MEETING
PENSION FUND COMMITTEE
DATE AND TIME
THURSDAY 6 JUNE, 2013
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, NW4 4BG

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall

Councillors

Andreas Ioannidis	Susette Palmer	Rowan Quigley Turner
Geoffrey Johnson	Daniel Seal	

Substitute Members

Jim Tierney	Geof Cooke	Lord Palmer

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

Andrew Nathan – Head of Governance

Governance Services contact: Maria Lugangira 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Maria Lugangira 020 8359 2761. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

AGENDA ITEM 6

Meeting	Pension Fund Committee
Date	6 June 2013
Subject	**External Auditor: Audit Approach Memorandum for the year ended 31 March 2013**
Report of	Chief Operating Officer
Summary	To note a detailed Audit Approach Memorandum report from the external auditors for the year ended 31 March 2013.

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Audit Memorandum 31 March 2013
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 That the audit strategy for the 2012/2013 external audit be noted

2. RELEVANT PREVIOUS DECISIONS

2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities

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

6.2 The external audit fees for 2012-13 are £20,226 and were £35,000 in 2011-12.

7. LEGAL ISSUES

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

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

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

9. BACKGROUND INFORMATION

9.1 In accordance with International Standard on Auditing (UK and Ireland) 260, the memorandum highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance.

9.2 The key audit issues include:

- Valuation and existence of investments
- Completeness and accuracy of contributions
- Completeness, accuracy and validity of benefits
- Ensure the accounts format and disclosure are consistent with the requirements of IFRS
- Ensure compliance with the Pensions SORP, as applicable to LGPS

9.3 The audit will also provide a follow up on the previous period's detailed findings and outline the cost of the audit.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**MT**
Cleared by Legal (Officer's initials)	**SS**

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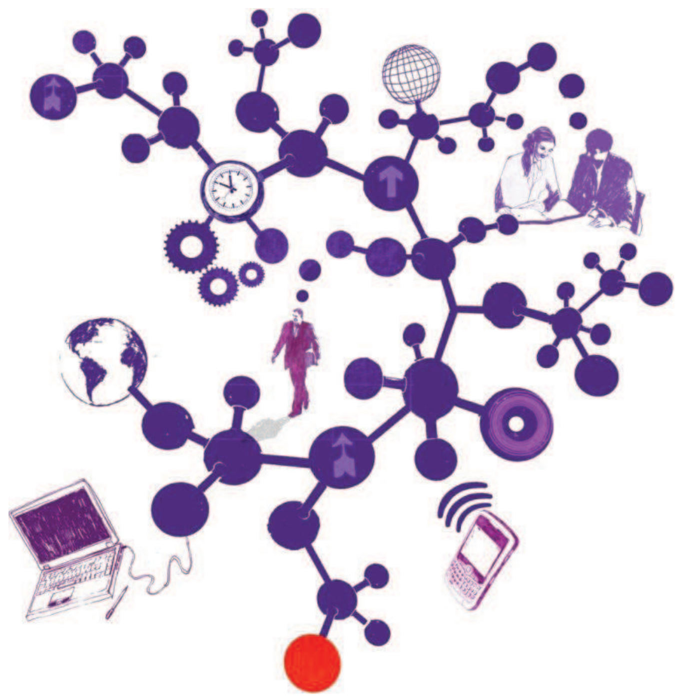
Grant Thornton

Audit Plan
for The London Borough of Barnet Pension Fund

Year ended 31 March 2013



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Fahad Hafeez
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Introduction

Purpose

This Audit Plan highlights the key elements of our 2012/13 external audit strategy for London Borough of Barnet Pension Fund. We have compiled it based on our audit risk assessment and discussion of key risks with management. We report it to the Pension Fund Committee as those charged with governance for the Pension Fund for consideration in accordance with International Standard on Auditing (UK & Ireland) 260. We will also report it the Council's Audit Committee as the body charged with governance for the Council's financial statements overall, of which the Pension Fund accounts form part.

Our responsibilities

As external auditors we are responsible for performing the audit in accordance with ISAs (UK and Ireland) and to give an opinion on the Pension Fund financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Communicating the results of audit work

We will communicate progress and findings from our audit work to you at key points during the year. Page 16 of this Plan includes the timescale for the audit and audit reporting which sets this out in more detail.

We look forward to working with Pension Fund officers during this year's audit.

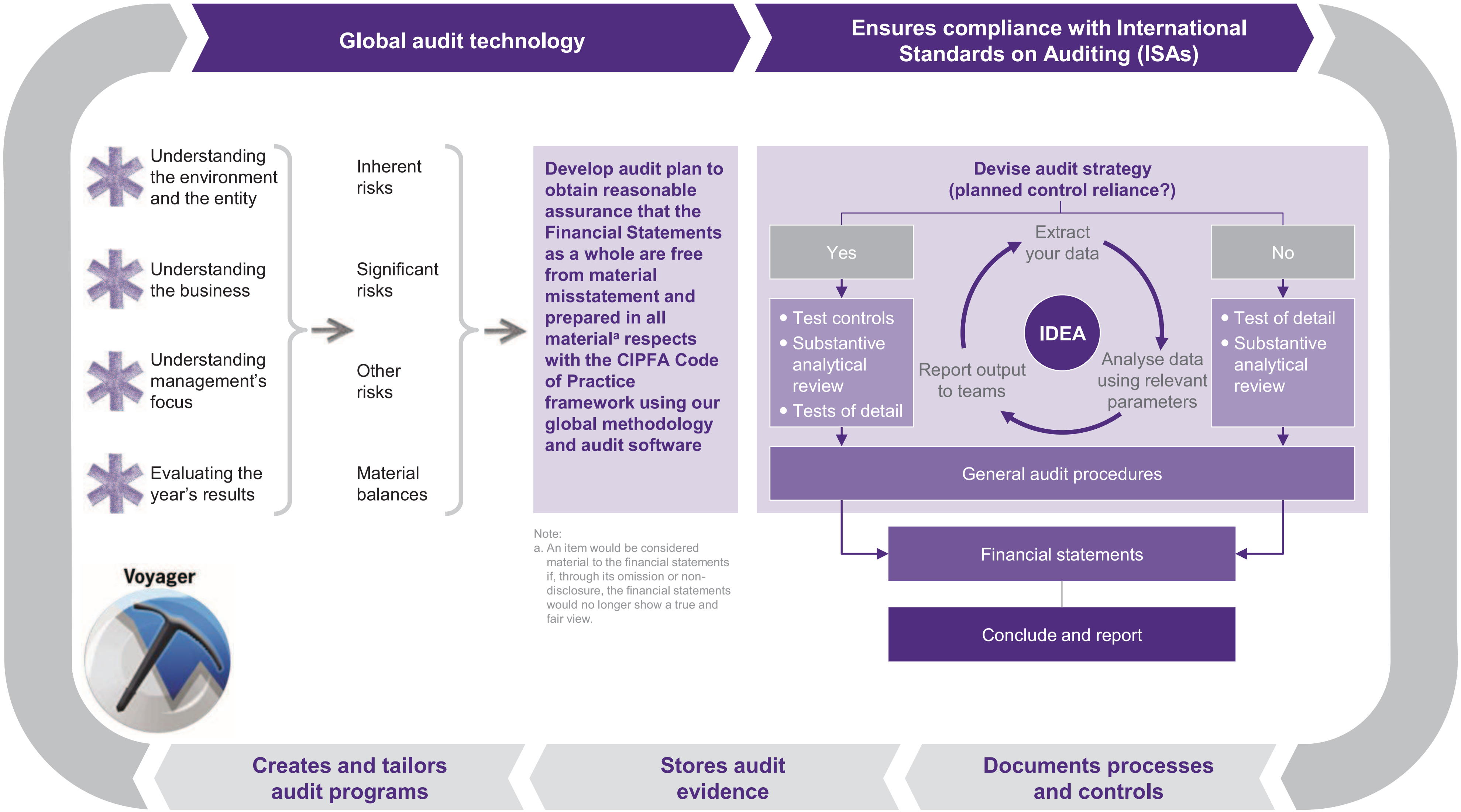
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements				
1.Financial reporting • CIPFA publication of a revised set of example accounts for pension funds in 2013.	**2. LGPS 2014** • Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014.	**3. Financial Pressures – scheduled and admitted bodies** • Managing pensions administration where contributing bodies are offering early retirement and redundancies placing additional workload on Council pension funds in dealing with severance arrangements.	**4. Financial Pressures – Pension fund** • Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.	**5. Triennial valuation** • Demands on pension funds' time in terms of administrating the information to pass to the actuary and regular dialogue with the actuary.

Our response				
• We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing.	• We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate. • As the change applies from April 2014 we do not expect it to have any impact on the 2012/13 financial statements.	• We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.	• We will monitor any changes being made to the Pension Fund's investment strategy through our regular discussions with senior management and those charged with governance. • We will consider the impact of any changes on the nature of investments held by the Pension Fund and adjust our testing strategy if necessary.	• We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension Fund.

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	✓ If material
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None	Immaterial.	No	×
Investment management expenses	No	Investments	Low	None		No	✓ If material
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	✓ If material
Current liabilities	No	Benefit payments, investments	Low	None		No	✓ If material

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Revenue	Under ISA 240 there is a presumed risk that revenue (which for the purposes of the Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	• Review and testing of revenue recognition policies for both contributions and investment income • Performance of sample testing on material contribution and investment income streams
Management override of controls	Under ISA 240 there is a presumed risk that the risk of management override of controls is present in all entities.	• Review of any accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	We will review the reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for any variances. We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation. We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.
Benefit Payments	Benefits improperly computed/claims liability understated	We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by the Pension Fund have been followed. We will review pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. The movements on membership statistics will also be compared to transactions in the accounting records.
Contributions	Recorded contributions not correct	We will test the controls the Pension Fund operates to ensure that it receives all expected contributions from member bodies. We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Interim audit work

