

Update for 2011/12:
We have not identified any similar instances during our audit work for the current year.

3.3 Unrecorded benefits

In 2010/11 we identified that approximately £1.6m of retirement benefits had not been provided for within the financial statements. The error arose as a result of computations on the final day of the year not having been identified for accrual amounting to £1.6m. In addition one member's death benefit amounting to £0.1m required accrual.

Update for 2011/12:
We have identified similar instances in the current year and draw your attention to section 2.2.

3.4 Financial statement preparation

As part of our audit work in 2010/11 we noted that that certain trial balance codes which would have been expected to have been mapped to the net assets statement had not mapped to the net assets statement as presented for audit.

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

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

Update for 2011/12:
There has been significant improvement with the majority of nominal ledger codes now mapped to the financial statements in the current year with the exception of nominal ledger accounts relating to investments as set out in section 2.5.

3.5 Cash balances

In 2011/12 we identified reconciling items amounting to £1.3m that had not cleared after the year end. As a result, an adjustment was processed to reduce the net asset values of the fund by £1.3m.

Update for 2011/12:
In the current year we did not identify any significant unprocessed reconciling items between the physical bank accounts and the nominal ledger.

Classification adjustment
We did note that the cash balance in the draft accounts included a balance of £0.8m in respect of the pension fund transfer account. We understand that this is not a bank account but a nominal ledger account that is used as a cash clearing account which is offset by a 'payment account' within the nominal ledger. An adjustment has been proposed and posted to net off these two accounts thereby reducing both cash and creditors by £0.8m with no impact on the net assets of the Fund.

3.6 Sundry debtors

In 2010/11 we identified that the debtors balance included old debtors amounting to £0.3m not considered recoverable by the pensions team.

Update for 2011/12:
We have identified similar instances in the current year and draw your attention to section 2.1.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

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

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: We are independently appointed by the Audit Commission. The firm has been assessed by the Audit Commission as complying with its required quality standards. The appointed auditor and client service manager are subject to rotation every 5 years. We comply with the Auditing Practices Board's Ethical Standards.
Audit Approach	Our approach to the audit was set out in our 2011/12 audit approach memorandum. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: • We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.

Area	Key Messages
Accounting Policies	We consider that the Fund has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the Local Government Pension Scheme Regulation 2007 (As Amended) and with guidelines set out in the Code of Practice of Local Authority Accounting in the United Kingdom 2010/11. The Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate.
Audit Adjustments	We have discussed with management a number of adjustments to the accounts having the effect of reducing the value of net assets by £1.2m and also to improve the fair presentation of the financial statements as well as the clarity and presentation of disclosure notes. These adjustments are summarised in Appendix B.
Unadjusted Errors	There were no unadjusted errors.
Other Matters	No material weaknesses in internal control were identified during our work.

B Adjustments to accounts

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

Adjustment Type

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

The overall effect of the adjustments listed below is to decrease net assets in the fund by £1.2m.

Adjustment type	Accounts balance	Impact on financial statements	Impact on net assets £m
Misstatement	Sundry debtors	Provision for aged sundry debtors £294k.	(0.3)
Misstatement	Accounts receivable debtors	Provision for aged debtors £196k.	(0.2)
Misstatement	Benefit accruals	Unrecorded benefits £450k.	(0.5)
Misstatement	Sundry debtors	Reversal of prior year accrued income £305k (pension strain).	(0.3)
Misstatement	Sundry debtors	Accrued income (£312k) – (pension strain)	0.3
Misstatement	Accruals	Late accrual for investment manager fees in respect of Newtons as identified by the pensions team £261k	(0.3)
Classification	Current liabilities/ Accounts receivable debtors	Matching of unallocated receipt and year end debtor £0.3m.	-
Classification	Current liabilities/ Accounts receivable debtors	Matching of unallocated payment and year end cash balance £0.8m.	-

Adjustment type	Accounts balance	Impact on financial statements	Impact on net assets £m
Classification	Other income/ contributions	Reclassification of £2.6m from other income to contributions received	-
Classification	Change in market value of investments	Reclassification of £0.3m from change in market value of investments to benefits payable	-
Disclosure	Contributions	Disclosure adjustment of £2.2m from contributions received from admitted bodies to contributions received from scheduled bodies	-
Disclosure	Contributions	Disclosure adjustment of £0.3m from contributions received from scheduled bodies to contributions received from admitted bodies	-

Grant Thornton

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Appendix B – Pension Fund Annual Report 2011/12

London Borough of Barnet Pension Fund

Annual Report for the year ended

31 March 2012

The London Borough of Barnet Pension Fund

Annual Report

For the year ended 31 March 2012

Audited

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1. Trustee's Report

1.1 History of the Local Government Pension Scheme

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

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

The regulations governing the Fund are The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

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

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

Since the LGPS was introduced in 1972, pensions have changed considerably. People now live longer, and this has put increasing strain on pension funds for the future. Public-Sector pension funds face similar demands to the private sector. To respond to these changes, the Government introduced a new look LGPS that took effect from 1st April 2008.

The main changes to the scheme were an improvement in the accrual rate (for future service) from 1/80th of salary for pension and 3/80th of lump sum to 1/60th for pension and a new tiered contribution rate for employees. The normal retirement age in the LGPS is 65 for everyone, but there are protections for staff who would have qualified for unreduced benefits at age 60 if they will be 60 by 31st March 2020. There were also improvements to death grant lump sums and the introduction of survivor's pensions for nominated partners. Ill-health retirement will also change with 3 different benefits tiers depending on the likelihood of the member gaining meaningful employment in the future.

