MEETING **PENSION FUND COMMITTEE**
DATE AND TIME **TUESDAY 18TH MARCH, 2014** **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
Geoffrey Johnson
Susette Palmer
Rowan Quigley Turner
Daniel Seal

Substitute Members

Geof Cooke
Lord Palmer
Stephen Sowerby
Daniel Thomas
Jim Tierney

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.

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AGENDA ITEM 6

Meeting	Pension Fund Committee
Date	18 March 2014
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 administered by the London Borough of Barnet

Officer Contributors	Hansha Patel - Pensions Manager Karen Scott
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:	Karen Scott - karen.scott2@capita.co.uk

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 of discrimination

5.2 Ensuring the long term financial health of the Pension Fund will benefit everyone who contribute 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.

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 Pension Fund Committee meeting held in December 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)	**JH**
Cleared by Legal (Officer's initials)	**LC (HB Public Law)**

Appendix 1

Admitted Body Monitoring Spreadsheet

Admitted Body	No Of active Employees on transfer	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond 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		G	.
Greenwich Leisure	22	31.12.2002	Zurich Insurance PLC	328K	08/02/2015		G	
Birkin Cleaning Services (St James Catholic)	6	24/10/2011	Technical & General Guarantee Company SA	13K	30/08/2014		G	
Go Plant	12	04.10.2008	HCC International Insurance Company PLC	290K	31/03/2014		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	31/03/2014		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
Capita (NSCSO)	412	01/09/2013	Barclays Bank PLC	4731K	01/09/2014		G	
Capita (DRS)	261	01/10/2013	Barclays Bank PLC	3,813K	01/10/2014		G	

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AGENDA ITEM 7

Meeting	Pension Fund Committee
Date	18 March 2014
Subject	**Update Report on London Collective Investment Vehicle**
Report of	Chief Operating Officer
Summary	This report updates the Pension Fund Committee on further work done to develop a robust business case and formal proposal to inform decisions for implementation of a London LGPS Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS), recommends the Pension Fund Committee to participate in the establishment of the London wide collective investment vehicle and to contribute towards funding up to £25k from the Pension Fund towards the legal and set up costs of the collective investment vehicle.

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	None
Contact for Further Information:	Iain Millar, Head of Treasury Services - 0208 359 7126

1. RECOMMENDATIONS

1.1 That the Pension Fund Committee note the London Councils Leaders Committee' endorsement of the business case and formal proposals for the implementation of a London LGPS Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS).

1.2 That the Pension Fund Committee authorises the Chief Operating Officer to confirm the Pension Fund's interest in participating in the CIV and to. carry out further due diligence on the establishment of a CIV including contributing up to £25,000 to be met from the Pension Fund towards legal and setting up costs.

2. RELEVANT PREVIOUS DECISIONS

2.1 On 9th September 2013, (Item10) Pension Fund Committee expressed an interest in exploring the options for collaborative working including, subject to agreement to the business case, participation in a London wide collaborative investment vehicle (CIV). The Committee sought further information and requested that Officers bring an update report back to PFC in March 2014.

2.2 London Council Leaders Committee, 11 February 2014, (Decision item 6) endorsed the business case and formal proposals for implementation of a London LGPS Collective Investment Vehicle (CIV), in the form of a UK based, Financial Conduct Authority (FCA) Authorised Contractual Scheme (ACS) .

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. Participating in collective working and cost sharing will provide support towards the Council's corporate priorities.

4. RISK MANAGEMENT ISSUES

4.1 There is a risk that the Government may change the Local Government Pension Scheme (LGPS) regulations to force through pension fund mergers for administration, investment and governance. By participating in a collaborative project the Council may retain autonomy over its Pension Fund and benefit from reduced procurement costs and reduced investment management fees

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 In recent months there has been some discussion on whether there should be consolidation or merger of Local Government Pension Funds into a smaller number of funds and whether this would lead to cost reduction and better investment return. The Government is currently consulting on some form of the consolidation of the LGPS, either on a voluntary or forced basis.

6.2 There is some evidence that the economies of scale associated with larger funds could lead to lower unit costs in relation to administration and actuarial advice for example. The position on investment performance is much less clear. There is no correlation between fund size and investment return. Investment returns are driven primarily by strategic asset allocation. Relative performance by asset class is linked to manager selection. Consequently there are both large and small funds whose performance is either below or above average.

6.3 To date collaboration has focused on administrative functions rather than on investment activity, the national procurement framework being one example. While a merger on a forced basis would not be in the Council’s financial interest, it is clear that the status quo is not viable. London Councils and the Society of London Treasurers are exploring an alternative method for collaboration for between London pension funds in the form of a collective investment vehicle (CIV).

6.4 London Councils have commissioned expert legal and financial services advisors through the Pensions Working Group (PWG) to develop a robust business case and formal proposal to inform decisions for implementation of a London LGPS Collective Investment Vehicle (CIV) The PWG asked Leaders’ Committee to recommend to the boroughs that they proceed to establish an Authorised Contractual Scheme (ACS) and the ACS Operator (the company that would manage the ACS) .

6.5 Previous work undertaken by PwC estimated savings in the region of £120m per annum from the creation of a CIV (the ACS), provided there was close to full participation by the 33 London local authorities. These benefits arose from reduced investment management fees, and improved performance.

6.6 More work has now been undertaken on potential costs and benefits, based on high level assumptions. Based on the expected savings previously identified, forecast costs should be comfortably covered by savings in reduced management fees. Even at a level of assets under management of £5bn, the expected savings materially outweigh the expected costs. The actual savings and costs will naturally depend on the number of participating boroughs, amount of assets under management and the mix of investments that are selected for the ACS. It is expected that additional work to decide on new investment managers and to agree costs will begin in the 4th quarter 2014 in order that boroughs can make investment decisions in 1st quarter 2015

6.7 Boroughs would need to nominate to a new joint committee with a shadow board of directors. The proposed structure is that the boroughs would own all the share capital of the ACS Operator. Initially this would require minimal share capital (£1 per borough) but this capital requirement would increase once the operator was authorised and investments were made in the ACS. By making the £1 initial investment boroughs are showing a commitment to work together, not a commitment to invest together.

6.8 In the proposed structure a borough could choose to make investments that were either focused on a mixture of return and broader benefit, or clearly much more on investment return .

6.9 Each Pension Fund Committee could choose whether or not to use a fund manager from the CIV. It could for example retain its current managers or use a hybrid model retaining its own managers and use the CIV to diversify into alternative asset classes such as infrastructure and property and achieve economies of scale through the CIV that would not otherwise be possible for a smaller fund.

6.10 The costs of setting up the CIV would be recoverable from participating boroughs. The initial set up costs would include legal fees and other professional costs. Participating funds have contributed to these costs which are currently estimated to be a maximum of £25,000 per fund. It is anticipated that the contribution costs will be offset by the potential reduction in future investment management fees achievable through the CIV.

6.11 While there are considerable benefits from participating in a CIV in terms of the potential for cost –saving and resource pooling, there will be a perception of loss of control and autonomy at a borough level. Each fund would retain its own custodian’s, control over asset allocation and accounting responsibilities although manager related information would be supplied by the CIV.

6.12 It should be noted that there is no obligation for any boroughs to commit to any additional funding of costs. To the extent a borough takes a subsequent decision to invest in the ACS, it is proposed the borough would at that point invest further capital.