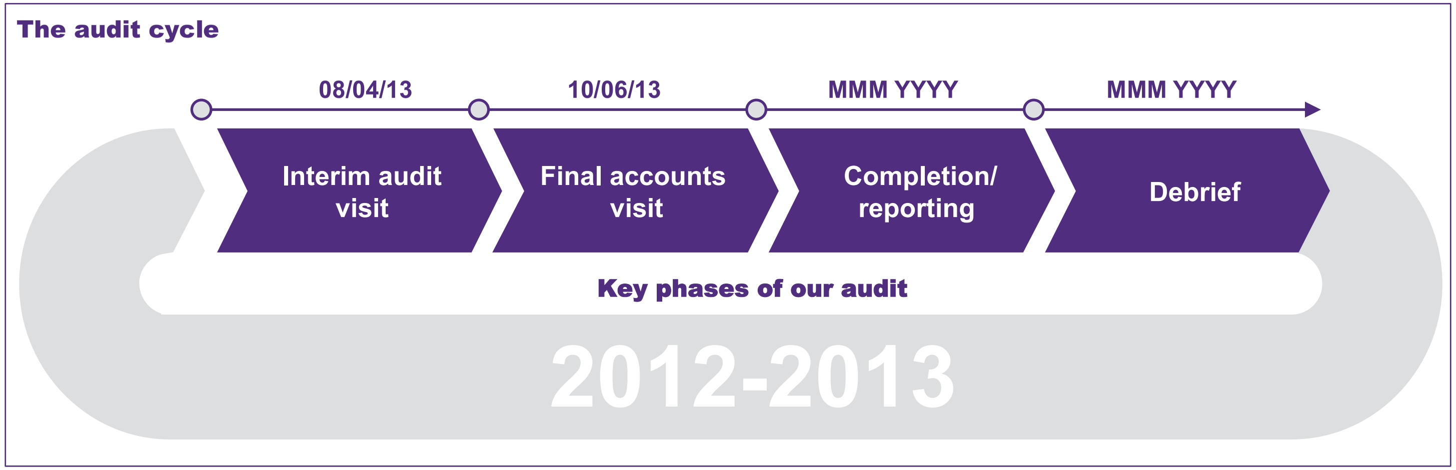
Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we intend to considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work to be performed
Internal Audit	We will review Internal Audit's overall arrangements as part of our main financial statements audit. For the purposes of the Pension Fund audit we will consider the results of Internal Audit work undertaken during 2012/13 on key system controls supporting the production of the Pension Fund financial statements. Where Internal Audit identifies control weaknesses we will consider the impact these have on our testing and where appropriate report these and the adjustments we make to our testing strategy to management and to the Pension Fund Committee for consideration.
Walkthrough testing	Walkthrough tests will be completed of the key system controls for contributions receivable and benefits payable we consider to present a risk of material misstatement to the financial statements.
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the Council's system of internal control supporting both the production of the main financial statements and the Pension Fund financial statements.
Journal entry controls	We will review the Council's journal entry policies and procedures, including any specific requirements for the Pension Fund, as part of determining our journal entry testing strategy.

Logistics and our team



Date	Activity
08/04/13	Planned Interim site work
04/06/13	The audit plan presented to Pension Fund Committee
10/06/13	Year end fieldwork commences
By 30/06/13	Audit findings clearance meeting
By 15/07/13 (date tbc)	Pensions Committee meeting to report our findings
By 26/07/13 (date tbc)	Audit Committee meeting to report our findings
By 26/07/13	Issue opinion of the financial statement and annual report

Our team

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Fees and independence

Fees

	£
Pension fund audit	20,226

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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AGENDA ITEM 7

Meeting	Pension Fund Committee
Date	6 June 2013
Subject	**Update on Admitted Body Organisations**
Report of	Chief Operating Officer
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, Deputy Chief Operating Officer Hansha Patel, Pension Services Manager
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix 1 - Admitted Body Monitoring Spreadsheet
Contact for Further Information:	Hansha Patel, Pension Services Manager 0208 359 7895

1. RECOMMENDATIONS

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

2. RELEVANT PREVIOUS DECISIONS

2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

4. RISK MANAGEMENT ISSUES

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

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

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to section 149 of the Equality Act, 2010, the council has a public sector duty to: (i) have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a protected characteristic and those without; (iii) promoting good relations between those with a protected characteristic and those without. The, relevant, 'protected characteristics' are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. It also covers marriage and civil partnership with regard to elimination discrimination

5.2 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.

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

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

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

6.3.1 All the contracts have an Admission Agreement and Bond Agreement in place, with the exception of the following contracts (as detailed in Appendix 1).

1. Birkin Cleaning Services: During a meeting with Birkin Cleaning Services they confirmed that they were having difficulties with arranging a Bond. Barnet has supplied details of a number of companies that they can approach and Birkin are currently liaising with two companies to arrange a pension bond.

2. Birkin Cleaning Services (St. James Catholic): Due to a change in the workforce, Birkin has requested a reassessment of the pension bond. A reassessment report has been requested from the Actuary and a response is expected by 31/05/2013.

   Barnet, as the Administering Authority, will look at the option of the termination of the admissions agreement if satisfactory progress had not been demonstrated by Birkin by 30 June 2013.

3. Fremantle Trust: The parties are now dealing with the finalisation of the Deed of Guarantee. The Deed was not completed at the same time with the property and contract documentation, because at that time the parties were waiting for, the amount currently actuarially assessed to the satisfaction of the Administering Authority to secure the payment necessary to meet the level of risk exposure arising on premature termination of the Contract by reason of the insolvency, winding up or liquidation of the Transferee Admission Body assessed as required by Regulation 7(3) of the Regulations.

7. LEGAL ISSUES

7.1 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

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

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

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

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

9. BACKGROUND INFORMATION

9.1 This report provides an update on issues previously reported at the Committee meeting held in March 2013.

10. LIST OF BACKGROUND PAPERS

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

Cleared by Finance (Officer's initials)	**MT**
Cleared by Legal (Officer's initials)	**POJ**

Appendix 1

Admitted Body Monitoring Spreadsheet

Admitted Body	No Of active Employees on transfer	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond 6mth Tag (red)	Pension cont on time RAG	Comments
Housing 21 New	56	06/09/2010	Barclays Bank	778K	30/09/2015		G	
London Care	3	05/03/2012	Lloyds	60K	04/03/2015		G	
Personnel & Care Bank	5	01/05/2012	Nat West	33K	31/10/2014		G	
Viridian Housing	11	22.04.2006	Euler Hermes UK	65K	16/08/2016		G	
Fremantle Trust (2)	83	28/03/2014	Royal Bank of Scotland	770K	27/03/2014	R	G	The parties are now dealing with the finalisation of the Deed of Guarantee.
Greenwich Leisure	22	31.12.2002	Zurich Insurance PLC	328K	08/02/2015		G	
Birkin Cleaning Services	1	01.09.2009		3.8K		R	G	Officers from Barnet have met with Birkins to resolve this. Confirmation received from Birkins (22/05/2013), they are awaiting responses from two banks that they have approached for a bond.
Birkin Cleaning Services (St James Catholic)	6	24/10/2011		37K		R	G	Officers from Barnet have met with Birkins to resolve this. A re-assessment of the bond has been requested by Birkins and a report is awaited from the actuary.

Turners Industrial Cleaning	1	01.04.2008	Lloyds TSB Securities	6.2K	continuing		G	
Go Plant	12	04.10.2008	HCC International Insurance Company PLC	290K	31/12/2013		G	
Mears Group	19	10/04/2012	Euler Hermes	£320K	09/04/2015		G	
NSL	31	01/05/2012	Lloyds TSB	412K	30/04/2017		G	
Blue 9 Security	2	03.08.2012	Evolution Insurance	61K	02/08/2013		G	
Music Service (BEAT)	2	01.03.2013	N/A	24K	28/02/2016		G	Guarantee provided by LB Barnet for a three year period

AGENDA ITEM 8

Meeting	Pension Fund Committee
Date	6 June 2013
Subject	**Procurement of an Independent Pension Fund Adviser to the Pension Fund**
Report of	Deputy Chief Operating Officer
Summary	Authorisation is sought to procure an independent adviser to the Pension Fund, following the end of the current investment adviser contract.

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Summary document on Local Government Pension Scheme Investment Consultant Procurement Framework.
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 That the Pension Fund Committee instructs officers to undertake the procurement of an investment adviser and to report back for the Committee to appoint to the role from a shortlist.

2. RELEVANT PREVIOUS DECISIONS

2.1 On 16 July 2007, the Deputy Director for Resources and Chief Financial Officer authorised Delegated Powers Report 296 to procure a new independent adviser to the Pension Fund.

2.2 The Contract was awarded to JLT Investment Consultants on 17 August 2008. Contract Reference Number: 50143.

2.3 The Contract was extended from 1 September 2012 to 31 August 2013, DPR Reference 1993.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To ensure that the assets of the Pension Fund are invested prudently and to the best advantage in order to achieve the required funding level and to comply with statutory provisions made under or pursuant to the Local Government Pension Scheme.

4. RISK MANAGEMENT ISSUES

4.1 To help manage pension fund investment risk, the Pension Fund has an independent advisor who provides investment advice to officers and members and attends the quarterly Pension Fund Investment Panel. The advisor also assists with the preparation and review of the Pension Fund investment strategy, benchmarking and monitoring the performance of external investment fund managers.

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 cost of Pension Fund Investment Consultant advice is charged to the Pension Fund.

6.2 It is intended to conduct this procurement using the National LGPS Investment Consultancy Framework which is fully compliant with the Public Contract Regulations 2006. The Council can reduce procurement time and costs by using a local authority specific framework which has already been through a competitive tender, OJEU compliant procurement process.

6.3 The cost of using the LGPS Investment Consultancy Framework is £5,000.

6.4 The National Framework agreement permit s for contracts to be awarded for up to seven years to allow investment advice over two actuarial review cycles.

6.5 The cost of the current pension fund investment advice contract was £44,000 but the contract price is variable subject to advice required .The total contract price over seven years is estimated to be under £400,000.

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7. LEGAL ISSUES

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

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement: 2.2.5, the appointment of independent advisers.

9 BACKGROUND INFORMATION

9.1 The current pension fund advisers' contract commenced on the 1st of August 2008 for a period of three years with an option to extend for one year from August 2011.

9.2 Approval was sought to extend the contract months until 31 August 2013, to enable a competitive tender exercise to take place and to allow consultation with the NSCSO provider, to agree long term contractual arrangements.

10. LIST OF BACKGROUND PAPERS

10.1 http://barnet.moderngov.co.uk/ieDecisionDetails.aspx?ID=4615

Cleared by Finance (Officer's initials)	**MT**
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National **LGPS Framework** for Investment Consultancy Services

Introduction and joining instructions

Investment Consultancy Services

Local choice
Investment Consultancy Services
Common Terms and Conditions
National LGPS Frameworks
Value for money
Collaboration
Best practice procurement
Flexibility
Efficiency savings
Multi-provider
LGPS

National LGPS **Frameworks**
By LGPS Funds, for LGPS Funds

Issue 1 - April 2013

Contents

Introduction

Across the Public Sector we must all continually seek the elusive 'Triple Crown' – how to deliver our statutory services 'better, faster and cheaper'?

The National LGPS Frameworks may help you meet this challenge.