In 2010, the Government commissioned a Public Sector Pensions Review chaired by Lord Hutton of Furness who was asked to produce an interim report by October 2010 on how to make short-term savings to public sector pension schemes and a final report before the March 2011 budget. The Government accepted Lord Hutton's interim report recommendations to increase employee contributions and proposed saving £2.8 billion per year by 2014-15 by increasing employee contributions across the major public sector pension schemes with an undertaking to afford some protection to the low paid. Lord Hutton's final report was published in March 2011.

The Government accepted the long term recommendations; to move from a final salary scheme to a career average pension scheme for future service, protecting accrued rights on the final salary scheme and ensuring normal retirement age is in line with the state pension age. Individual consultations have taken place on the design of each public sector scheme with a view to implement reforms by September 2014.

1.2 Administration of the London Borough of Barnet Pension Fund

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

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

1.3 Management Structure

Administrating Authority

London Borough of Barnet

Pension Fund Committee Members

Chairman:	Anthony Finn BSc(Econ), FCA
Vice-Chairman	Mark Shooter
Members:	Jack Cohen
	Geoffrey Johnson
	Susette Palmer MA
	Jim Tierney
Substitutes:	Geoff Cooke
	Andrew Harper
	Monroe Palmer OBE, BA, FCA
	Ansuya Sodha
	Rowan Turner

Officers
Andrew Travers, Deputy Chief Executive
John Hooton, Assistant Director of Strategic Finance
Iain Millar, Head of Treasury

Observers
John Burgess, Unison
David Woodcock, Middlesex University

Actuary

Barnett Waddingham

Investment Advisors
JLT Benefit Solutions (formally HSBC Actuaries and Consultants)

Auditor
Grant Thornton UK LLP

Performance Monitoring
JLT Benefit Solutions (formally HSBC Actuaries and Consultants)
WM Company

Custodians
JP Morgan
The Bank of New York

Pensions Administration Manager
Hansha Patel

2. Investment Policy

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

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

The Fund

On 4 February 2010, the Pension Fund Committee agreed a new investment strategy of 70% diversified growth portfolio and 30% bonds using the two incumbent managers Schroders Investment Management and Newton Investment Management. The strategy aims to reduce the level of risk whilst maintaining the same level of return. The new strategy was fully implemented in December 2010.

2. Investment Policy (continued)

Benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

Manager	Fund	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark 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 rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active	iBoxx	Outperform by 0.75% p.a.

	Corporate Bond – All Stocks	Sterling Non-Gilts All Stocks Index	(before fees) over rolling 3 years
Property Unit Trusts	Various	UK IPD Property Index	Outperform the Index

Property

The fund does not own property directly but invested in managed property unit funds. The pension fund's unit trust portfolio was managed in-house by the Council's officers with investment advice in the selection of these holdings provided by the fund's independent advisor. The property unit trust portfolio represented 3.5% of the total market value of the fund. During 2011-12 the property unit trusts were sold and the proceeds re-invested in the diversified growth and bond funds held with Schroders and Newton.

Investment Ranges

There are statutory restrictions and parameters for investments as per the Local Government Pensions (Management and Investment of Funds) 1998 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, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.
The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 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 – A) Any local authority, or B) Any body with power to issue a precept or requisition to a local authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) 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 (but see paragraph 3 below)	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 (but see paragraph 3 below)	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 Director of Finance and Council Officers received investment advice from the independent advisor to the fund. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

1. Investment Strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. The property unit trust portfolio
5. Corporate governance issues, including socially responsible investment and the Council's statement of investment principals
6. Pension fund related legislation
7. Investment management performance monitoring
8. Assistance in the selection of Investment Managers, custodians and actuaries
9. Review and advise on alternative benchmarks and setting of performance targets
10. Other ad-hoc advice.

Actuary

The actuary to the fund is Barnett Waddingham; the actuary's role is to place a value on the fund's accumulated pension promises. A formal valuation of the fund is required legally every three years; the most recent valuation of the fund took place as at the 31st of March 2010. The next valuation is due on 31 March 2013.

Custodian

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

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the fund's corporate governance and proxy voting policy. Details of this policy can be found by using the link below.
http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

3 Management and Financial Performance of the fund for the Year 2011-2012

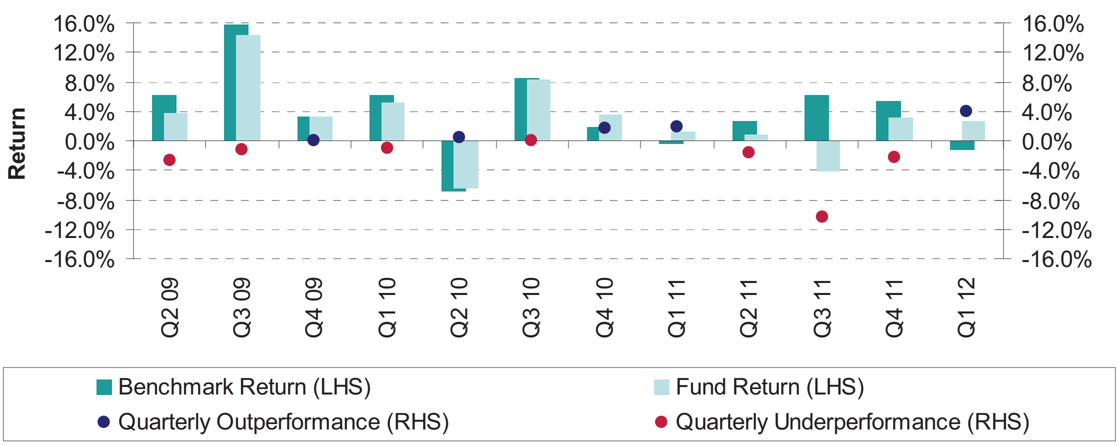
3.1 Fund Performance

Until December 2010, the fund subscribed to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other Local Authority Pension Funds which operate under the same regulations. This service is provided by WM Company Limited.