6.13 The main advantage to the Barnet Pension Fund in joining the CIV is faster access to a wider variety of asset classes with low costs of entry and reduced management fees – without the need for a lengthy and costly procurement process and the opportunity to peer review potential managers in advance of committing funds or moving funds between managers.

6.15 The Pension Fund Committee is recommended to confirm its interest in participating in the CIV and in contributing to the set-up costs. All related costs including the initial £25k set up cost, will be met from the Pension Fund.

7. LEGAL ISSUES

7.1 This report is based on the provisions of this report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) which have their basis in the Superannuation Act 1972

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

8. CONSTITUTIONAL POWERS

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

9 BACKGROUND INFORMATION

9.1 In 2012, London Council's Leaders Committee considered a report from PwC which set out options for reconfiguring the London LGPS funds, and indicated the possible financial benefits of a CIV. Since then, the matter has been discussed several times, and it was agreed that further consideration should be given to creating a CIV, and that the most appropriate structure for the CIV would be an ACS. To date 25 local authorities have agreed to contribute £25-£50k towards exploring the proposal to be held in a designated fund by London Councils. These contributions will fund the professional costs associated with development of the proposed ACS and its Operator.

10. LIST OF BACKGROUND PAPERS

10.1 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=4796
13 November 2012, Leaders' Committee report:

10.2 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5072
11 December 2012, Leaders' Committee report:

10.3 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5109
14 May 2013, Leaders' Committee report:

10.4 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5252
19 September 2013, Executive report:

10.5 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5353
26 November 2013, Executive report:

10.6 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5490
10 December 2013, Leaders' Committee report

10.7 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5495 11 February 2014, Leaders' Committee report

10.8 http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5562

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**JF/LC**

AGENDA ITEM 8

Meeting	Pensions Fund Committee
Date	18 March 2014
Subject	**Implications to the Pension Fund of the transfer of staff from the Registration and Nationality service to the London Borough of Brent for the purposes of establishing a Shared Registration and Nationality Service**
Report of	Chief Operating Officer
Summary of Report	This report details the pension implications of the TUPE transfer of staff out from Barnet and to Brent for the committee to note and agree the terms of the pension transfer. The new provider London Borough of Brent operates its own Local Government Pensions Scheme (LGPS). The LGPS scheme rules do not allow employees of one council to remain in the LGPS of another council. This means that Barnet employees transferring to Brent will be transferred into Brent LGPS. The staff will transfer to Brent on a fully funded basis.

Officer Contributors	Mathew Kendall – Assistant Director, Adults and Communities John Hooton – Deputy Chief Operating Officer Hansha Patel – Pensions Service 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	None
Contact for Further Information:	Rena Abraham, HR Business Partner, Tel: 020 8359 4773

1. RECOMMENDATION

1.1 That the Pensions Fund Committee note and approve the terms of the Transfer of LBB employees to Brent Local Government Pensions Scheme (LGPS), consequent on the Shared Registration and Nationality Service TUPE transfer.

2. RELEVANT PREVIOUS DECISIONS

2.1 Cabinet, 29 November 2010 (Decision item 6) – approved the One Barnet Framework and the funding strategy for its implementation.

2.2 Cabinet Resources Committee 24 June 2013 (Decision items 1.16 and 9.18.12) – approved the fund to review the Registration and Nationality Service.

2.3 Cabinet Resources Committee, 4 November 2013 (Decision item 12) approved the recommended option of entering into a shared service model with the London Borough of Brent (Brent), hosted by Brent (subject to Brent completing its own Democratic process) and budget agreement of the project.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The aim of reviewing the delivery of the Registration and Nationality service supports the three priority outcomes set out in the 2013/16 Corporate Plan:

- Promote responsible growth, development and success across the Borough;
- Support families and individuals that need it – promoting independence, learning and wellbeing; and
- Improve the satisfaction of residents and businesses with the London Borough of Barnet as a place to live, work and study.

3.2 The review of the Registration and Nationality service is part of the London Borough of Barnet (Barnet)'s corporate change programme (One Barnet Programme). It supports the One Barnet key priorities of:

- A new relationship with citizens.
- A relentless drive for efficiency.
- A 'one public sector' approach.

4. RISK MANAGEMENT ISSUES

4.1 There is a risk to the Council that the employer contribution rate is insufficient to fund the pension liabilities. This risk is mitigated by ensuring that the calculation of the deficit payment to Brent is accurate and that sufficient budget is clawed back from the transferring registration and nationality service to fund any change in the contribution rate.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 The Equality Act 2010, requires public bodies and all other organisations exercising public functions on its behalf to have due regard to the need to: a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; b) advance equality of opportunity between those with a protected characteristic and those without; and c) promote good relations between those with a protected characteristic and those without.

5.2 Ensuring the long-term financial health of the pension fund will benefit everyone who contributes to it.

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 within the risk management implications section of this report.

6.2 Staff will transfer on a “fully funded basis”. This means that the pensions’ deficit will not transfer to Brent from Barnet in respect of these staff. To reflect that the liability will remain with Barnet, the employee budget associated with the recovery of the pension deficit (the difference between the total contribution rate of 24.8% and the fully funded contribution rate) will be removed from the Registration and Nationality funding and will remain with Barnet. The calculation of the deficit is subject to an actuarial assessment.

7. LEGAL ISSUES

7.1 There are no additional legal issues not covered elsewhere in this report.

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, and paragraph 2.2.11 empowers the Pension Fund Committee to, “consider actuarial valuations and their impact on the pension fund.”

9. BACKGROUND INFORMATION

9.1 Financial due diligence has been carried out to compare the costs of the proposed shared service with the current registration and nationality service budgets and medium term financial strategy projections.

9.2 The core cost of the service as set out in the Barnet proposal (Section 6, Appendix 1 of the CRC Report), is in line with the Registration and Nationality Service budget for 2012/13.

9.3 The past service pension fund deficit in respect of the staff transferring will not transfer to Brent. It will remain with Barnet, and the employee budgets associated with the recovery of the pensions’ deficit will also remain with

Barnet. These total approximately £10,000 and have been removed from the Registration and Nationality Service baseline.

9.4 Currently circa 13 FTE are in scope for transfer, circa 4 of the posts are vacant. 9 staff are employed by the London Borough of Barnet, though this employment relationship will change when the staff are transferred from the council to London Borough of Brent under the principles set out in the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE")

9.5 The transferred employees will become members of the Local Government Pension scheme administered by LB Brent from the date of the transfer. An option will be provided to the employees to elect to transfer their accrued pensionable membership within the LB Barnet pension fund to the LB Brent pension fund.

9.6 An actuarial assessment of the pension fund associated with the transfer was undertaken by Barnett Waddingham LLP (3 March 2014), to determine the amount of deficit attributable to transferring members. The actuary has assessed that the share of the deficit attributable to the shared Registration and Nationality Services as at 31 March 2014 is £45,000.

9.7 Staff will transfer on a "fully funded basis". This means that the pensions' deficit will not transfer to Brent from Barnet in respect of these staff. To reflect that the liability will remain with Barnet, the employee budget associated with the recovery of the pension deficit (the difference between the total contribution rate of 24.8% and the fully funded contribution rate) will be removed from the Registration and Nationality service funding and will remain with Barnet.