Lord Hutton highlighted the potential benefits of co-operative projects within the LGPS; LGPS 2014 took this further and agreed the principle that 'scheme efficiencies be realised through more effective procurement….'

'By LGPS Funds, for LGPS Funds', the National LGPS Frameworks are a direct example of Funds collaborating to deliver benefits both locally and nationally across the LGPS. This initiative is directly in line with the Government's agenda for delivering greater value for money, alongside the reformed Local Government Pension Scheme.

This multi-user, multi-provider framework is uniquely open to all LGPS Funds for the procurement of investment consultancy services from a range of qualified providers.

All LGPS Funds and employing authorities using the framework will benefit equally from the collaboration.

Using a framework can save you significant time and money, whilst still delivering a service specified to your requirements, and supporting local decision making and accountability.

We hope that you will consider using this procurement route for your investment consultancy services.

"This type of co-ordinated approach to delivering better outcomes across the whole LGPS is exactly what we need to achieve real value for money in the future."

Jeff Houston
Head of Pensions, LGA

This Framework is the result of collaboration between Buckinghamshire, Cambridgeshire, Lincolnshire, Norfolk and Northamptonshire County Councils and the London Boroughs of Croydon and Hackney. Procurement, legal and project management support has been provided by specialists from Norfolk County Council and Norfolk Pension Fund.

What is a framework agreement?

Frameworks are widely used across Government. They are proven to be good for services that you can define and have demonstrated that considerable savings can be made.

A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise.

Frameworks are based on large volume purchasing. Aggregating different purchasers' potential needs means individual purchasers can buy goods and services at prices below those normally charged, or with special added benefits and/or more advantageous conditions.

All Local Government Pension Scheme (LGPS) Funds are required to procure professional investment consultancy services.

This means that costly and time-consuming procurement exercises are regularly undertaken across the Funds.

Because of this individual Funds may not be receiving either the best service or the best value that may be achievable by working collaboratively.

The National LGPS Framework for Investment Consultancy Services reduces the time and cost associated with procurement by offering a facility that has already been competitively tendered.

Framework benefits:

- Collaboration and partnership
- Flexibility
- Best practice procurement
- Agreed terms and conditions
- Efficiency
- Value for money
- Quality of service provision
- Additional contract management activity
- No fault break clause

'By LGPS Funds, for LGPS Funds' the National LGPS Frameworks are uniquely open to all LGPS Funds and employing authorities nationally for the procurement of actuarial and benefit consultancy services and investment consultancy services from a range of qualified providers.

It removes the need to independently undertake a full European Union (OJEU) procurement, as this has already been done as part of the framework. Agreed terms and conditions are provided so users can simply 'call-off' the framework to meet their requirements.

We believe that all LGPS Funds using the framework should benefit equally from the collaboration, which is why we have negotiated a collaborative rebate for all Funds that let services from the framework.

The National LGPS Framework is directly in line with the Government's agenda for LGPS collaboration and delivering greater value for money.

Using the framework will help Funds to leverage better prices, while crucially still supporting local decision making and service requirements.

Different types of frameworks

There are several different types of framework arrangements. The National LGPS Framework for Investment Consultancy Services is a multiple user, single lot framework – i.e. all LGPS Funds and participating employing authorities can use the framework to procure investment consultancy services.

Single User – Single Lot	**Single User – Multiple Lot**
Multiple User – Single Lot	**Multiple User – Multiple Lot**

Why should I use this framework?

Procuring investment consultancy services can take significant time and money, both for the awarding authority and service provider.

The National LGPS Framework is fully compliant with the Public Contracts Regulations 2006. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered.

It aims to deliver access at the best possible price to high-quality, efficient and effective investment consultancy services for all LGPS administering authorities and any of their participating employing authorities.

The main benefits include:

Collaboration and partnership

The National LGPS Framework was created in line with the Government's wish for LGPS Funds to seek ways of extending joint working and collaboration. This will help realise potential efficiencies and give a clearer voice to LGPS Funds within the market place, along with helping to share knowledge, information, experience and best practice.

Flexibility

National LGPS Frameworks reduce the time and cost associated with a full OJEU procurement, which in turn allows you to be more flexible with the planning and running of any tender process via mini-competitions.

Best practice procurement

Each of the service providers on the National LGPS Framework have been subject to a rigorous procurement process, ensuring they offer the scope and quality services you require. The pre-agreed terms and conditions offer you contractual safeguards.

Q.

Do I have to use a framework for all contracts I award?

A.

There is no obligation to use a framework when your requirement is under the OJEU procurement limit, however the benefits of the Framework apply to all requirements. You must comply with your local financial regulations.

Agreed terms and conditions

Terms and Conditions are already established and agreed for you and service providers. This removes the need to re-draft and/or renegotiate terms for each procurement you undertake. You have the right to refine, but not fundamentally alter, the Terms and Conditions to take into account any special requirements.

Efficiency

The framework removes the need for you to conduct full tender exercises or lengthy service provider evaluations, saving the time and costs associated with procurement exercises. Our easy ordering process makes the National LGPS Framework simple to access and use.

Value for money

To harness the opportunity to aggregate spend, ceiling prices with the facility to conduct Further Competition, along with collaborative rebates, ensure that value for money is consistently achieved.

Quality of service provision

The experience, expertise and commitment to quality of a service provider are assessed at the time of the initial competition. Your satisfaction with the service providers' performance is monitored on an ongoing basis.

Additional contract management activity

Norfolk County Council manages and monitors the National LGPS Frameworks on behalf of their user communities. Your views and requirements will be taken into account while the frameworks are monitored, as well as when they are reviewed and developed.

No fault break clause

You have the right to terminate the contract at any time by giving at least three months written notice.

Framework route vs full EU procurement

The **National LGPS Framework** for Investment Consultancy Services significantly reduces the **time and cost** associated with procurement by offering a facility that has **already been competitively tendered**.

OJEU

Pre-Qualification

- Selection evaluation
- Financial evaluation
- Track record

Tender

- Capacity and expertise
- Knowledge and understanding
- Organisation and people

Select and award

- Evaluate and award

- Ceiling prices
- Terms and conditions

Framework

Further competition

- Refine requirement and evaluation criteria
- Tender
- Evaluate and award

6 - 9 months without framework **reduced to...** **4 - 6 weeks** with framework

What services are covered by this framework?

Q.

Can we add in any service requirements at the mini-competition stage, even if they are not covered by the framework's more general specification?

A.

Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Q.

Will we be able to stipulate our own contract termination conditions?

A.

The call-off terms & conditions include termination rights for inadequate performance, default, etc, as well as providing a 3 month written notice period.

The National LGPS Framework for Investment Consultancy Services provides access to the following services:

Investment consultancy services including but not limited to:

- Review of asset allocation, investment strategy and investment management structure
- Working with the Fund Actuary to undertake asset liability modelling as required
- Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the measuring company or incorporating other third party reporting as may be required in a cost effective manner
- Attendance at meetings as required
- Providing training to Members and officers as required
- Advising on the Statement of Investment Principles
- Advising on the Pension Fund Annual Report
- Advising on controlling investment costs including fees and transaction related costs
- Advising on alternative investments
- Advising on Corporate Governance and Socially Responsible Investment policies
- Advising on Manager selection
- Advising on investment markets and the outlook for different asset classes.

All Local Government Pension Scheme (LGPS) administering authorities (including those in Scotland and Northern Ireland) and employing authorities can use the framework to procure these services.

Who can provide services under this framework?

There are six service providers on the framework:

Service Provider	Investment Consultancy
AON Hewitt	✔
Deloitte Total Reward and Benefits Limited	✔
Hymans Robertson LLP	✔
JLT Investment Consulting	✔
KPMG LLP	✔
Mercer Limited	✔

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide these services.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is really important that you focus clearly on what you as a Fund need, so that further competition helps you select the most appropriate provider.

What is the duration of the framework?

The National LGPS Framework for Investment Consultancy Services commenced on 3 April 2013 and is open for 4 years.

However, as LGPS Schemes are required to get an actuarial valuation of their assets and liabilities every 3 years, there are cost and continuity benefits if contracts can be utilised for two cyclical valuations.

Therefore contracts awarded under the framework may be for up to seven years, provided always that no contract shall extend beyond 31 March 2021.

Contracts awarded under the National LGPS Framework may be for up to seven years.

How much does it cost and what will I save?

Q.

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A.

The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Further Competition state. (Please note however that this is competition not negotiation).

Joining Fee

A one-off joining fee of £5000 is payable to join the National LGPS Framework for Investment Consultancy Services. This gets you access to the framework and ceiling prices, along with all framework documentation including the terms and conditions, guidance notes and Service Provider Directory. You will also benefit from the collaborative **rebate structure** and **removing the need for a separate full OJEU procurement exercise**.

Pricing

Pricing ceilings for all service providers on the National LGPS Framework for Investment Consultancy Services are included in the Service Provider Directory that you will receive if you join the framework.

All prices are maximum rates and are subject to further reduction at mini-competition.

Rebates to framework users

The following rebate applies to **all** work awarded and delivered under the National LGPS Framework for Investment Consultancy Services. It will be applied to the prices as agreed at mini-competition and contract award, if these are different to the prices as established under the framework:

- An aggregated cumulative stepped rebate based on the overall value of work awarded to a supplier under this framework, pro-rata'd across all LGPS Authorities awarding work to that supplier during the year. This will be due for payment directly from the service providers as at 31 March each year for work completed and invoiced during the year.

Travel and subsistence

Service provider prices are inclusive of travel, subsistence and any other expenses.

Rate review

The pricing ceilings remain fixed until 31st December 2017.

Any potential annual price increases from 1st January 2018 are capped so that they may not exceed the percentage change in the Office of National Statistics' Consumer Prices Index (or another such index as notified to the provider in writing), less two percentage points over the calendar year prior to the date of increase.

Please Note: You may choose to ask for a derivative pricing mechanism as an alternative. For example an annual retention fee for core services where the price will be determined at Further Competition stage.

How were the service providers chosen and monitored?

Expectations of quality

As part of the procurement and tendering process, the successful service providers demonstrated proof of the following general expectations:

- A proven track record and extensive knowledge and experience of providing Investment Consultancy Services to Local Government Pension Funds and/or large (i.e. with a minimum asset value of £2 billion) corporate pension funds within the United Kingdom
- Strong knowledge of the regulatory framework and operational environment for LGPS Funds
- Excellent communication, partnership and negotiating skills
- Appropriate professional qualifications such as Investment Management Certificate (IMC), Chartered Financial Analyst (CFA), membership of the Institute and Faculty of Actuaries
- The ability to demonstrate innovation in delivering solutions to LGPS Funds
- The ability to work with the Fund's actuary to determine appropriate investment strategies taking into account the funding position
- The ability to provide appropriate training and resources to support Fund decision making and monitoring requirements
- Financial Services Authority (FSA) registration and are regulated by the FSA

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide the services detailed on page 9.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is really important that you focus clearly on what you as a Fund need, so that further competition helps you select the most appropriate provider.