Following implementation of the new investment strategy in December 2010, the total scheme return is measured against the liability benchmark return, and includes the internal property fund. The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund (DGF) portfolios and is measured against a notional 60/40 global equity benchmark and the underlying benchmarks of each for comparison purposes. The bond portfolio is the combined Newton and Schroder corporate bond portfolios and is benchmarked against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

The chart below shows the fund's historical returns against the WM Universe and the new portfolio against the liability benchmark effective from 1 January 2011.

Total Fund – performance relative to benchmark

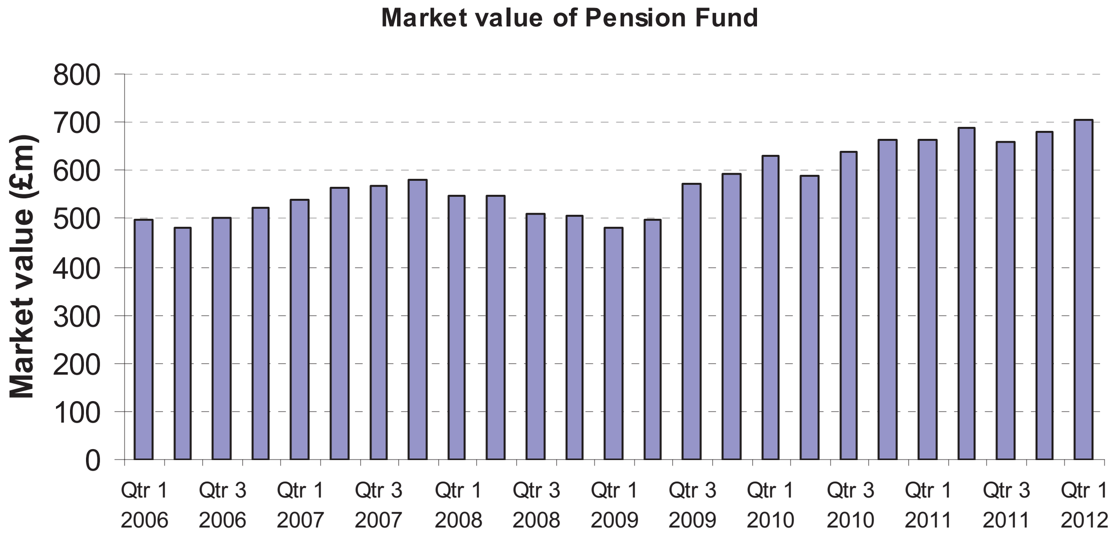


60

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the fund from 1 January 2006 to 31 March 2012.

Market Value of Fund



3.3 Investment Report

With regard to investment performance, the Pension Fund Committee recognises that a superior and stable investment return adds towards keeping the contribution rate as low as possible.

The Council seeks to achieve its investment objectives through investing in a suitable mix of real (e.g. equities) and fixed interest assets (e.g. bonds and cash). The returns from growth assets are likely to be volatile; however, over the long term, this volatility is compensated by higher returns than those available from fixed interest assets. The profile of the Pension Fund allows the Council to take a long-term approach with respect to its investments.

The Council believes that its recently revised investment strategy will provide the most efficient diversification of assets with no loss in expected return. The Fund's revised investment strategy utilises 'diversified growth' investments that aim to provide equity-like return with reduced volatility. These growth investments are complemented by an allocation to corporate bonds, in order to provide interest rate sensitivity between the Fund's assets and liabilities. This allocation will protect the Fund from sharp movements in its liabilities due to interest rate changes.

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

Over the 12 months to 31 March 2012, the total Scheme return (ex property) was 2.4% versus the liability benchmark return of 14.0%. The Fund ranks 56th percentile when compared to the WM Local Authority Universe for I year performance.

4. Governance Compliance Statement

The Governance compliance statement for the Barnet Pension Fund can be found on the Barnet website at: http://www.barnet.gov.uk/council-constitution

5. Funding Strategy Statement

The funding strategy statement for the Barnet fund can be found on the Barnet website at
http://www.barnet.gov.uk/downloads/file/147/funding_strategy_statement

6. Statement of Investment Principles

The authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, updated in June 2011, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at
http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

7. Communication Policy Statement

An effective communications strategy is vital for the Pensions Office in its aims to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the Pensions Office 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 identified the format, frequency and method of distributing of distributing information and publicity.

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

- **Pensions Office** for day-to-day contact and visits between the hours of 9am and 5pm. The Pension Office operates an open door policy for visitors such that pre-booked appointments are not required.

- **Correspondence** the Fund utilises both surface mail and e-mail to receive and send correspondence.

- **Telephone** The Pensions Office operates a telephone help line for Scheme members and is widely published in Scheme literature.

- **Website** The Pensions Office has established an extensive website www.barnet.gov.uk/pensions containing Scheme details, Scheme literature etc. There are also links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

- **Member Self-Service** the Pensions Office's website also allows Scheme members to log onto their own pensions record and automatically inform the Pensions Office electronically of any changes.

- **Scheme Booklet** A Scheme booklet, including forms, is produced by the Pensions Office and is supplied to scheme members and scheme employers directly. Copies of the Scheme booklet can also be viewed and downloaded on the Pensions Office website www.barnet.gov.uk/pensions

- **Annual Benefits** An Annual Benefits Statement is sent direct to the home addresses of all members who were contributing to the Fund during the financial year being reported.

  Benefit Statements are sent direct to the home address of deferred members where a current address is known.

- **Payslips** The Pensions Office continues to issue monthly payslips to pensioners. This is utilised as a communication mechanism, since messages can be included. Pensions increase information is communicated using this medium on an annual basis.