10. LIST OF BACKGROUND PAPERS

10.1 Barnett Waddingham's Deficit Report for London Borough of Barnet, 31March 2014

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

Meeting	Pension Fund Committee
Subject	**Barnet Pension Fund Triennial Evaluation**
Report of	Chief Operating Officer
Summary	This report advises the Committee on the actuarial valuation of the Pension Fund as at 31 March 2013 and the minimum level of contribution rates required of each fund employer to address the fund's deficit.

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 - Rates and Adjustment Certificate
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 That the deficit position, as identified by the initial triennial valuation results of the London Borough of Barnet Pension Fund as at 31 March 2013 be noted.

1.2 That the revised minimum employer contribution rates for the next three years be noted, subject to any minor variations as recommended by the Pension Fund Actuaries.

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2. RELEVANT PREVIOUS DECISIONS

2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

3.2 The objectives of the Pension Fund Funding Strategy Statement include ensuring the long term solvency of the fund and identification of the share of the Fund attributable to individual employers.

4. RISK MANAGEMENT ISSUES

4.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies. This risk has been mitigated by a thorough review of the data by officers within the Pensions Administration and Treasury Management teams and a series of reasonableness and data integrity tests applied by the actuary.

4.2 The value of the pension fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

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 of discrimination

5.2 Ensuring the long term financial health of the Pension Fund will benefit everyone who contribute 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 The recommended minimum employer contribution rate has been incorporated into the draft budget and any variation agreed by the committee will impact on the draft budget. Other financial issues are set out in the body of the report.

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

7. LEGAL ISSUES

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

7.2 As a local authority, the council's employees have the right to be members of the Local Government Pension Scheme and, therefore, the Council is statutorily required to make employer contributions.

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."

8.2 The terms of reference of the Pension Fund Committee include consideration of actuarial valuations and their impact on the Pension Fund.

9. BACKGROUND INFORMATION

9.1 It is a regulatory requirement of the Local Government Pension Scheme that the administering authority instructs the actuary to undertake a triennial valuation. The main purpose of the valuation is to review the financial position of the Fund and to determine the minimum rate at which the employers of the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

9.2 The primary purpose of the figures produced as part of the triennial valuation is for "budgeting" or setting the future levels of employer contributions payable to the Fund.

9.3 The previous valuation of the fund was undertaken by the current actuaries, Barnett Waddingham as at 31 March 2010.

9.4 The most recent valuation of the fund was undertaken by the current actuaries, Barnett Waddingham LLP as at 31 March 2013 and show that the past service funding level of the Fund as a whole has increased from 76% to 79% between 31 March 2010 and 31 March 2013. The reasons for this increase include

- More pensions in payment ceasing than expected,
- Deficit contributions paid into the Fund
- Lower than expected salary increases.

9.5 The contribution rate for the average employer, including payments to target full funding (100%), has increased from 23.5% to 24% of pensionable pay. This reflects:

- A reduction in pensionable salaries over which any deficit is expressed as a rate of pay,
- Lower outlook for future investment returns in the financial market

9.6 The London Borough of Barnet pool contribution rate is based on a deficit recovery period of 18 years (previously 13 years). The LB Barnet employer pool contribution rate has increased from 24.8% to 25.8% a combination of 13% minimum employer contribution and a minimum annual lump sum (£8.641million in 2014-15).

9.7 The actual contribution rate will differ for each scheduled and admitted body and these are shown in the Rates and Adjustment Certificate, Appendix A. The main reasons for variations in individual results are due to differences in:-

- Maturity profile of members;
- Experience of employers since 2010 including mortality rates, salary increases, early retirements and workforce changes.

9.8 The deficit recovery sums in the Rates and Adjustment Certificate have been expressed as an annual lump sum rather than as a % of payroll to ensure there will be sufficient contributions being paid to make up the deficit. The impact of a declining payroll would otherwise push up the required contribution rate.

9.9 The certified contribution rates represent the minimum level of contributions to be paid. Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by the Actuary.

10. LIST OF BACKGROUND PAPERS

10.1 London Borough of Barnet Pension Fund Actuarial Valuation Report as at 31 March 2013.

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**JF (HB Public Law)**

Rates and Adjustment Certificate

Chris Naylor

Chief Financial Officer

London Borough of Barnet

North London Business Park

Oakleigh Road South

London N11 1NP

Dear Sirs

On your instruction, we have made an actuarial valuation of the London Borough of Barnet Pension Fund ("the Fund") as at 31 March 2013.

In accordance with Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 we have made an assessment of the contributions which should be paid to the Fund by the employing authorities as from 1 April 2014 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the following Contribution Schedule.

Yours faithfully

Graeme D Muir FFA **Alison Hamilton FFA**

Contribution Schedule

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2014 to 31 March 2017 is 24.0% of pensionable payroll.

Each employer listed below shall pay an Individual Adjustment under Regulation 36 for the period 1 April 2014 to 31 March 2017 that results in paying the Future Service Rate plus the additional monetary amount as agreed between the Administering Authority and the employer. The minimum levels of contributions are set out below:

		Minimum employer contributions due as a % of salary for the year beginning			Minimum employer contributions due as monetary amounts in the year beginning		
Emp Code	Employer Name	1 Apr 2014	1 Apr 2015	1 Apr 2016	1 Apr 2014	1 Apr 2015	1 Apr 2016
1	London Borough of Barnet	13.0%	13.0%	13.0%	£8,641k	£8,878k	£9,121k
4	Middlesex University	11.3%	11.3%	11.3%	£3,447k	£3,541k	£3,638k
10	Barnet College	12.5%	12.5%	12.5%	£668k	£686k	£705k
12	Woodhouse College	12.5%	12.5%	12.5%	£82k	£84k	£86k
75	Fremantle Trust (2)	22.5%	22.5%	22.5%	£0k	£0k	£0k
69	Housing 21 (2)	22.5%	22.5%	22.5%	£0k	£0k	£0k
28	Greenwich Leisure	17.9%	17.9%	17.9%	£0k	£0k	£0k
29	Barnet Homes	11.9%	11.9%	11.9%	£1,022k	£1,050k	£1,079k
33	Birkin Services	26.4%	26.4%	26.4%	£0k	£0k	£0k
40	Servite/Viridian Housing	20.8%	20.8%	20.8%	£4k	£4k	£4k
43	Go Plant Hire	19.4%	19.4%	19.4%	£7k	£8k	£8k
61	Your Choice	14.5%	14.5%	14.5%	£269k	£276k	£284k
62	Mears Group	18.0%	18.0%	18.0%	£0k	£0k	£0k
63	NSL Ltd	16.4%	16.4%	16.4%	£0k	£0k	£0k
65	London Care	18.0%	18.0%	18.0%	£0k	£0k	£0k
66	Personnel and Care Bank	17.8%	17.8%	17.8%	£0k	£0k	£0k
67	Blue 9 Security	28.2%	28.2%	28.2%	£2k	£2k	£2k
68	Birkin - St. James	21.2%	21.2%	21.2%	£0k	£0k	£0k
73	BEAT	21.1%	21.1%	21.1%	£1k	£1k	£1k
London Borough of Barnet Pool							
13	St Mary's GM High School	13.0%	13.0%	13.0%	£67k	£69k	£71k
14	Dollis Junior	13.0%	13.0%	13.0%	£38k	£39k	£40k
15	Osidge School	13.0%	13.0%	13.0%	£35k	£36k	£37k
16	Finchley Catholic	13.0%	13.0%	13.0%	£66k	£68k	£70k
18	St Michael's Grammar	13.0%	13.0%	13.0%	£48k	£49k	£51k
19	St James Catholic High School	13.0%	13.0%	13.0%	£87k	£89k	£92k
20	Bishop Douglass	13.0%	13.0%	13.0%	£86k	£89k	£91k
22	Menorah Foundation	13.0%	13.0%	13.0%	£29k	£30k	£31k