Anything else I need to know?

Continuous improvement

There is also a requirement that Service Providers should at all times during the framework:

- Make arrangements to secure continuous improvement in the way in which services are provided
- Use all reasonable endeavours to ensure awarding authorities receive the benefit of reduced third party costs and charges relevant to the provision of the services
- Use all reasonable endeavours to implement the efficiencies to be found in good industry practice

Audit

As part of its contract management function, Norfolk Pension Fund has the right to conduct independent auditing of the service providers' processes, procedures and application of their hourly rate.

Financial arrangement between Norfolk Pension Fund and service providers

Service providers are required to pay Norfolk Pension Fund, as the letting authority, a flat rebate of 1% of all contracts let under the National LGPS Framework each year, for work invoiced during the financial year.

This rebate will be used to cover the administration costs of the framework.

The rebate will be calculated against the set-up and management costs of the framework at the end of each financial year. A final surplus will be distributed among letting authorities.

How do I join the National LGPS Framework?

If you would like to know more or to make use of the National LGPS Framework for Investment Consultancy Services please complete and return a copy of the options document at **Appendix 1**.

Via this form you can opt to receive more details or to join the framework.

Confidentiality Statement

We cannot share any of the commercially sensitive details of the framework with you until you have completed and returned a confidentiality statement **(Appendix 1, Form A)**.

Once we have received your confidentiality statement we will send you copies of the framework documentation, including the guidance notes, full Terms and Conditions, templates for requesting and evaluating tenders, order form and Service Provider Directory.

Members Access Agreement

To use the National Framework, you must sign and return two copies of the Members Access Agreement. This is a legal document between your authority and Norfolk County Council (the Letting Authority for this framework). The purpose of the document is to regulate any liabilities that may arise as a result of use of the Framework.

If you opt to join the framework we will send you two copies of the Members Access Agreement to sign and return, along with all the other framework documentation. This includes the guidance notes, full Terms and Conditions, templates for requesting and evaluating tenders, order form and Service Provider Directory. An example of the Members Access Agreement is at **Appendix 2**. We will also send you an invoice for the Joiners Fee.

If you have any further questions or need any further detail before using the framework, please contact us and we will be happy to help.

Email: **NationalLGPSFrameworks@norfolk.gov.uk**

Do you know about the other services available via National LGPS Frameworks?

If you have a requirement for any of the above services and would like to find out more about National LGPS Frameworks please contact us at **NationalLGPSFrameworks@norfolk.gov.uk or 01603 223950**

FAQs

Question 1

Who can use the framework?

A. Any scheduled body listed in the LGPS (Admin) Regulations 2008/239, the Scottish Regulations (SSI 2011/349) and the Northern Irish Regulations (SRNI 2009/33) can use the framework.

Question 2

Under the National LGPS Framework, are suitable investment consultants scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A. Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific service provider. If you wished to make an appointment under the framework you would undertake a Further Competition to select your service provider using the 'call-off' criteria.

Question 3

If a list of suitable investment consultants is provided (un-ranked), are we able to decide which firms to interview?

A. If there is something quite definitive in the service providers' description of their capability, which indicates that they are unable to do the work, they may be excluded. However, it is easier to invite all capable service providers to take part in the Further Competition. You would need a clear and justifiable reason to exclude. It is anticipated that only the top scoring providers will be invited to an interview (see Further Competition evaluation criteria for more).

Question 4

Will we undertake a mini selection exercise from the list of successful providers?

A. Yes, based on your specific requirement and assessed by you against the criteria you refine for 'call-off' (you can introduce sub-criteria and set the weightings within the boundaries we have set). The format of the Further Competition is your decision.

Question 5

What sort of questions/information should we ask at the mini-competition stage (other than price)? Would it be a paper exercise based on the answers provided in the tender response? (Will we have access to the tender responses?). Can we contact the list of service providers to ask additional questions based on our individual requirements? How much scope do we have to change the nature of the questions from the questions asked at the tender stage?

A. You would specify your requirement and ask questions related to it. We will have ensured that the service providers are able to deliver all the services listed at a generic level. You are testing them at a more granular level. We would not as a matter of course publish the answers to all questions from the framework tender exercise, but we will be publishing very detailed service descriptions based on the tender responses so that you have confidence in the service providers' capability.

Question 6

How much can we adjust the selection criteria to suit our individual needs?

A. We have tried to build flexibility into the call-off criteria so that you can adjust these to be the most appropriate fit for you. This could include further defining the criteria, inserting sub criteria, and adjusting weightings.

Question 7

Can we add in any service requirements at the mini-competition stage, even if they are not covered by the framework's more general specification?

A. Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Question 8

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A. The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Further Competition stage. Please note however that this is competition not negotiation.

Question 9

How much does it cost to join the framework?

A. There is a one-off joining fee of £5000.

Question 10

What do we get for this fee?

A. You get access to the framework and prices, along with all framework documentation including the terms and conditions and guidance notes. You will also benefit from the collaborative rebate structure and removing the need for a separate full OJEU procurement exercise. See the benefits section under **Why should I use this framework?** for more.

Question 11

Is there scope for us to agree /alter contractual terms and conditions, or are these essentially set at a framework level?

A. The The Public Contracts Regulations 2006 ("the Regulations") specifically state that the parties should not substantially amend the terms laid down in a framework agreement.

There is an acknowledgement though that you may need to make non-material changes to the terms (e.g. to change the time for supply of the relevant products). However, you are not entitled to make a material change to the terms (e.g. by adding a new service) to the extent that it might affect the identity of the service providers capable of meeting the requirements.

This prevents the distortion of competition by ensuring that service providers are not excluded solely on the grounds that they were unable to meet the original requirements.

Question 12

What variations will be considered non-material?

A. The regulations do recognise that the terms of a framework, or of specific contracts, may need to be supplemented in certain situations.

Where you are running a mini-competition under a multi-supplier arrangement, you may supplement the terms.

In these circumstances, you would do so where you need to amend the terms to ensure that they capture the requirements more precisely, or provide additional terms on the basis that these have been referred to in the framework. **This does not allow a fundamental re-write of the terms** but recognises that it is not possible or practical to attempt to make provision for every eventuality, particularly in a multi-supplier environment.

However, there is a requirement that any supplemental terms align with and are based on the terms referred to in the framework agreement or the original request for tender. It was for this reason that careful consideration was given to the development of these documents when setting up this framework.

Question 13

Will we be able to stipulate our own contract termination conditions?

A. The call-off terms & conditions include termination rights for inadequate performance, default, etc, as well as providing a 3 month written notice period.

Question 14

When we do our own tenders we may have a shortlist in order of highest score and use the interviews to verify the scores from the ITT, plus add an additional score, usually for communication. Can we still do this if using the National LGPS Framework and rename our communication section 'service fit'?

A. Yes.

Question 15

Do I have to use the templates provided in the joiners pack to undertake my procurement?

A. No, with the exception of the Order Form which we strongly recommend you use for all orders under the framework, the templates are designed to help you in your procurement but are not compulsory. However, if you choose not to use the templates you must ensure that you still comply with best practice procurement.

Question 16

How does the Public Services (Social Value) Act 2012 apply to Framework Agreements?

A. Procurers and commissioners must consider the provision of the Act when procuring an above threshold framework agreement for public services. The Act states that Authorities should consider economic, social and environmental aspects that can affect citizens when they are tendering for requirements. This might involve consultation with local groups and the voluntary sector. **The Act does not apply to services contracts awarded by calling off from a framework.**

The National LFPS Framework for Investment Consultancy Services was advertised in the OJEU before the act was passed, but the nature of the subject matter does not lend itself to influencing the factors listed above.

We will of course be taking account of the requirements of the Act for any future National LGPS Frameworks.

Glossary

Access agreement
An agreement to join the National LGPS Framework, made between an awarding authority and the letting authority (Norfolk Pension Fund in this instance). Also known as a Deed of Adherence.

Administering authority
An authority that administers a Local Government Pension Scheme (LGPS).

Award criteria
The criteria used to determine whether a service provider can meet the requirements set by an awarding authority.

Awarding authority
An LGPS authority looking to award a contract to a service provider within the National LGPS Framework.

Call-off
The act of awarding authority procuring a service provider from the National LGPS Framework.

Call-off contract
A legally binding agreement for the provision of services made between the awarding authority and service provider.

Call-off criteria
The criteria used to evaluate service providers at the Further Competition stage.

Ceiling prices
The maximum prices that service providers can charge as part of the National LGPS Framework. These are subject to further reduction at the Further Competition stage.

Collaborative rebate
All awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded to a supplier under the National LGPS Framework, pro-rata'd across all LGPS Authorities awarding work to that supplier during the year (across both services). This will be due for cash payment as at 31 March each year for work completed and invoiced during the year.

Competitively tendered

The process of circulating detailed specification of services to a number of potential providers, who submit bids for evaluation ahead of an award being made. In this instance it refers to the process undertaken by Norfolk Pension Fund and the "founding authorities" when appointing service providers the National LGPS Framework.

Confidentiality statement

A statement to be signed by potential joiners of the National LGPS Framework, agreeing to respect the confidentiality of any commercially sensitive information made available.

Cyclical valuations

A valuation that is required in designated cycles. In this instance, it refers to the requirement of all LGPS schemes to get an actuarial valuation of their assets and liabilities every 3 years.

Direct award

Where a contract for services is awarded based solely on the information provided in the Service Provider Directory. It is not possible to directly award under the National LGPS Framework and all contracts must be awarded via Further Competition.

Further competition (also referred to as mini-competition)

Competitions run by awarding authorities in order to evaluate service providers when awarding contracts as part of the National LGPS Framework. Essentially the process set out in **How do I use the National LGPS Framework?**

Initial competition

The procurement exercise that was carried out in order to appoint service providers to the National LGPS Framework.

Invitation to tender (ITT)

As part of the Further Competition stage, awarding authorities will invite service providers to quote for the services they have set out in their detailed requirements.

Joining fee

A one-off fee applicable to all LGPS authorities who wish to join the National LGPS Framework for Investment Consultancy Services.

Letting authority
The authority that provides access to the National LGPS Framework (in this case Norfolk County Council).

LGPS
The Local Government Pension Scheme.

OJEU
OJEU stands for the Official Journal of the European Union. This is where the contract notice for the National LGPS Framework was published. All public sector contracts over a published threshold are required to be published in the OJEU.