- **Pensions Roadshows** The Pensions Office 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** The Pensions Office undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

- **All Employer Meetings** Periodical meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant 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.

Pensions Office
Building 4
North London Business Park
Oakleigh Road South
London
N11 1NP

Telephone: **020 8359 7886**
Fax: **0870 889 6817**

Email: **pensions@barnet.gov.uk**

Website: **www.barnet.gov.uk/pensions**

On behalf of the Pension Fund Committee

Councillor Anthony Finn BSc(Econ), FCA
Chairman of the Pension Fund Committee

London Borough of Barnet Pension Fund

Actuary's Statement as at 31 March 2012

Barnett Waddingham
Public Sector Consulting

20 August 201220/08/12

Introduction

The last full triennial valuation of the London Borough of Barnet Pension Fund was carried out as at 31 March 2010 and the results were published in our report dated March 2010.

2010 Valuation

The results of the valuation were as follows

- The London Borough of Barnet Pension Fund had a funding level of 76%, i.e. the assets amounted to 76% of the liability promises made as at that valuation date. This corresponded to a deficit of £189.6m at that time.
- The overall contribution rate was set at 23.5% of payroll assuming the funding level was to be restored over a 15 year period.
- The common contribution rate was set at 14.2% of payroll and individual employers paid additional contributions reflecting their own experience or recovery period within the fund.
- The funding level of the fund has improved since the position at the 2007 triennial valuation which resulted in a funding level of 71%.

Valuation method

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method. Employers remaining open to new entrants were valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join were valued using the Attained Age method.

Contribution rates

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

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

Key Financial Assumptions

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

Rate of return on investments	6.7% per annum
Rate of increases in pay	5.0% per annum
Rate of Increases to pensions in payment	3.0% per annum

Asset valuation

To be consistent with the assumptions used to value the liabilities the assets were valued at their smoothed market value spanning at the date of valuation.

Post Valuation Events – Changes in market conditions

Since March 2010 investment returns have been slightly lower than assumed at the 2010 valuation and liabilities are likely to have increased due to a reduction in the real discount rate underlying the valuation funding model. Overall, we therefore expect the funding level to have fallen since 31 March 2010.

The next actuarial valuation is due as at 31 March 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014.

Alison Hamilton FFA

Partner

20 August 201220/08/12

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF London Borough of Barnet Pension Fund

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Barnet Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Barnet Pension Fund and the Funds Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Paul Hughes
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Pension Fund Account

Contributions and Benefits	Note	2011/12		2010/11	
		£000	£000	£000	£000
Contributions Receivable	3	50,064		50,195	
Transfers in	4	5,294		4,249	
Other income		2		10	
		55,360		54,454	
Benefits Payable Account	5	(38,584)		(37,228)	
Payments to and on behalf of Leavers	6	(4,810)		(5,452)	
Administrative Expenses	7	(1,106)		(3,432)	
		(44,500)		(46,112)	
Net additions from dealings with members			10,860		8,342
Return on investments					
Investment income	8	1,273		8,743	
Change in market value of investments	9	17,079		39,652	
Investment management expenses	10	(1,920)		(2,945)	
Net returns on investments		16,432		45,450	
Net increase in the fund during the year			27,292		53,792
Net assets of the scheme					
At 1 April			685,193		631,401
At 31 March			**712,485**		685,193

Net Assets Statement

	Note	2011/12		2010/11	
		£000	£000	£000	£000
Investment assets	9	703,630		662,278	
Current assets	11	11,204		27,967	
Current liabilities	12	(2,349)		(5,052)	
			712,485		685,193

NOTES TO THE DRAFT PENSION FUND ACCOUNTS 2011-2012

1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered by the London Borough of Barnet. The scheme provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to the following admitted and scheduled bodies:

Admitted Bodies

Birkin Services
Fremantle Trust
Go Plant Hire
Housing 21
Viridian Housing
Y-Gen
Amonet Ltd
Mears Group
NSL Ltd
RR Donnelley
Goldsborough Homecare
Friends Moat Mount
Greenwich Leisure
Open Learning Partnership
Turners Cleaning
Allied Healthcare

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

Barnet MENCAP
Barnet Voluntary Service Council
Enterprise Cleaning
KGB

Scheduled Bodies

LB Barnet
Your Choice Barnet
Ashmole Academy
Bishop Douglas
Dollis Junior
East Barnet Academy
Finchley Catholic
Henrietta Barnet School (Academy)
Independent Jewish Day School (Academy)
Menorah Foundation
Mill Hill GM High (Academy)
Queen Elizabeth Boys (Academy)
St James RC School
St Michael's Grammar
Whitefield Trust School (Academy)
Wren Academy
Barnet Homes
Barnet & Southgate College
Christ College (Academy)
Compton Academy
ETZ Chaim Jewish Primary
Hasmonean High (Academy)
Hendon School (Academy)
London Academy
Middlesex University
Osidge School
Queen Elizabeth Girls (Academy)
St Mary's CE High
The Totteridge Academy
Woodhouse College
Wren Academy

The Fund is financed by member and employer contributions, interest, dividends and realised profits from investments. The Fund provides retirement grants, death grants, member pensions and widows' pensions. 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.

Connaught Partnership, previously an Admitted Body, went into administration with effect from 31/08/2010. A pension fund deficit of £1,492,000 has been calculated by the fund actuaries. The Council's legal team are currently liaising with Connaught's Administrators (KPMG) for the recovery of these monies. KPMG have confirmed the pension deficit is classed as unsecured, non-preferential debt.

Contributions made by employees are tiered, related to salary and they range from 5.5% to 7.5%. These rates are applicable to all employees including manual workers.