Emp Code	Employer Name	Minimum employer contributions due as a % of salary for the year beginning 1 Apr 2014	1 Apr 2015	1 Apr 2016	Minimum employer contributions due as monetary amounts in the year beginning 1 Apr 2014	1 Apr 2015	1 Apr 2016
Academies Pool							
38	London Academy	13.5%	13.5%	13.5%	£75k	£77k	£79k
42	Wren Academy	13.5%	13.5%	13.5%	£91k	£93k	£96k
47	Whitefield School (Academy)	13.5%	13.5%	13.5%	£59k	£60k	£62k
48	Compton School (Academy)	13.5%	13.5%	13.5%	£103k	£106k	£109k
49	East Barnet School (Academy)	13.5%	13.5%	13.5%	£89k	£92k	£94k
52	Queen Elizabeth Girls	13.5%	13.5%	13.5%	£64k	£66k	£68k
53	Independent Jewish Day School	13.5%	13.5%	13.5%	£5k	£5k	£5k
54	Henrietta Barnett (Academy)	13.5%	13.5%	13.5%	£39k	£40k	£41k
55	Totteridge Academy	13.5%	13.5%	13.5%	£60k	£62k	£63k
56	Christ College (Academy)	13.5%	13.5%	13.5%	£61k	£63k	£64k
57	Etz Chaim Jewish Primary	13.5%	13.5%	13.5%	£8k	£8k	£8k
70	Gravesnor Avenue Primary (Academy)	13.5%	13.5%	13.5%	£15k	£16k	£16k
71	Copthall School (Academy)	13.5%	13.5%	13.5%	£70k	£72k	£74k
72	Rimon Jewish Primary	13.5%	13.5%	13.5%	£4k	£4k	£4k
200	Hendon School (Academy)	13.5%	13.5%	13.5%	£108k	£111k	£114k
500	Queen Elizabeth Boys Academy	13.5%	13.5%	13.5%	£59k	£60k	£62k
800	Mill Hill County Academy	13.5%	13.5%	13.5%	£104k	£107k	£110k
1,700	Ashmole Academy	13.5%	13.5%	13.5%	£99k	£101k	£104k
2,100	Hasmonean High (Academy)	13.5%	13.5%	13.5%	£68k	£70k	£72k

Notes

1. The London Borough of Barnet pool contribution rate is based on a deficit recovery period of 18 years whereas all other employers in the Fund are based on a deficit recovery period of 15 years.

2. The London Borough of Barnet Pool has taken the transfers of employees to Capita CSG and Capita RE into account in setting the contribution rate.

3. Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumption issued by us from time to time.

4. The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by ourselves.

Post Valuation Employers

Since 31 March 2013 a number of employers have joined the Fund. The rates are summarised below.

		Minimum employer contributions due as a % of salary for the year beginning			Minimum employer contributions due as monetary amounts in the year beginning		
Emp Code	Employer Name	1 Apr 2014	1 Apr 2015	1 Apr 2016	1 Apr 2014	1 Apr 2015	1 Apr 2016
New Academies in year 2013/14							
74	Deansbrook Junior	13.5%	13.5%	13.5%	£50k	£51k	£52k
95	Parkfield (Elliot Foundation)	13.5%	13.5%	13.5%	£39k	£40k	£41k
96	The Hyde School (Elliot Foundation)	13.5%	13.5%	13.5%	£40k	£41k	£42k
97	Broadfield Academy	13.5%	13.5%	13.5%	£83k	£86k	£88k
New Employers in year 2013/14							
98	Capita CSG	15.0%	15.0%	15.0%	£623k	£640k	£658k
99	Capita RE	13.8%	13.8%	13.8%	£0k	£0k	£0k

AGENDA ITEM 10

Meeting	Pension Fund Committee
Date	18 March 2014
Subject	**Barnet Council Pension Fund Performance for Quarter October to December 2013**
Report of	Chief Operating Officer
Summary	This report is on Pension Fund investment manager performance for the October to December quarter 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 as at 31 December 2013 Appendix B – JLT Image Report Quarterly Update 31 December 2013 Appendix C – WM Local Authority Universe Comparison to 31 December 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 December 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 – 2 December 2013, (Decision Item 6).The Pension Fund Committee instructed that any additional funding from contributions be invested with Legal and General Asset Management

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 £814.876 million as at 31 December 2013, up from £796.264 million as at 30 June 2013. The total market value of externally managed investments rose by £15.96 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2007.

6.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced a positive return of 2.0% and outperformed the liability benchmark return for the quarter by 2.4%. All the growth and bond funds produced positive absolute returns..

6.5.1 Both the Newton and Schroder diversified growth funds outperformed their respective benchmarks. The Newton Real Return DGF outperformed, 1.4% return versus a benchmark return of 1.1%. One year return was 6.4% compared to a benchmark return of 4.5%. Schroder DGF also outperformed for the quarter, 4.0% versus a benchmark return of 1.8%. One year return was 11.6% versus the benchmark return of 7.8%. However the Growth Portfolio, comprising the two DGF funds, underperformed the third benchmark the notional 60/40 global equity benchmark, by 2.6%. It is usual to expect DGF funds to underperform equities in rising markets .

6.6 For the quarter, the Newton Corporate Bond portfolio marginally outperformed, returning -0.2% against its benchmark of -0.4% and over the year the Fund slightly outperformed the benchmark with a 0..4% return against a benchmark return of -0.6%. Schroder's Corporate Bond portfolio outperformed the benchmark for the quarter returning 0.7% against a benchmark return of -0.1%. Over the year the Schroder corporate bond return was 2.4% versus the benchmark return of 0.8%.

6.7 For Legal and General, overseas equities underperformed marginally, 5.1%, against the benchmark of 5.0%, and the fixed interest performance of 0.2% marginally outperformed the benchmark of 0.0%.

6.8 **Investment Performance & Benchmark**

6.8.1 The Fund's overall performance is measured against a liability benchmark return. Over the quarter the estimated funding position improved by 2% to 77.1% as a result of positive performance in both equity and bond markets

6.8.2 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.

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

6.8.4 Fund Return compared with the WM Local Authority Universe over the quarter to 31 December 2013 for one, three and five years is set out in Appendix C.

7. LEGAL ISSUES

7.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009)made under the powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972.

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

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 3 – 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.

9.1.2 The Committee will note that the pension scheme and the legislative framework is due to change on 1 April 2014 when the Local Government Pension Scheme Regulations 2013 come into force. The Committee will be notified of any resulting changes that affect their responsibilities..

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. The implementation of the new investment strategy commenced on 19 November 2010 .