Order Form
The order submitted to the service provider by the awarding authority in accordance with the National LGPS Framework. It sets out the description of the services to be supplied including, where appropriate, key personnel, premises, timeframe, deliverables and quality standards.

Service provider
A company that provides actuarial and / or benefit consultancy services as part of the National LGPS Framework.

Terms and conditions
In this instance, the call-off terms and conditions that, along with an order form, comprise a call-off contract.

Contact us

If you have any questions about the National LGPS Frameworks or would like to know more, please contact us at the following:

NationalLGPSFrameworks@norfolk.gov.uk

01603 223950 / 222139

The Norfolk Pension Fund
(National LGPS Frameworks)
4th Floor, Lawrence House
Norwich NR2 1AD

AGENDA ITEM 9

Meeting	Pension Fund Committee
Date	6 June 2013
Subject	**Barnet Council Pension Fund Performance for Quarter January to March 2013**
Report of	Chief Operating Officer
Summary	Barnet Council Pension Fund Performance for Quarter January to March 2013

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not Applicable
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 31 March 2013 Appendix C – WM Local Authority Universe Comparison to 31 March 2013.
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 That, having considered the performance of the Pension Fund for the quarter to 31 March 2013, the Committee instruct the Chief Operating Officer 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, (Decision Item 6) –The Pension Fund Committee adopted the revised investment strategy

2.3 Pension Fund Committee – 18 March 2013, Item 6 .The Pension Fund Committee instructed that any additional funding from contributions be invested equally with both fund managers reversing the decision made at the December meeting to restrict new funding to Newton

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.

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 Investment Consulting, 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 Euro zone. 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, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation

5.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. 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 Diversified Growth Funds are Newton; LIBOR +4%, and Schroder; RPI+5%.

6.3 The total value of the pension fund's investments including internally managed cash was £801.692 million as at 31 March 2013, (compared to £757.533 million as at 31 December 2012, £748.813 million as at 30 September 2012, £716.617million as at 30 June 2012 and £708.877 million at 31 March 2012). The graph in Appendix A shows how the market value of the fund has grown since 2006. The total market value of externally managed investments rose by £38.56 million over the quarter.

6.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced return of 5.1% and outperformed the liability benchmark return for the quarter by 1.7%. All the growth and bond funds produced positive absolute returns and outperformed their respective benchmarks.

6.5 Both the Newton and Schroder diversified growth funds underperformed equities in rising markets (as expected for DGF Funds but outperformed against their respective targets ;(Newton; LIBOR +4%, and Schroder; RPI+5 %.) Over the quarter, the Newton Real Return DGF out performed, 6.0% return versus a benchmark return of 1.1%. One year return was 10.0% compared to a benchmark return of 4.6%. But the high weighting to cash dragged performance. Schroder DGF out performed for the quarter, 6.2% versus a benchmark return of 2.2%. One year return was 9.8% versus benchmark return of 8.4%.

6.6 For the quarter, the Newton Corporate Bond portfolio marginally outperformed, returning 1.7% against its benchmark of 1.3% and over the year the Fund tracked the benchmark with a 14.2% performance return. Schroder's Corporate Bond portfolio marginally outperformed the benchmark for the quarter returning 1.7% and against benchmark return of 1.6%. Over the year the Schroder corporate bond return was 12.2% versus the benchmark return of 11.9%.

6.7 For Legal and General, overseas equities outperformed strongly by 0.5%, against the benchmark of 14.4%, and the fixed interest fund also outperformed by 0.1% against the benchmark of 1.7%

6.8 When compared to the WM Local Authority Universe (Appendix C), the Fund underperformed the average local authority over the quarter by 3.6%. The Fund has underperformed relative to the local authority universe over one year by -2.2% and over three years by -1.1%.

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.

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

8.1 Constitution – Part 3 Responsibility for Functions –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 (SI 2008/238). 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.

9.6.4 Fund Return compared with the Local Authority Universe over the quarter March 31 2013 and one, three and five years is set out in Appendix C.

9.7 Internally managed funds

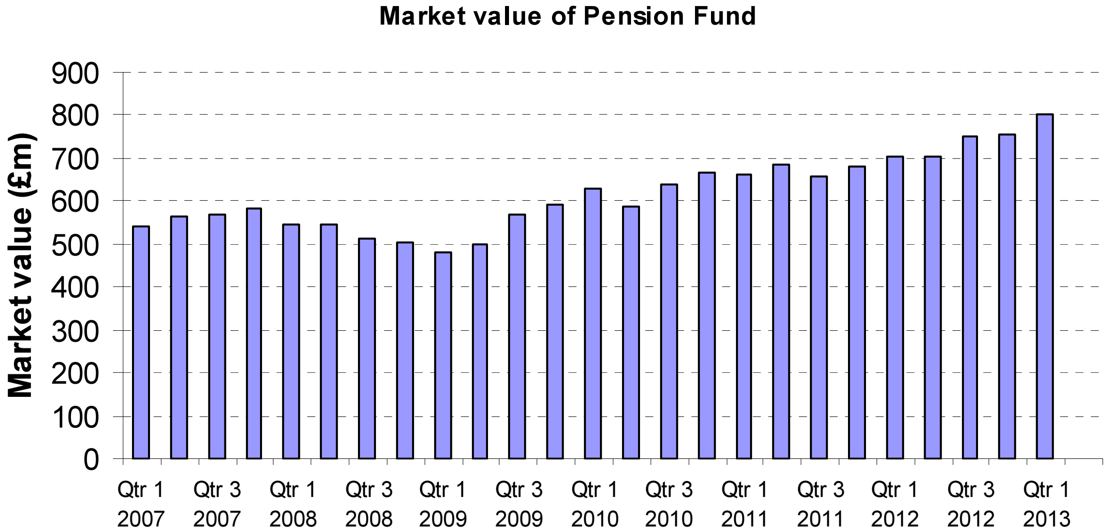
9.7.1 As at 31 March 2013 £10.1 million Pension Fund cash was held compared to £4.5 million as at 31 December 2012. These funds were invested internally pending transfer to the external fund managers if not required for the payment and administration of pension benefits. £1.4 million was transferred to Newton in January 2013. Internal cash investments are held in a Bank of Scotland call account with minimal overnight balances with the Cooperative Bank.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Cleared by Finance (Officer's initials)	**MW**
Cleared by Legal (Officer's initials)	**SS**

Appendix A


Market value of Pension Fund
Market value (£m)
900
800
700
600
500
400
300
200
100
0
Qtr 1 2007
Qtr 3 2007
Qtr 1 2008
Qtr 3 2008
Qtr 1 2009
Qtr 3 2009
Qtr 1 2010
Qtr 3 2010
Qtr 1 2011
Qtr 3 2011
Qtr 1 2012
Qtr 3 2012
Qtr 1 2013

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Appendix B – JLT Image Report Quarterly Update 30 March 2013

	Portfolio Return 12 month %	Liability Benchmark Return 12 month %
Total Scheme	11.3	6.4
Newton Real Return	10.0	4.6
Newton Corporate Bond	14.2	14.2
Schroder DGF	9.8	8.4
Schroder Bonds	12.2	11.9
L&G Equities	17.6	17.2
L&G Bonds	12.8	12.0
Growth Portfolio		
Growth v Global Equity	9.9	17.0
Growth v RPI+5% p.a.	9.9	8.4
Growth v LIBOR + 4% p.a.	9.9	4.6
Bond Portfolio		
Bond v Over 15 Year Gilts	13.2	8.1
Bond v Index-Linked Gilts (> 5 yrs)	13.2	11.7

The Growth portfolio excludes L&G equities. Global Equity: 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index

The Bond portfolio excludes L&G corporate bond fund.

Performance Report - Quarterly Update
31 March 2013

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Head of Investment Consulting - South
May 2013

Section One – Market Update

Introduction

The tables below summarise the various market returns to 31 March 2013, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 31 March 2013	% p.a.
UK Equities	3.35
UK Gilts (>15 yrs)	3.02
Real Yield (>5 yrs ILG)	-0.43
Corporate Bonds (>15 yrs AA)	4.06
Non-Gilts (>15 yrs)	4.23

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	10.3	16.8	8.8
Overseas Equities	14.4	17.2	8.2
USA	18.5	20.1	12.6
Europe	9.7	17.1	3.8
Japan	19.3	14.3	3.5
Asia Pacific (ex Japan)	8.8	16.7	7.3
Emerging Markets	5.4	7.4	3.2
Property	1.1	2.5	6.6
Hedge Fund	3.6	7.5	5.8
Commodities	7.6	0.0	3.0
High Yield	9.1	19.1	10.7
Emerging Market Debt	-2.3	10.1	9.9
Senior Secured Loans	2.8	8.7	5.7
Cash	0.1	0.5	0.5

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.22	-0.10	0.19
UK Gilts (>15 yrs)	0.02	-0.24	-1.44
Index-Linked Gilts (>5 yrs)	-0.36	-0.32	-1.07
Corp Bonds (>15 yrs AA)	-0.02	-0.57	-1.44
Non-Gilts (>15 yrs)	0.01	-0.65	-1.33

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	0.5	8.1	12.3
Index-Linked Gilts (>5 yrs)	9.0	11.7	13.0
Corp Bonds (>15 yrs AA)	1.3	11.7	10.4
Non-Gilts (>15 yrs)	1.0	13.7	10.6

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	% p.a.
Against US Dollar	-6.6	-5.0	0.0
Against Euro	-4.1	-1.4	1.8
Against Yen	1.6	8.6	0.2

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.8	3.2	4.1
Price Inflation - CPI	0.7	2.8	3.5
Earnings Inflation *	-0.3	1.0	1.5

* *Subject to 1 month lag*
Source: Thomson Reuters and Bloomberg

Yields and the absolute change in yields are shown to 2 decimal places to clearly show the changes.