The number of employees contributing to the fund decreased during the year from 7,123 at 31 March 2011 to 6,794 at 31 March 2012. During the same period the number of pensioners increased from 6,326 to 6,582 and the number of deferred pensioners increased from 6,842 to 7,456. A government scheme supplies teachers' pensions; they are not provided for under these arrangements.

2. Accounting Policies

Accounting Standards

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

Basis of Preparation

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

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 15 and these financial statements should be read in conjunction with them.

Investments

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

a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2012.
b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2012.
c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2012.
d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

Sale and Purchase of Investments

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading (the costs of acquiring investments are included in the value of the assets). The main fund managers are: Schroder Investment Management, Newton with the remaining funds (7%) held with Legal and General.

Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund managers analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments.

During the year all property units trusts were sold and the £23.9 million realised was re-invested equally with Schroder Investment Management and Newton.

Administration Expenses

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities. Full details of all benefits payable are available on the Borough's internet at www.barnet.gov.uk/pensions

Contribution Income

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

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

Investment Income

i) Interest Income

Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.
Income includes the amount of any amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

Taxation

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

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

Investment Management Expenses

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

3. Contributions Receivable

	2011/12	2010/11
Employers	£000	£000
LB Barnet	24,353	25,373
Scheduled bodies	14,426	12,966
Admitted bodies	1,329	1,264
Members		
LB Barnet	6,326	6,929
Scheduled bodies	3,348	3,342
Admitted bodies	282	321
	50,064	50,195

4. Transfers In

	2011/12	2010/11
	£000	£000
Individual transfers in from other schemes	5,294	4,249

5. Benefits Payable

	2011/12	2010/11
	£000	£000
Pensions	30,245	28,224
Commutations and lump sum payments	7,116	8,296
Lump sum death benefits	1,223	708
	38,584	37,228

6. Payments to and on Account of Leavers

	2011/12 £000	2010/11 £000
Refunds to members leaving service	6	6
Group transfers to other schemes	1	-
Individual transfers to other schemes	4,803	5,446
	4,810	5,452

7. Administrative Expenses

	2011/12 £000	2010/11 £000
Administration and processing	960	3,331
Actuarial fees	110	60
Audit fees	36	41
Legal and other professional fees	-	-
	1,106	3,432

All other costs of administration are borne by the London Borough of Barnet.

8. Investment Income

	2011/12 £000	2010/11 £000
Income from fixed interest securities		964
Dividends from equities		6,557
Income from index linked securities		208
Income from pooled investments		100
Income from property unit trusts	788	1,246
Interest on cash deposits	86	248
Other income	399	102
	1,273	9,425
Irrecoverable withholding tax	0	(682)
Total investment income	1,273	8,743

9. Investments 2011/12

	Value at 1 April 2011 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2012 £000
Pooled investment vehicles	638,391	57,101	(9,350)	16,267	702,409
Properties	23,160	0	(23,972)	812	0
	661,551	57,101	(33,322)	17,079	702,409
Cash Deposits	727				1,221
	662,278				703,630

Investments 2010/11

	Value at 1 April 2010 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2011 £000
Fixed interest securities	39,875	115,637	(157,989)	2,477	-
Equities	336,525	119,981	(466,240)	9,734	-
Index- linked Securities	23,808	10,953	(35,852)	1,091	-
Pooled investment vehicles	133,053	565,339	(83,905)	23,904	638,391
Properties	22,264	-	-	896	23,160
	555,525	811,910	(743,986)	38,102	661,551
Cash Deposits	71,817				727
	627,342				662,278

During the year £48 million cash in contributions, dividend income and the proceeds of the sale of property unit trusts were transferred to the fund managers, Schroder Investment Management and Newton. 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. Any income attributed to the unitised funds are reinvested and accounted for as a change in market value as apposed to income. Thus the investment income for 2011/12 has dropped significantly and 2010/11 is lower than the 2009/10 financial year.

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

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value.

The carrying amount of investments held under management by the Fund's investment managers at year end including cash deposits totalled £703,630,000. This was split as follows:

	£000	%
Schroder Investment Management	321,516	45.7
Newton Investment Management	332,715	47.3
Legal & General	49,399	7.0
Total	703,630	100.0

Major Investments

The fund investments are all held in pooled funds. The following investments represent more than 5% of the net assets of the scheme.

Value 2010/11			Value 2011/12	
£'000	as % of investment assets		£'000	as % of investment assets
208,460	31.48	Newton Real Return Fund	226,349	32.17
77,217	11.66	Newton Long Corporate Bond Fund	105,552	15.00
207,368	31.31	Schroder Life Diversified Growth Fund	220,342	31.32
88,398	13.35	Schroder All Maturities Corporate Bond Fund	100,767	14.32

9. Investments (continued)

	2011/12 £000	2010/11 £000
Fixed interest securities		
UK – Government	-	-
UK - Corporate Bonds	-	-
Overseas Corporate	-	-
Overseas Government	-	-
	-	-
Equities		
UK quoted	-	-
Overseas quoted	-	-
	-	-
Index-linked securities		
UK public sector quoted	-	-
Overseas public sector quoted	-	-
	-	-
Pooled investment Vehicles		
UK Managed funds	653,010	593,755
UK Unit Trusts	49,399	44,636
	702,409	638,391
Property		
UK property unit trusts	0	23,160
Cash Deposits		
Sterling	1,221	727

Pooled Investment Vehicles

Both Schroders and Newton run their portfolios on a unitised or pooled basis, the underlying economic exposure to asset classes for each manager are detailed below:

Newton's Portfolio

	Long Corporate Bonds %	Global High Yield Bonds %	Long Gilt %	Newton's Real Return %
Equities				
UK	-			13.05
North America	-	0.14		11.41
Europe Ex UK	-			18.82
Japan	-			2.89
Pacific Ex Japan	-			2.44
Other	-			2.54
Fixed Interest				
UK Gilts			93.02	9.51
UK Index Linked Gilts			1.68	
UK Corporate Bonds	97.18	18.44	5.14	2.40
Overseas Government Bonds		1.06		13.16
Overseas Corporate Bonds		71.76		8.61
Overseas Index Linked Corporate Bonds				2.37
Other Assets				
Commodities				3.93
Derivatives				-0.34
Other Assets				
Cash	2.82	8.60	0.16	9.21
Total	100.00	100.00	100.00	100.00

9. Investments (continued)
Schroders Portfolio

	Diversified Growth Fund	Schroder All Maturities Corporate Bond
	%	%
Equities		
Schroder QEP Global Dynamic Blend Portfolio	17.00	-
Schroder UK Alpha Plus Fund	5.00	-
Schroder European Alpha Plus Fund	3.00	-
Schroder ISF Asian Equity Yield	3.00	-
Schroder ISF US Small & Mid Cap	2.00	-
Schroder US Mid Cap Fund	2.00	-
Schroder Income Fund	1.00	-
Schroder Global Emerging Markets Fund	1.00	-
Passive Equities	10.00	-
Commodities		
UBS Bloomberg CMCI Composite	7.00	-
UBS Bloomberg CMCI Energy	4.00	-
ETF Gold	3.00	-
Schroder ISF Global Energy	3.00	-
		-
High Yield Debt		-
Schroder ISF Global High Yield	6.00	-
Neuberger Berman High Yield Bond Fund	6.00	-
T Rowe Price Global High Yield Bond Fund	3.00	-
Emerging Market Bonds		
Schroder ISF Emerging Market Debt Absolute Return	5.00	-
Mellon Emerging Market Debt Local Currency Fund	3.00	-
PIMCO Emerging Local Bond Fund	1.00	-
Property		
Passive Property	2.00	-
Schroder ISF Asia Pacific Property Securities	1.00	-
Absolute Return		
JPMorgan Highbridge Statistical Market Neutral Fund	1.00	-
Opus Multi-Strategy Fund Note	1.00	-
Opus Macro Fund Note	1.00	-

Investments (continued)
Schroders Portfolio

Infrastructure		
International Public Partnerships Limited	1.00	-
HSBC Infrastructure Company Limited	1.00	
Infrastructure		
John Laing Infrastructure Limited	1.00	-
Other Assets		
Private Equity	1.00	-
Asset Backed Securities Portfolio	2.00	-
Cash	3.00	-
Corporate Bonds		
Sovereign	-	6.20
Securitised	-	11.50
Government Related	-	79.30
Corporate	-	3.00
Total	**100.00**	**100.00**

AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC). Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

	2010/11 *£000*	***Contributions*** *£000*	***Income*** *£000*	***Expenditure*** *£000*	***2011/12*** *£000*
AVC Investments					
Aviva /Norwich Union	*779*	*35*	*7*	*(173)*	*648*
Prudential					
With Profits	*444*	*76*	*47*	*(60)*	*507*
Deposit	*359*	*93*	*2*	*(165)*	*289*
Unit Linked	*319*	*105*	*51*	*(27)*	*448*
Total Prudential AVCs	*1,122*	*274*	*100*	*(252)*	*1,244*

AVC Investments

	2009/10	*Contributions*	*Income*	*Expenditure*	*2010/11*
	£000	*£000*	*£000*	*£000*	*£000*
AVC Investments					
Aviva /Norwich Union	*753*	*45*		*(17)*	*779*
Prudential	*.*				
With Profits	*447*	*53*	*35*	*(121)*	*444*
Deposit	*291*	*82*	*2*	*(16)*	*359*
Unit Linked	*221*	*100*		*(2)*	*319*
Total Prudential AVCs	*989*	*235*	*37*	*(139)*	*1,122*

The fund does not participate in stock lending arrangements.

10. Investment Management Expenses

	2011/12	**2010/11**
	£000	£000
Administration, management and custody	1,835	2,805
Performance Measurement Services	7	12
Other advisory fees	78	128
	1,920	2,945

11 Current Assets

	2011/12	**2010/11**
	£000	£000
Contributions due from employers in respect of		
Employer contributions	4,081	1,141
Member contributions	260	291
Accrued income	-	344
Sundry Debtors	434	906
Cash Balances	6,429	25,285
	11,204	27,967

12. Current Liabilities

	2011/12	**2010/11**
	£000	£000
Unpaid Benefits	1,547	4,543
Unsettled Purchases	32	22
Accrued Expenses	770	487
	2,349	5,052

13. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2000 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at www.barnetpensions.org.

14. Related Party Transactions

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

	2011/12	2010/11	2009/10
	£000	£000	£000
Human Resources	417	462	581
Accountancy Administration	455	140	143
Payroll Support	-	398	232
	872	1,000	956

The costs of payroll support are included in the Human Resources Recharge.

15. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2010, in accordance with The Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit credit method". The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

Assumption	**Rate**
Future pension increases	3.0%
Future pay increases	5.0%
Price inflation	3.5%
Equities/absolute refund funds	7.4%
Gilts	4.5%
Bonds & Property	5.6%
Risk adjusted discount rate	6.7%

The 2010 valuation actuarially assessed the value of the Fund's assets as £609.68 million, being sufficient to meet 76% of the Fund's liabilities.

The latest valuation as at 31st March 2012 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31st March 2010, and are given for comparison;

Assumption	**Rate**
Assumed retail price inflation (RPI)	3.9%
Assumed customer price inflation (CPI)	n/a
Salary increases	5.4%
Pension increases	3.9%
Discount rate	5.5%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 21 December 2010 and is available to view at www.barnet.gov.uk/pensions.