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 latest triennial valuation took place as at 31 March 2013.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**JF (HB Public Law)**

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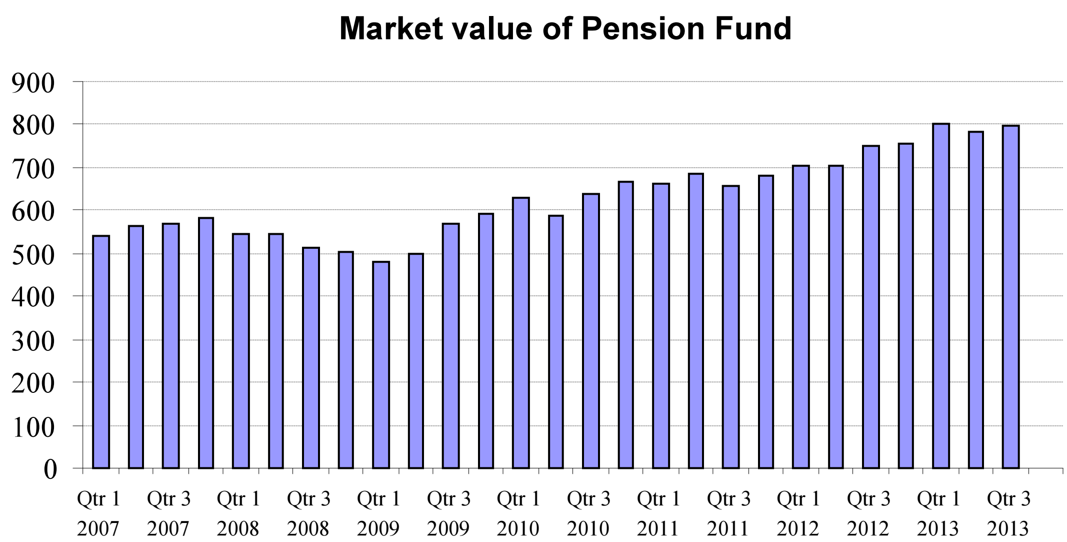
Appendix A – Pension Fund Market Value of Investments as at 31 December 2013



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Appendix B

Performance Report - Quarterly Update
31 December 2013

London Borough of Barnet Superannuation Fund

JLT Employee Benefits

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Director
February 2014

Section One – Market Update

Introduction

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

Yields as at 31 December 2013	% p.a.
UK Equities	3.28
UK Gilts (>15 yrs)	3.58
Real Yield (>5 yrs ILG)	0.03
Corporate Bonds (>15 yrs AA)	4.42
Non-Gilts (>15 yrs)	4.63

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.13	-0.29	0.39
UK Gilts (>15 yrs)	0.17	0.58	-0.56
Index-Linked Gilts (>5 yrs)	0.07	0.10	-0.46
Corp Bonds (>15 yrs AA)	0.11	0.35	-1.00
Non-Gilts (>15 yrs)	0.12	0.41	-0.77

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	-1.8	-5.9	6.9
Index-Linked Gilts (>5 yrs)	-0.9	0.6	7.6
Corp Bonds (>15 yrs AA)	-0.3	0.0	7.8
Non-Gilts (>15 yrs)	-0.3	-0.6	8.0

* *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.

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	5.5	20.8	9.4
Overseas Equities	5.0	21.2	8.1
USA	7.9	30.4	14.1
Europe	5.2	24.0	7.4
Japan	0.1	25.0	4.0
Asia Pacific (ex Japan)	0.0	1.3	0.5
Emerging Markets	-0.7	-5.3	-4.5
Property	4.7	10.9	7.1
Hedge Fund	4.2	10.0	5.2
Commodities	-2.5	-3.1	-2.6
High Yield	1.5	6.0	7.7
Emerging Market Debt	1.5	-5.3	6.1
Senior Secured Loans	2.2	9.2	6.3
Cash	0.1	0.4	0.5

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	2.3	1.9	1.9
Against Euro	0.5	-2.5	1.0
Against Yen	9.6	23.9	11.1

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.6	2.7	3.5
Price Inflation - CPI	0.5	2.0	3.0
Earnings Inflation *	-0.1	0.8	1.4

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
UK Equities	Business confidence, as measured by the Purchasing Managers Index (PMI), rose to 73.5 in December, its highest since March 2010. The PMI for the services sector stood at 58.8 in December, well above the 50 mark, separating growth from contraction.	Equity dividends have enjoyed an impressive lead over bond yields for some time. However, with gilt yields now on an upward trajectory and investment grade bond yields also on the rise, UK equities might face some headwinds.
	The British Chamber of Commerce Quarterly Economic Survey, a major economic indicator closely watched by the Bank of England (BoE) and the Treasury, upgraded its GDP growth forecast for 2014 to 2.7% in Q4 2013 from 2.2% in Q3 2013.	Britain's trade deficit, plus the losses UK plc. made on its overseas ventures, rose to GBP 21 billion in Q3 from a deficit of GBP 6 billion in the previous quarter. As a percentage of GDP, the deficit was 5.1%, the largest share in more than 20 years.
	Unemployment fell more than expected in October to 7.4% (the lowest level since early 2009) from 7.6% a month earlier. The BoE has issued forward guidance indicating that interest rates are unlikely to increase above the current level of 0.5% until the unemployment rate falls to 7%.	
Overseas Equities		
North American Equities	The US Federal Reserve (Fed) announced that it will scale back its asset purchase program from the current USD 85 billion per month to USD 75 billion per month beginning January 2014. This reflects the Federal Reserve's belief that the economic recovery is broad-based and sustainable.	The 10-year treasury yield (the benchmark interest rate) spiked over the 3% mark for the first time since July 2011 after the Fed's announcement that it plans to taper its bond-buying program. Higher interest rates could increase the cost of borrowing for the corporates and jeopardise the nascent recovery in the economy.
	The Fed also signalled that if the employment and inflation environment remains stable, it expects similar monthly cutbacks in the bond-buying program over the course of 2014. This would lead to a formal end to the quantitative easing program towards the fourth quarter of 2014.	Following a 30% rally in the S&P 500 through 2013, there is some concern that equity valuations appear unsustainable.
	Equity markets continued to surge to new highs amidst the improving labour market and a strengthening economy. GDP grew by a robust 3.6% (revised) in the fourth quarter, while the unemployment level fell to 7.0% by the end of November.	
	The US congress passed a budget deal late December aimed at rolling back sharp spending cuts, known as the sequester, over the next two years. This will reduce the likelihood of another government shutdown in the near term.	