Asset Class	Factors Affecting the Market	
	Positive	Negative
UK Equities	• UK Equities had a good quarter. The FTSE All-Share Index delivered a 10.3% return over the quarter to 31 March 2013, smaller companies returned 13% whilst medium sized companies lagged slightly, returning 9.8%. Companies' confidence in the future is shown by the number of dividend increases being seen in many sectors, underpinning the yield support that equity prices have long experienced.	• Official forecasts now suggest a 'triple-dip' recession is unlikely. However, there is little room for manoeuvre – growth is expected to be less than 1% this year – and events beyond the government's control could easily reduce this further. Expected future rises in the inflation rate are also adding to potential problems.
	• CPI inflation remained within the Bank of England's target range over the quarter; the latest figure for CPI inflation is 2.8% (as at 31 March 2013, which is likely to be revised over the quarter by the Office for National Statistics).	• The number unemployed, 2.51m, remains high, although the unemployment rate has held steady at 7.8% over recent months. Increases in wages continue to be subdued whilst the rate of inflation is putting further pressure on consumers.
	• The UK Bank Rate remained at 0.5% over the quarter although there was no change to the level of quantitative easing (QE) of £375bn.	
Overseas Equities		
North American Equities	• The US equity market had a stellar first quarter of 2013 returning 18.5%. The housing market has been improving, and consumer confidence has picked-up somewhat. Corporate America helped, earnings for 2012 were largely as expected, forecasts for 2013 remain positive and there are signs of a pick-up in mergers and acquisitions (and even a return of the leveraged buyout).	• After the strong rise in equity prices in the first quarter it would not be surprising if there was a pause for breath in the short term, particularly if some of the mixed signals coming from more recent economic statistics continue.

Asset Class	Factors Affecting the Market	
	Positive	Negative
European Equities	• The European equity market delivered 9.7% growth over the quarter, continuing the strong rally it experienced over 2012.	• Unemployment remains high - particularly in the peripheral Eurozone countries as austerity measures impact on confidence.
	• Despite the grim big picture, many companies are increasing profits and, perhaps more importantly, dividends. Income is becoming a significant part of share prices' total return (as has been the case in the UK for some time). Europe should be treated as a market of many stocks, not a single stock market. There are opportunities to be grasped, even in the most unpromising areas.	• The 'resolution' of the Cyprus crisis, has set a precedent that could be followed elsewhere – Spain, a possibility. There are already other, peripheral, countries heading into difficulty – Slovenia seemingly next in line – and it will be interesting to see if the same remedies are imposed in future negotiations. The Cyprus 'bail-in' will also have the effect of weakening already weak banks across the Eurozone as depositors move their uninsured cash to perceived 'strong' banks in the region – just in case.
Japanese Equities	• Japan was the best performing major market in the first quarter, with a return in sterling of 19.3% and even stronger return in local currency of 21.2%. It is a very long time since we have been able to make such a statement	• There are still clouds on the horizon, not least international politics in the region. China, in particular, is not happy with the perceived 'beggar-thy-neighbour' policies being proposed and the US Congress might start to grumble if the yen weakens much more. But for the time being the rest of the developed world seem content for Japan to continue its experiment in reflation.
	• The new Prime Minister, Mr Abe, was elected on a platform of monetary and fiscal expansion to overcome deflation and boost the economy. He has already appointed a new Bank of Japan Governor, Mr Kuroda, who markets expect to be fully supportive of these efforts, unlike previous, ultra-conservative incumbents.	
Asia Pacific (excluding Japan) Equities	• The region had a relatively subdued first quarter, returning 8.8%. As usual, China has been the main area of returns and concern. The new President, Xi Jinping, took over in March, with stability the watchword, but with some major problems to address. Exports have recovered somewhat from the lows of last summer but the lack of growth in the western developed world limits any rapid recovery. Overall GDP should grow in 2013 at about the same rate as last year – around 7.5% - which might sound high, but for China is nearly equivalent to stagnation.	• In the short term the new Chinese administration's room for manoeuvre is constrained by a property bubble – the legacy of the massive expansion in credit in 2008/9. Easing monetary conditions to promote growth is not possible until property lending throughout the economy can be controlled more rigorously. In addition, geopolitically there is, of course, the question of North Korea. So far markets have blithely ignored all the table-thumping and sabre-rattling but there is always the chance that the situation gets out hand.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Emerging Markets Equities	• Emerging Market indices rose approximately 5% over the quarter – a somewhat lacklustre performance. The reasons are very similar to those described above in the Asian section – a reliance on exports to a developed world growing little, if at all. However, the fastest growing areas in Emerging Markets generally are in the domestic economy – consumption and services – aimed at the burgeoning middle class in many countries with an increasing propensity to spend.	• Political instability is the main investor concern at present with the political leadership of China facing its first serious test in North Korea and the increasing uncertainties in Latin America proving a drag on growth. There is also a strong correlation between Emerging Market indices and the US dollar. When the latter is strong, as it has been, they tend to underperform – and vice versa.
Gilts	• Gilts returned 0.5% over the first quarter of 2013. The recent downgrade by Moody's to AA Stable in this asset class has not impacted on it continuing to be regarded as having 'safe haven' status at the moment.	• The 'safe haven' position of Gilts is inextricably linked to the measures taken to resolve the Eurozone crisis. We continue to be concerned that this asset class may experience falling capital values in the near term as markets work through the sovereign crisis. There is a short term risk of yields decreasing on more QE.
Index-Linked Gilts	• With limited supply and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices. There are pockets of value to be found in this asset class.	• A negative real yield on long-dated index-linked gilts is unsustainable over the longer term in an environment in which central banks are able to successfully control inflation within a target range.
Corporate Bonds	• Sterling corporate bonds produced a positive return of 1.8%, benefiting from the strength of corporate balance sheets and the higher yields relative to gilts. The interest rate outlook is stable, and the returns available make the sector appealing to some investors.	• The corporate bond market is currently suffering from a lack of liquidity and the tightening of credit spreads means that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they did throughout 2012.	• The well established trend of overall void levels increasing in tandem with the lowering of capital values as well as falling rental yields continued through Q1 2013. The lack of growth in the UK economy compounded these issues.

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	238,091,682	31.4	980,000	252,863,848	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	229,188,025	30.3	-	243,716,290	30.4
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	35,001,968	4.6	-	40,213,709	5.0
Newton	Corporate Bond	120,684,334	15.9	420,000	122,249,581	15.3
Schroder	All Maturities Corporate Bond	112,043,508	14.8	-	113,904,310	14.2
L&G	Active Corporate Bond – All Stocks	16,855,754	2.2	-	17,158,083	2.1
Newton	Cash	730,250	0.1	-	908,285	0.1
Schroders	Cash	438,548	0.1	-	583,460	0.1
Internal	Cash	4,498,608	0.6	n/a	10,094,732	1.3
ASSET SPLIT						
Growth assets		507,218,832	67.0	-	547,472,039	68.3
Bond assets		250,313,846	33.0	-	254,220,259	31.7
TOTAL		**757,532,679**	**100.0**	**1,400,000**	**801,692,299**	**100.0**

Source: Investment managers, bid values. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio

Note: Totals may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q1 2013 %	Benchmark Return Q1 2013 %
Total Scheme	5.1	3.4
Growth Portfolio		
Growth v Global Equity	6.2	11.9
Growth v RPI+5% p.a.	6.2	2.0
Growth v LIBOR + 4% p.a.	6.2	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	1.7	0.5
Bond v Index-Linked Gilts (> 5 yrs)	1.7	9.0

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.

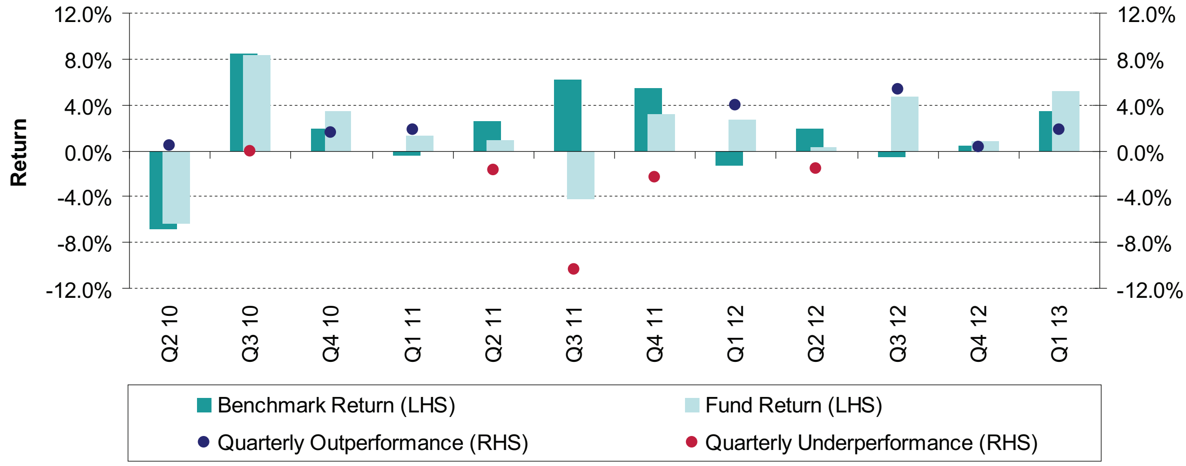
Individual Manager Performance

Manager/Fund	Portfolio Return Q1 2013 %	Portfolio Benchmark Q1 2013 %
Newton Real Return	6.0	1.1
Schroder Diversified Growth	6.4	2.0
L&G – Overseas Equity	14.9	14.4
Newton Corporate Bond	1.7	1.3
Schroder Corporate Bond	1.7	1.6
L&G – Corporate Bond	1.8	1.7

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. Liability benchmark effective from Q1 2011.

The Scheme achieved a return of 5.1% over the quarter and outperformed the liability benchmark return by 1.7%. This was due to a combination of rebounding equity markets and good corporate bond returns.

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.

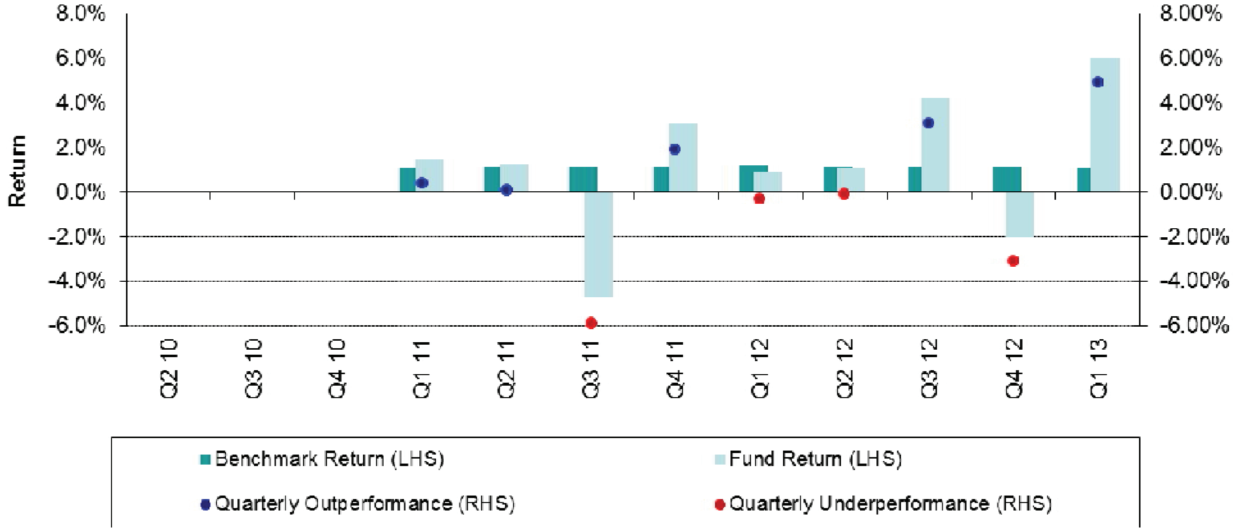
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns, the strongest absolute performance came from L&G – Overseas Equities. On a relative basis, all the underlying funds outperformed their respective benchmarks over the quarter.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 5.7%, as the equity markets performed very well compared to the DGF funds. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned more than both of the LIBOR +4% and the RPI +5% target returns of the respective DGF funds. The Growth portfolio's positive absolute (and relative) return over the quarter was driven by both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed the Over 15 Year Gilts Index (by 1.2%) and underperformed the Over 5 Years Index Linked Gilts Index (by 7.3%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund return was 6.0% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 4.9%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 5.9%.