16. Classification of Financial Assets

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

		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
		£'000	**£'000**	**£'000**
Year ended 31 March 2011	**Financial Assets**			
	Pooled Investments	638,391		
	Pooled Property	23,160		
	Cash Deposits		26,012	
	Investment income due			
	Debtors		2,682	
	Financial Liabilities			
	Creditors			(5,052)
		661,551	**28,694**	**(5,052)**
Year ended 31 March 2012	**Financial Assets**			
	Pooled Investments	702,409		
	Pooled Property			
	Cash Deposits		7,650	
	Investment income due			
	Debtors		4,775	
	Financial Liabilities			
	Creditors			(2,349)
		702,409	**12,425**	**(2,349)**

17. Nature and Extent of Risks Arising from Financial Instruments

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

a) Overall procedures for managing risk

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

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

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

b) Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through it's external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its 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 2012 working capital was held in the Pension Fund Bank account with the Co-operative Bank in a call account with the Bank of Scotland and in accordance with the Council's Treasury management strategy credit rating criteria. In March 2011 the Pension Fund held by the administering authority was in a call account with Santander

	Long Term Credit Rating	Source	Holding 31.3.2011	Holding 31.3.2012
			£'000	£'000
Schroder Group	AA3	Moodys		
JP Morgan (Schroder Custodian)	AA-	Standard and Poors		321,516
Newton –Bank of New York Mellon (Parent)	A+	Standard and Poors		332,715
Bank of Scotland	A1	Moodys		2,272
Co-operative Bank	A3	Moodys	300	4,085
Santander UK	Aa3	Moodys	21,640	-

c) Liquidity Risk

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

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension fund has a comprehensive cashflow 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.

d) Market risk

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

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

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

2011-12

Asset Type	Market Value 31.3.2012	Percentage Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Pooled Investments	702,409	10.0	772,650	632,168
Pooled Property	-	-	-	-
Cash Deposits	7,650	1.0	7,727	7,574

2010-11

Asset Type	I Market Value 31.3.2011	Percentage Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Pooled Investments	638,391	10.0	702,230	574,552
Pooled Property	23,160	10.0	25,476	20,844
Cash Deposits	26,012	1.0	26,271	25,752

e) Exchange rate risk

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

f) Refinancing risk

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

London Borough of Barnet Pension Fund

Barnett Waddingham
Public Sector Consulting

18 May 2012

1. Introduction

We have been instructed by London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension fund (“the Fund”), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of London Borough of Barnet Pension Fund (“the Fund”) as at 31 March 2012.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

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

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

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2007/08, as amended. It is contracted out of the State Second Pension.

2. Valuation Data

Data Sources

In completing our calculations for IAS26 purposes we have used the following items of data, which we received from London Borough of Barnet:

- The results of the Triennial Actuarial Valuation as at 31 March 2010 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2012;
- Estimated whole fund returns for the period to 31 March 2012 based on assets used for the purpose of the Triennial valuation as at 31 March 2011, actual fund returns for the period to 31 January 2012 and then market returns (estimated where necessary) for the period to 31 March 2012;
- Details of any new early retirements for the period to 31 March 2012 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report, especially in the context of the roll-forward approach we have taken (as described in the next section). Further, we are not aware of any material changes or events since we received the data.

Employer Membership Statistics

The table below summarises the membership data as at 31 March 2010.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	7,048	153,939	46
Deferred Pensioners	7,371	10,045	45
Pensioners	6,261	28,171	70

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2012 is estimated to be 5%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2012 is as follows:

Employer Asset Share - Bid Value	31 March 2012		31 March 2011	
	£000's	%	£000's	%
Equities	372,337	52%	376,043	56%
Gilts	71,603	10%	13,430	2%
Other Bonds	236,291	33%	221,597	33%
Property	-	-	26,860	4%
Cash	28,641	4%	33,575	5%
Alternative Assets	7,160	1%	-	-
Total	**716,032**	**100%**	**671,505**	**100%**

The final asset allocation of the Fund assets as at 31 March 2012 is likely to be different from that shown due to estimation techniques.

Unfunded Benefits

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

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities as at 31 March 2012, we have rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2012 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2012 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post retirement mortality tables adopted were the S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement and a 90% scaling factor.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		31 March 2012
Retiring Today		
	Males	20.0
	Females	24.0
Retiring in 20 years		
	Males	22.0
	Females	25.9

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

Assumptions as at	31 March 2012		31 March 2011		31 March 2010	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.3%	-	3.5%	-	3.9%	-
CPI increases	2.5%	-0.8%	2.7%	-0.8%	n/a	
Salary Increases	4.7%	1.4%	5.0%	1.5%	5.4%	1.5%
Pension Increases	2.5%	-0.8%	2.7%	-0.8%	3.9%	-
Discount Rate	4.6%	1.3%	5.5%	1.9%	5.5%	1.5%

These assumptions are set with reference to market conditions at 31 March 2012. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.3%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.5%.

Salary increases are then assumed to be 1.4% above RPI in addition to a promotional scale. This is a slightly lower long-term assumption than last year to reflect the continuing climate of low salary increases.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2012 are set out in Appendix 1. We estimate that the net liability as at 31 March 2012 is a liability of £496,437,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures in this report are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

Graeme Muir FFA
Partner

Alison Hamilton FFA
Partner

Appendix 1. Balance Sheet Disclosure as at 31 March 2012

Net Pension Asset as at	31 Mar 2012 £000's	31 Mar 2011 £000's	31 Mar 2010 £000's
Present Value of Funded Obligation	1,212,469	989,896	1,115,978
Fair Value of Scheme Assets (bid value)	716,032	671,505	631,401
Net Liability	**496,437**	**318,391**	**484,577**

*Present Value of Funded Obligation consists of £1,004,212,000 in respect of Vested Obligation and £208,257,000 in respect of Non-Vested Obligation.