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	■ The ECB surprised markets in November by cutting its main refinancing rate to a record low of 0.25%, and while it is not expected to cut the rate again, it is likely to flood the markets with another round of cheap cash early 2014.	■ The PMI for the services sector, which makes up a majority of the Eurozone's economy, dipped to 51.0 in December from 51.2 in November confounding expectations for a rise to 51.5. This indicated that growth in this sector has been weaker than anticipated.
	■ Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in December, recording the second-highest reading since mid-2011.	■ Services firms cut prices again in the month of November, as they have done over the last two years, to facilitate business. The output price index rose to 48.6 from 47.9, still below the break-even mark.
	■ Ireland became the first country to exit the EU bailout programme without a precautionary credit line on December 15.	
Japanese Equities	■ The Japanese economy grew at an annualised pace of 1.9% in Q3 2013, the fourth successive quarter of growth, lending more credibility to the expansionary monetary policy embarked upon by Prime Minister Shinzo Abe.	■ Concerns remain over the ripple effects on the economy due to the proposed sales tax hike from the current 5% to 8% beginning April 2014.
	■ The government dropped the word 'Deflation' in its description of the economy for the first time in four years as core consumer inflation hit a five year high—past the halfway mark of the 2% target.	■ The real wage scenario in the country could pose a serious challenge, as rising inflation coupled with less than desired wage increases will start to erode household spending power.
	■ According to BOJ's quarterly survey, business confidence amongst large manufacturers surpassed expectations and rose from 12 points in Q3 to 16 points in Q4, the highest level since 2007, suggesting that economic prospects largely remain upbeat.	
Asia Pacific (excluding Japan) Equities	■ South Korea recorded its 23rd consecutive month of trade surplus owing to strong exports, which grew by 2.2% year-on-year. This marked the highest level of annual exports in the country's history.	■ Australia's GDP grew at an annualised rate of 2.3% in the third quarter of 2013, well below the consensus forecast of 2.6%. Economists argue that the nation needs to grow at a pace above 3% to curb the recent increases in the unemployment rate which currently stands at 5.7%.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Emerging Markets Equities	China, in its Third Plenum, announced sweeping reforms aimed at steering the nation from an investment-led developing nation to a consumption driven economy. The 60 point reform plan aims to achieve a sustainable growth and liberalise Chinese markets.	In China, concerns grew over the domino effects of the ailments in the banking system as asset repurchase rates surged to record highs after a government official warned about possible bank failures in the coming year.
	After weak performance through 2013, the emerging market space appears to be attractive from a valuation perspective.	Taiwan cut its growth forecast for 2014 to 2.6%, down from its earlier projection of 3.4%, reflecting weak prospects for one of the most export-oriented economies in the region.
	China edged out the United States as the biggest trader of goods in 2013 as the value of its imports and exports crossed the USD 4 trillion mark for the year. The change in the pecking order reflects China's growing dominance in global trade.	Most emerging market economies still face headwinds due to inflationary pressures and are raising interest rates to combat high prices. Brazil raised its interest rates for the sixth time since March 2012, while Indonesia raised interest rates to the highest level since 2009.
	India's current account deficit fell to 1.2% from 5% a year ago as the government's efforts to curb exports of non-essential commodities, particularly gold, started to yield the desired results.	Brazil's GDP shrank in Q3 2013 by 0.5% due to worsening fiscal imbalances, higher than target inflation and rising interest rates in the economy.
Gilts	UK's GDP expanded by 0.8% in the third quarter, the strongest reading in over three years. Meanwhile, the International Monetary Fund (IMF) significantly upgraded Britain's growth outlook to 1.4% in 2013 and 1.9% in 2014.	Market interest rates are expected to rise much sooner than expected as the BoE has brought forward its forecast for a drop in the unemployment to 7% by around 18 months from what was previously expected.
Index-Linked Gilts	With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	UK inflation continued to decline, reaching 2.0% in December 2013, affecting returns on index-linked instruments.
		In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	Corporations continue to maintain healthy balance sheets. While, the relatively attractive yield from parts of the corporate bond market continue to attract investor interest.	The corporate bond market still suffers from liquidity constraints while uncertainty looms over interest rate increases.

Asset Class	Factors Affecting the Market	
	Positive	Negative
Property	In November 2013, the UK commercial property values registered their highest monthly gain since March 2010, marking seven consecutive months of rises in values.	According to the changes to the capital gains tax structure announced by the chancellor George Osborne, foreign owners will be required to pay tax on gains in value on the UK properties starting April 2015. This move may dampen overseas investor sentiment into UK property market.
	Mortgage approvals in the UK rose to about a six-year high in November 2013. House prices are rising across the country with the fastest growth rate seen in London where prices are now 14% above their previous peak in 2007.	
	The Construction PMI hit 62.6 in November 2013—the highest reading since August 2007.	

Section Two – Total Scheme Performance

Manager	Fund	Start of Quarter Value £	Start of Quarter Proportion of Total %	Net New Money £	End of Quarter Value £	End of Quarter Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	250,847,517	31.5	-	254,254,170	31.2
Schroder Investment Management Limited (Schroder)	Diversified Growth	245,675,594	30.9	-	255,593,750	31.4
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	40,861,265	5.1	-	42,940,895	5.3
Newton	Corporate Bond	121,955,015	15.3	-	121,845,573	15.0
Schroder	All Maturities Corporate Bond	113,864,213	14.3	-	114,689,027	14.1
L&G	Active Corporate Bond – All Stocks	16,990,760	2.1	-	17,026,029	2.1
Newton	Cash	652,225	0.1	-	467,209	0.1
Schroders	Cash	616,928	0.1	-	612,773	0.1
Internal	Cash	4,800,000	0.6	-	7,446,621	0.9
ASSET SPLIT						
Growth assets		542,801,304	68.2	-	560,848,209	68.8
Bond assets		253,462,213	31.8	-	254,027,838	31.2
TOTAL		**796,263,517**	**100.0**	**-**	**814,876,047**	**100.0**

Source: Investment managers, bid value used for LGIM, NAV for Schroders and mid value used for Newton. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Cash from the Newton and Schroder portfolios has been shown separately. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Total may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q4 2013 %	Benchmark Return Q4 2013 %
Total Scheme	2.0	-0.4
Growth Portfolio		
Growth v Global Equity	2.7	5.3
Growth v RPI+5% p.a.	2.7	1.8
Growth v LIBOR + 4% p.a.	2.7	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	0.2	-1.8
Bond v Index-Linked Gilts (> 5 yrs)	0.2	-0.9

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 19).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 19). 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.

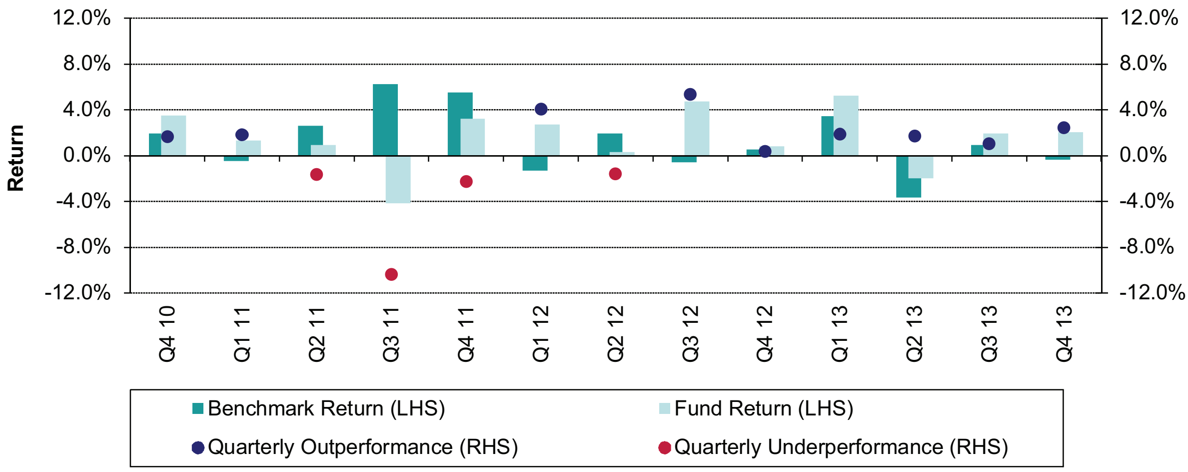
Individual Manager Performance

Manager/Fund	Portfolio Return Q4 2013 %	Portfolio Benchmark Q4 2013 %
Newton Real Return	1.4	1.1
Schroder Diversified Growth	4.0	1.8
L&G – Overseas Equity	5.1	5.2
Newton Corporate Bond	-0.2	-0.4
Schroder Corporate Bond	0.7	-0.1
L&G – Corporate Bond	0.2	0.0

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values for LGIM, NAV for Schroders and mid values for Newton.