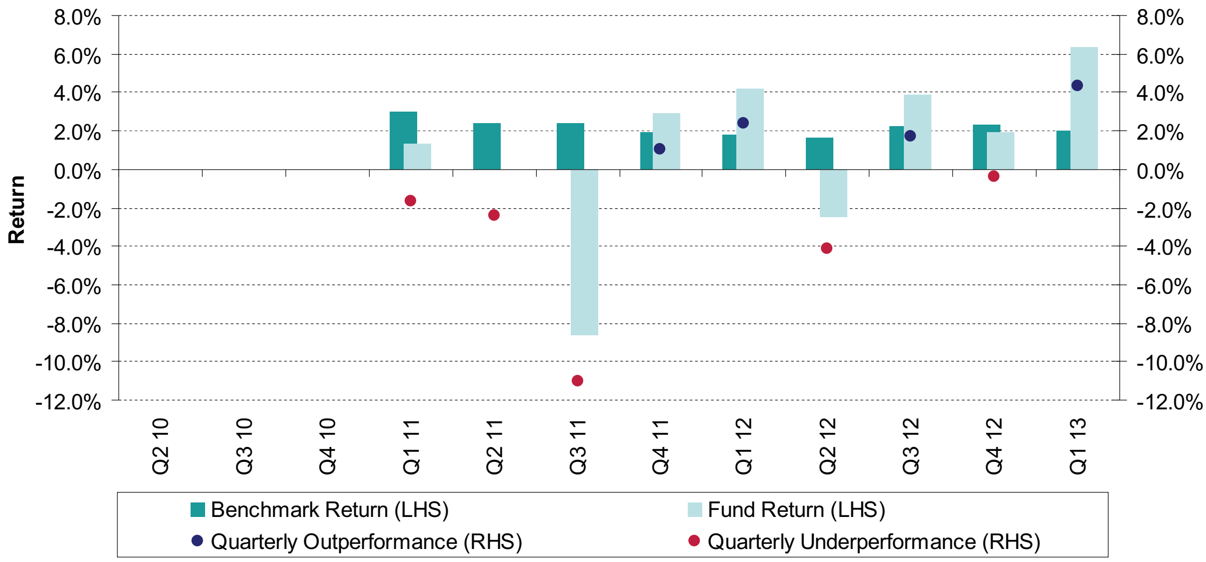
The Newton Real Return Fund produced a positive absolute return during the quarter; the performance (6.0%) was driven by its allocation to equities over the quarter. The allocations to Health Care and Telecoms were the largest contributors to performance within the equity segment. Banks and Mining were the only sectors to produce a negative contribution.

The return from the bond element of the Fund was positive, but not to the same extent as equities. Holdings in Australian and New Zealand government bonds were particularly beneficial to the Fund.

The Fund's high weighting to cash was a drag on performance in a quarter where the Fund's equity and bond allocations performed well.

Over the 12 month period, the Fund returned 9.5% versus the benchmark return of 4.6%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 7.5%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 6.4% compared to its RPI + 5% p.a. portfolio benchmark return of 2.0%, outperforming by 4.4%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 5.5%.

The significant position in equities was the largest contributor to performance over the quarter. Equities (particularly Global, US and the fund's 'Quality Yield' basket of equities) and high yield bonds delivered the largest contributions to returns over the period. Cash and FX were a drag on the Fund's total return over the quarter.

A position in leveraged loans was introduced in February, allocating 1% of the Fund to the M&G European Loan Fund and Invesco US Senior Loan Fund at the expense of US investment grade bonds.

The manager has a view that central bank policy is too powerful to ignore, and by compressing yields, they are encouraging investors to take additional risk. As a result Schroders are focussing on areas which are well positioned to cope with the low growth environment. They remain positive on equities, favouring the UK and US markets.

Over the 12 month period, the Fund returned a strong absolute return of 9.8% versus the benchmark return of 8.4%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 7.1%.

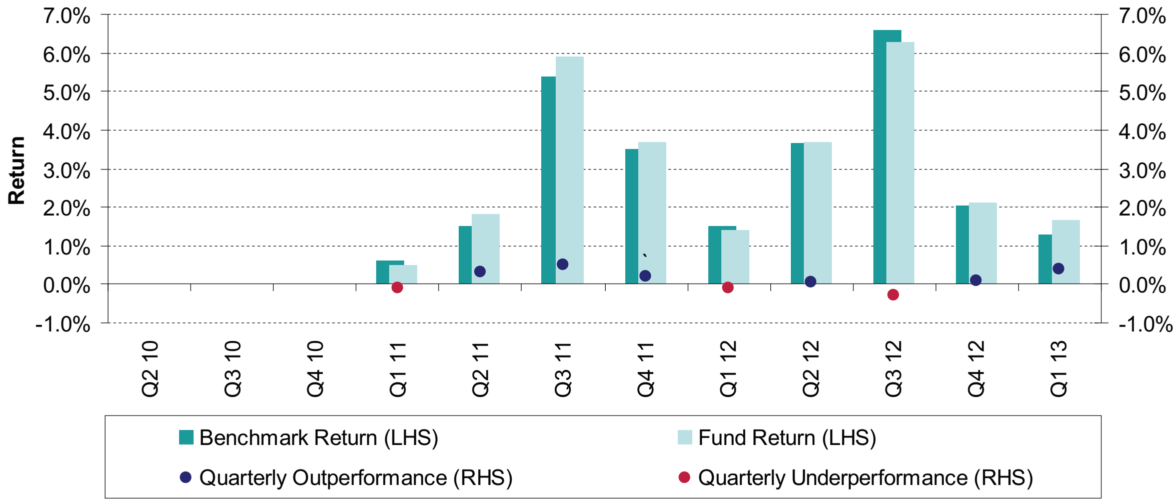
Asset allocation for growth managers: movement over the quarter

	Q1 '13 Newton %	Q1 '13 Schroder %	Q4 '12 Newton %	Q4 '12 Schroder %
UK Equities	15.2	5.5	15.3	0.1
Overseas Equities	40.9	42.8	40.8	48.4
Fixed Interest	10.6	-	10.6	-
Corporate Bonds	10.8	7.5	10.8	10.4
High Yield	-	20.8	-	18.8
Private Equity	-	1.2	-	1.3
Commodities	3.8	4.0	3.8	6.3
Absolute Return	-	4.2	-	4.9
Index-Linked	4.7	-	4.7	-
Property	-	0.3	-	0.9
Cash/Other	14.0	13.7	14.0	8.9
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Note: Totals may not sum due to rounding.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

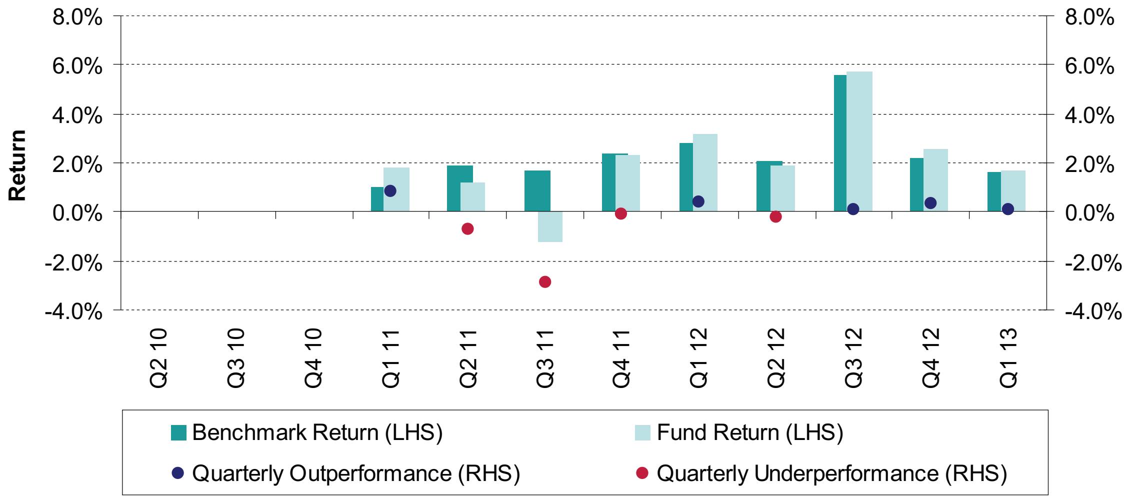


Source: Investment manager.

The Newton Corporate Bond portfolio outperformed its benchmark by 0.4% and returned 1.7% versus the benchmark return of 1.3%. An underweight position to A-rated bonds was beneficial as was the underweight position in banks, where Newton have a higher quality bias.

Over the 12 month period, the Fund returned 14.2% and tracked its benchmark.