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2012

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Opening Defined Benefit Obligation	**989,896**	**1,115,978**
Service cost	35,286	37,356
Interest cost	54,528	61,703
Actuarial losses (gains)	163,238	(102,208)
Losses (gains) on curtailments	1,730	1,021
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Estimated benefits paid net of transfers in	(44,242)	(35,669)
Past service cost	-	(98,564)
Contributions by Scheme participants	12,033	10,279
Unfunded pension payments	-	-
Closing Defined Benefit Obligation	**1,212,469**	**989,896**

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Opening fair value of Scheme assets	**671,505**	**631,401**
Expected return on Scheme assets	43,845	40,891
Actuarial gains (losses)	(12,064)	(13,653)
Contributions by employer including unfunded	44,955	38,256
Contributions by Scheme participants	12,033	10,279
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(44,242)	(35,669)
Receipt / (Payment) of bulk transfer value	-	-
Fair value of Scheme assets at end of period	**716,032**	**671,505**

Reconciliation of opening & closing surplus	Year to 31 March 2012 £000's	Year to 31 March 2011 £000's
Surplus (Deficit) at beginning of the year	**(318,391)**	**(484,577)**
Current Service Cost	(35,286)	(37,356)
Employer Contributions	44,955	38,256
Unfunded pension payments	-	-
Past Service Costs	-	98,564
Other Finance Income	(10,683)	(20,812)
Settlements and Curtailments	(1,730)	(1,021)
Actuarial gains (losses)	(175,302)	88,555
Surplus (Deficit) at end of the year	**(496,437)**	**(318,391)**

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AGENDA ITEM 8

Meeting	Pension Fund Committee
Date	4 September 2012
Subject	**Update on Admitted Body Organisations**
Report of	Deputy Chief Executive
Summary	This report updates the Committee on the Admitted Bodies participating in the Local Government Pension Scheme Fund administered by the London Borough of Barnet

Officer Contributors	John Hooton - Assistant Director of Strategic Finance Hansha Patel - Pension Services Manager
Status (public or exempt)	Public
Wards Affected	None
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	None
Contact for Further Information:	Hansha Patel, Pension Services Manager 0208 359 7895

1. RECOMMENDATIONS

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

2. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

2.1 To maintain the integrity of the Pension Fund by ensuring robust monitoring of admitted body organisations and ensuring all third-parties comply fully with admission agreements and bond requirements. The principle supports the Corporate priority of 'better services with less money'.

3. .KEY DECISION

3.1 Not applicable.

4. RELEVANT PREVIOUS DECISIONS

4.1 None

5. RISK MANAGEMENT ISSUES

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.

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

6. EQUALITIES AND DIVERSITY ISSUES

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

6.2 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.

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

7.1 Paragraph 5, above, deals with the financial implications of this report.

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

7.3 All the contracts have an Admission Agreement and Bond Agreement in place, with the exception of the following recent contracts (as detailed in Appendix 1). These are currently with Legal Department for completion.

1. London Care
2. Personnel & Care Bank
3. Birkins Cleaning Services (St. James Catholic)

8. LEGAL ISSUES

8.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) 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. Under the Regulations, the form of admission available to a contractor would either be 'a community admission body', or 'a transferee admission body' as defined in the Regulations

8.2 With respect to an admission agreement with a transferee admission body, 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 transferee 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.

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

9. CONSTITUTIONAL POWERS (Relevant section from the Constitution)

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

10. BACKGROUND INFORMATION

This report provides an update on issues previously reported at the Committee meeting held in June 2012.

11. LIST OF BACKGROUND PAPERS

11.1 Appendix 1 to this report provides an update on the Admitted Body issues.

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**TE**

Appendix 1

Admitted Body Monitoring Spreadsheet

Admitted Body	No Of active Employees	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond 6mth Tag (red)	Pension cont on time RAG	Comments
Housing 21 New	56	01/09/2010	Barclays Bank	778K	30/09/2015		G	
London Care	3	05/03/2012 – contract following on from old Housing 21 contract				R	R	Admissions agreement and bond agreement currently being dealt with by Adults Social Services legal officer Weekly dialogue with provider and Adult Social Care and Health to finalise admissions agreement and bond.
Personnel & Care Bank	5	01/05/2012 – contract following on from old Housing 21 contract				R	R	Admissions agreement and bond agreement currently being dealt with by Adults Social Services legal officer Weekly dialogue with provider and Adult Social Care and Health to finalise admissions agreement and bond.
Viridian Housing	11	22.04.2006	Euler Hermes UK	65K	16/08/2016		G	
Fremantle Trust	83	01.04.2010	Zurich Insurance PLC	1.4M	20.08.2013		G	
Birkin Cleaning Services	1	01.09.2009	FIBI Bank (UK) PLC	3.8K	Awaiting confirmation	R	G	Current bond has expired. New bond being arranged by Birkins for a longer term with a new Bank. If confirmation not received by 31/08/2012 matter will be referred to Legal.

Birkin Cleaning Services (St James Catholic)	6	24/10/2011		37K		R	G	Admitted Body Status approved at last Committee. Admissions Agreement and Bond Agreement currently being dealt with by Legal
Go Plant	12	04.10.2008	Bank of Scotland PLC	220K	03.10.2012		G	
Turners Industrial Cleaning	1	01.04.2008	Lloyds TSB Securities	6.2K	continuing		G	
Friend of Moat Mount (registered charity)	1	01.04.2008	N/A	N/A	N/A		G	Community Admissions Agreement- no bond required
Mears Group	19	10/04/2012	Euler Hermes	£320K	09/04/2013		G	
NSL	31	01/05/2012	Lloyds TSB	412K	30/04/2017		G	
RR Donnelley	7	20/04/2012	NatWest	141K	31/10/2012		G	