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 2.0% over the quarter and outperformed the liability benchmark return by 2.4%. This was due to positive performance primarily from the growth funds.

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.

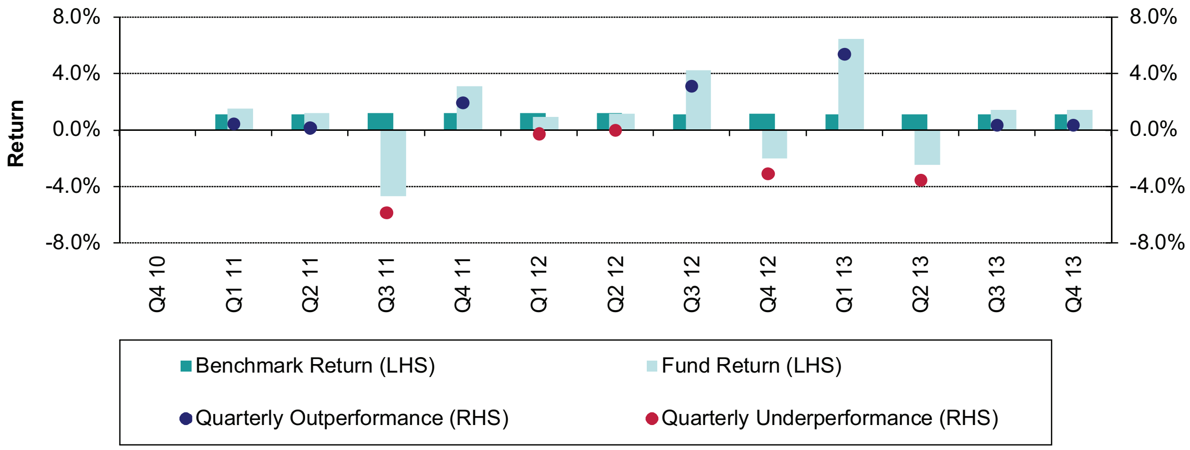
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns except for the Newton Corporate Bond Fund. The L&G Overseas Equities was the best performing fund in absolute terms, while on a relative basis, the Schroder Diversified Growth Fund was the best performing fund which outperformed its benchmark return by 2.2%.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 2.6%. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio, however, outperformed the RPI +5% and LIBOR +4% in the same period. The Growth portfolio's positive absolute 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 2.0%) and the Over 5 Years Index Linked Gilts Index (by 1.1%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 1.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 3.9%.

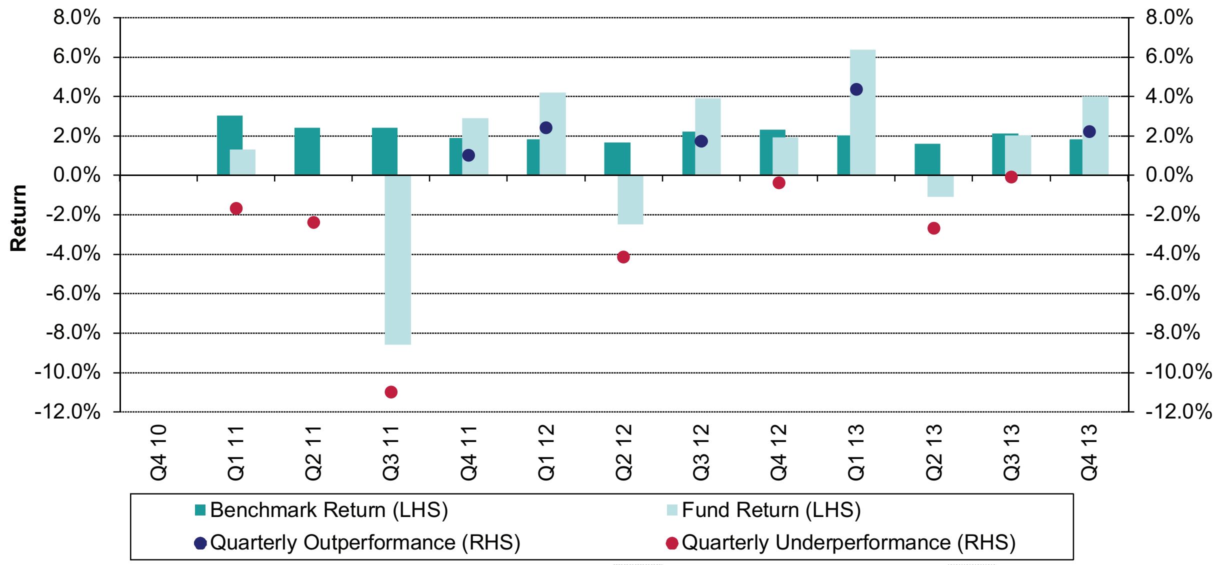
The Real Return Fund outperformed its benchmark and target over the quarter, but underperformed equities. The Fund's equity holdings, particularly those in the telecoms and healthcare performed well due to improving investor sentiment. Exposure to infrastructure was also positive.

The US Federal Reserve's 'Tapering' decision and the improved strength of sterling was disadvantageous for the Fund's Government Bond holdings and the US Treasury positions. The impact of the fall in the price of Gold on both physical and Gold mining companies held in the Fund was also detrimental.

The Fund sought to diversify its equity exposure over the quarter, with a consequent increase in the equity holding. Holdings such as Orkla, Nokia, and Dexus, have been added as Newton expect these funds to provide a strong income stream as well as bringing further diversification to the portfolio.

Over the 12 month period, the Fund returned 6.4% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 14.6%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 4.0% compared to its RPI + 5% p.a. portfolio benchmark return of 1.8% and outperformed by 2.2%. The Fund underperformed the notional 60/40 global equity benchmark by 1.3% over the quarter.

The Fund outperformed its benchmark over the quarter, producing a positive return, but fell short of its global equity composite comparator. The Fund's exposure to developed market equities was the main driver of performance, with allocations to Global and US equities adding significantly to the total return.

Property, high yield debt, infrastructure and currency also added to performance.

The largest detractors from performance were the Fund's Commodities and Hedge Fund exposures. Returns from Commodities were mixed as the broad index was flat. However, there was a wide divergence in the underlying Commodities sectors, with Energy delivering a positive return of 6% and Gold falling over 9%.

In terms of foreign exchange, the Fund's short position in the Japanese yen and the Canadian dollar boosted returns. However, the short position in Sterling detracted from returns. The Fund increased its exposure to sterling over the quarter in recognition of the stronger than expected improvement in UK economic data.