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

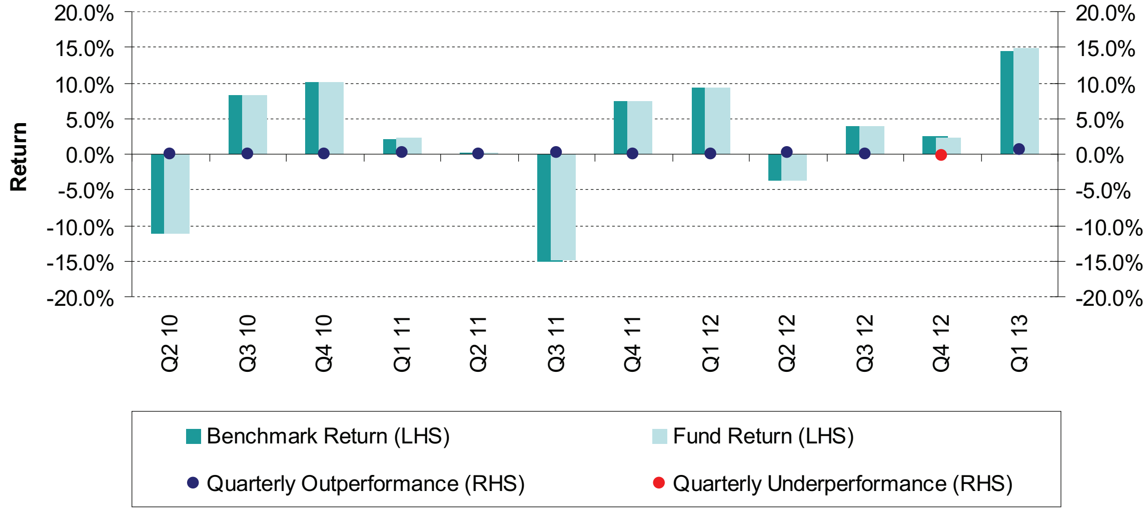


Source: Investment manager.

The Schroders Corporate Bond portfolio marginally outperformed its benchmark, returning 1.7% versus the benchmark return of 1.6%. The Fund benefitted from its overweight position in the insurance sector, underweight position in the long end of the gilt curve, and also from security selection.

Over the 12 month period, the Fund returned 12.2% versus the benchmark return of 11.9%.

L&G – Overseas Equities



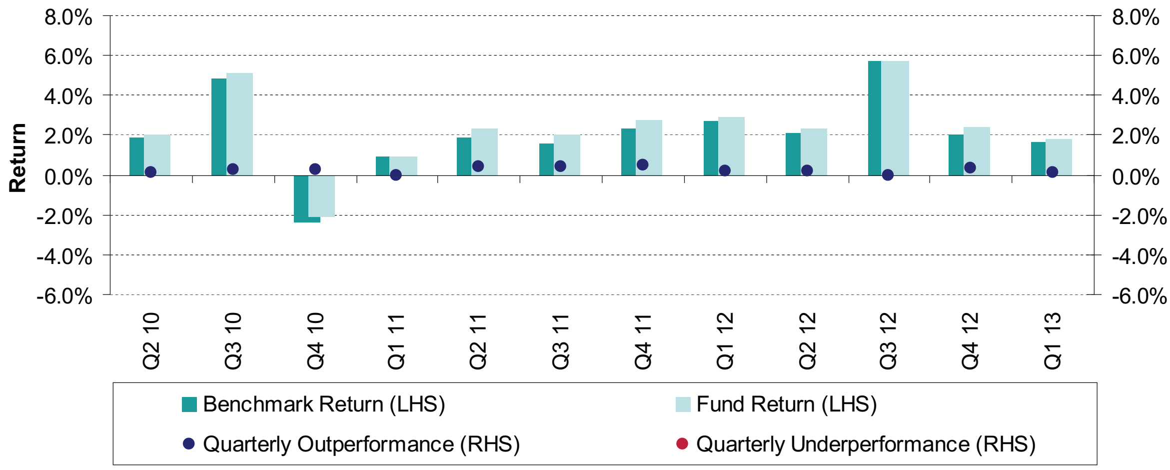
Source: Investment manager.

Over the first quarter of 2013, the Fund outperformed its benchmark by 0.5% and generated strong positive absolute return of 14.9%.

Over the 12 month period, the Fund return was 17.6%, against the benchmark return of 17.2% thus outperformed its benchmark by 0.4%.

The Fund has outperformed its benchmark over the 3 year period.

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



Source: Investment manager.

Over the quarter the Fund outperformed its benchmark by 0.1% and generated positive absolute return of 1.8%.

An overweight exposure to collateralised bonds added to performance. This sector was attractive to investors as these bonds were higher yielding and were a means to avoid M&A risk increasingly being seen in non-financial sectors. An overweight to risk in the quarter had a positive impact on performance in an environment of positive credit returns.

LGIM have also been switching investments from financials into higher yielding non-financial bonds given what they believe to be the relatively high valuation of financial bonds. Within financial bonds LGIM prefer insurers.

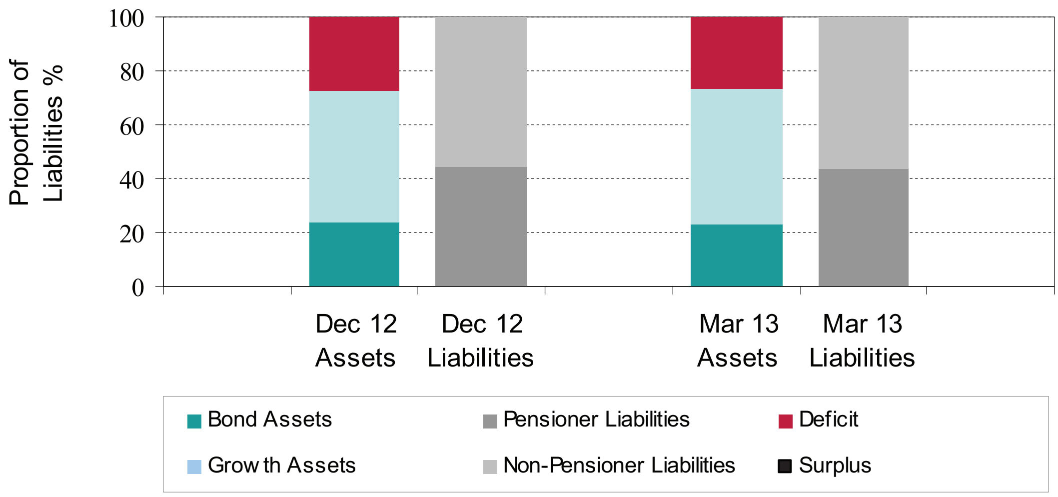
Over the 12 month period, the Fund has performed well with a return of 12.8% compared with the benchmark return of 12.0%.

The Fund has outperformed its benchmark over the 3 year period.

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

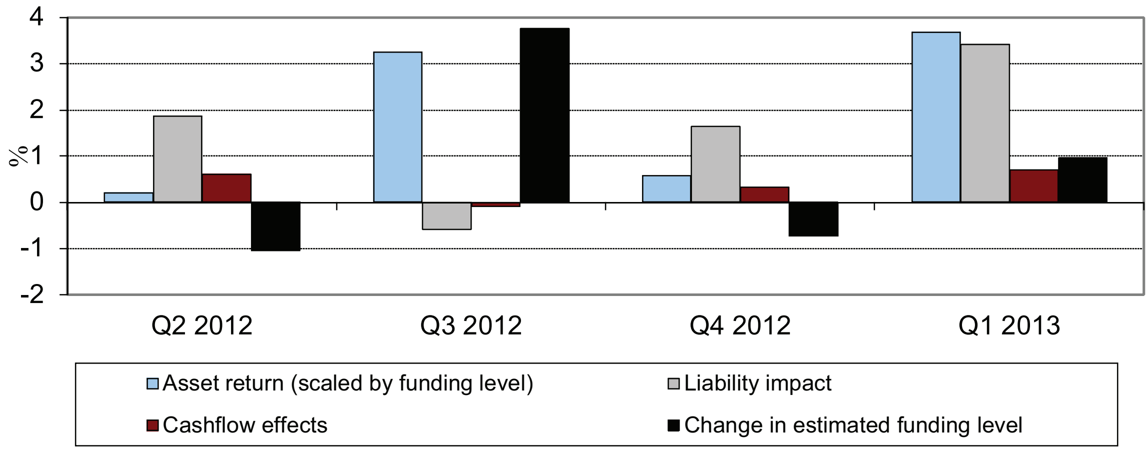


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the 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.

Over the quarter, the funding position improved by 0.9%, led by an increase in the value of assets coupled with positive cashflow which was partially offset by an increase in the estimated. The Scheme was approximately 73.2% funded as at 31 March 2013.

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.

Over the quarter, the estimated funding level increased by 0.9%, from 72.3% to stand at 73.2%, due to an increase in the assets due to the positive absolute returns coupled with positive cashflow and which was partially offset by an increase in the estimated value of the liabilities.

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

Overall, Q1 2013 has been a positive quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a good quarter for the Scheme in improving equity markets.

In absolute terms, the Scheme's assets produced a return of 5.1% over the quarter. All the growth and bond portfolios produced positive absolute returns.

In relative terms, the Scheme outperformed the liability benchmark return (see page 17) by 1.7%. All the funds outperformed their respective benchmarks; with the largest contribution coming from the DGF's, both of which outperformed their respective benchmarks.

The combined Growth portfolio underperformed a notional 60/40 global equity return, producing a positive absolute return of 6.2%, and outperforming the benchmarks which are cash-based.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 1.2% and underperformed the Index Linked Gilts (>5 Years) Index by 7.3%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a positive impact (0.9%) on the Scheme's estimated funding level which was 73.2% as at 31 March 2013.

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.

JLT Manager Research Tier Rating System

Tier	Definition
BUY	Significant probability that the manager will meet the client's objectives.
HOLD	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
REVIEW	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
SELL	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

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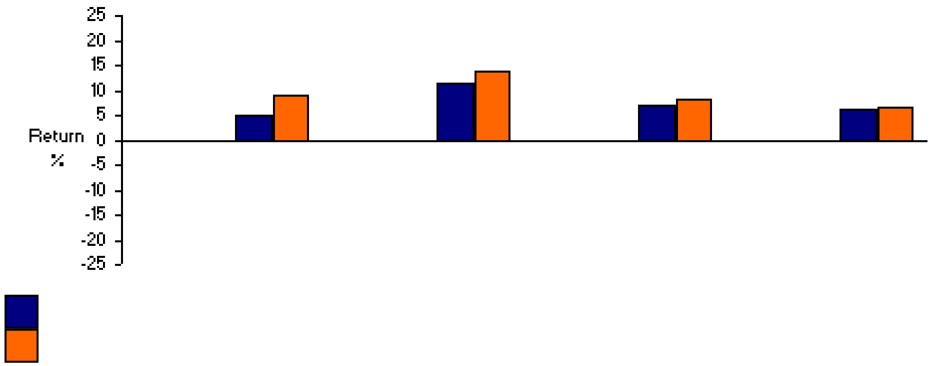
Appendix C WM Local Authority Universe Comparison to 31 March 2013

Category - TOTAL ASSETS

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	5.1	11.3	6.9	6.2
Benchmark	9.1	13.8	8.1	6.5
Relative Return	-3.6	-2.2	-1.1	-0.2

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.
The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods
= Data not available for the full period

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