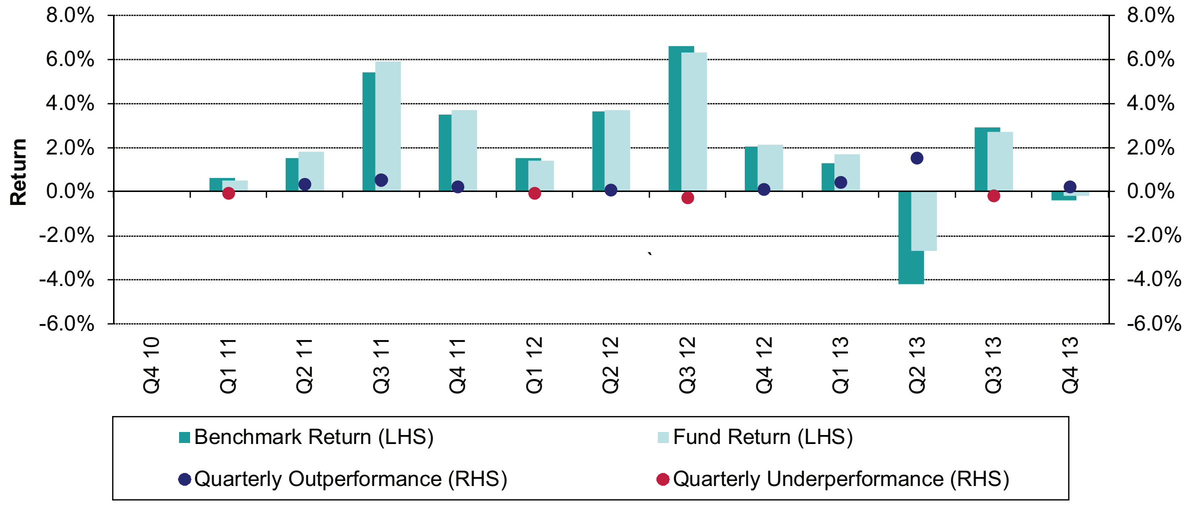
Over the 12 month period, the Fund returned a strong absolute return of 11.6% versus the benchmark return of 7.8%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 9.4%.

Asset allocation for growth managers: movement over the quarter

	Q4 '13 Newton %	Q4 '13 Schroder %	Q3 '13 Newton %	Q3 '13 Schroder %
UK Equities	14.2	2.2	15.1	4.0
Overseas Equities	45.5	51.4	40.9	47.7
Fixed Interest	17.2	-	18.8	-
Corporate Bonds	10.2	3.7	10.3	8.5
High Yield	-	11.4	-	12.3
Private Equity	-	1.1	-	1.2
Commodities	2.6	2.8	3.3	7.1
Absolute Return	-	7.5	-	6.4
Index-Linked	1.2	-	1.3	-
Property	-	2.9	-	2.3
Cash/Other	9.1	17.0	10.3	10.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

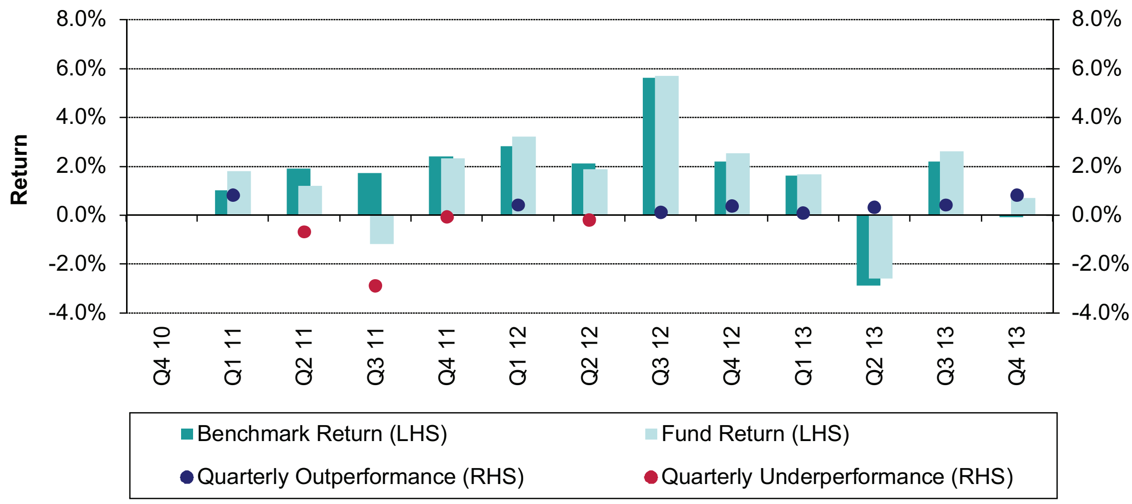


Source: Investment manager.

The Newton Corporate Bond portfolio outperformed its benchmark by 0.2%; it returned -0.2% versus the benchmark return of -0.4%. Overall, the Fund's duration was shorter than the comparative index which helped the outperformance over the quarter.

Over the 12 month period, the Fund returned 0.4% against the benchmark return of -0.6%.

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

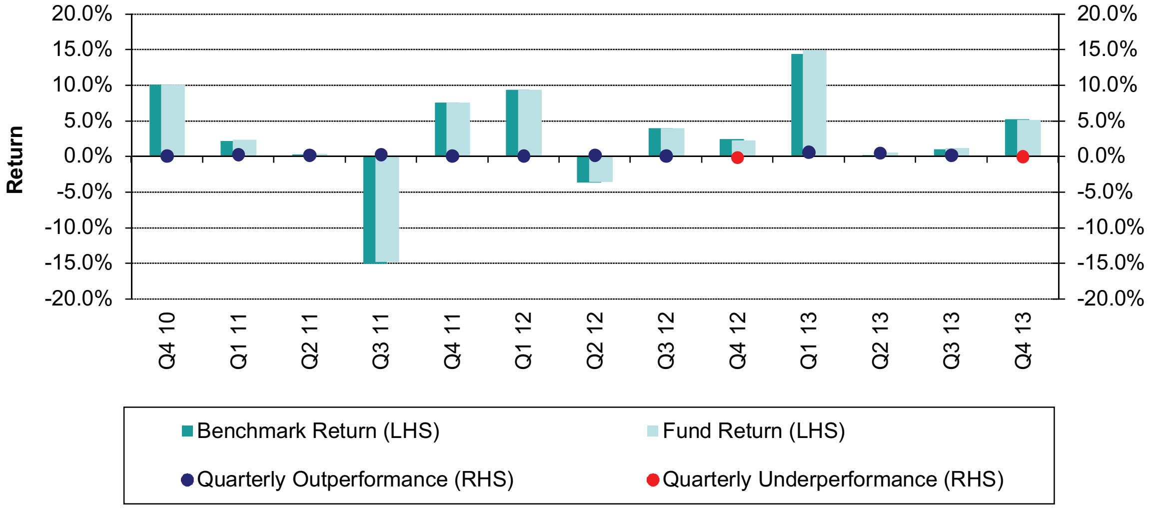


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.8%, returning 0.7% versus the benchmark return of -0.1%. This is mainly attributed to security selection, although an overweight credit bias at the beginning of the period, and underweight to interest rate duration added to the relative performance.

Over the 12 month period, the Fund returned 2.4% versus the benchmark return of 0.8%.

L&G – Overseas Equities



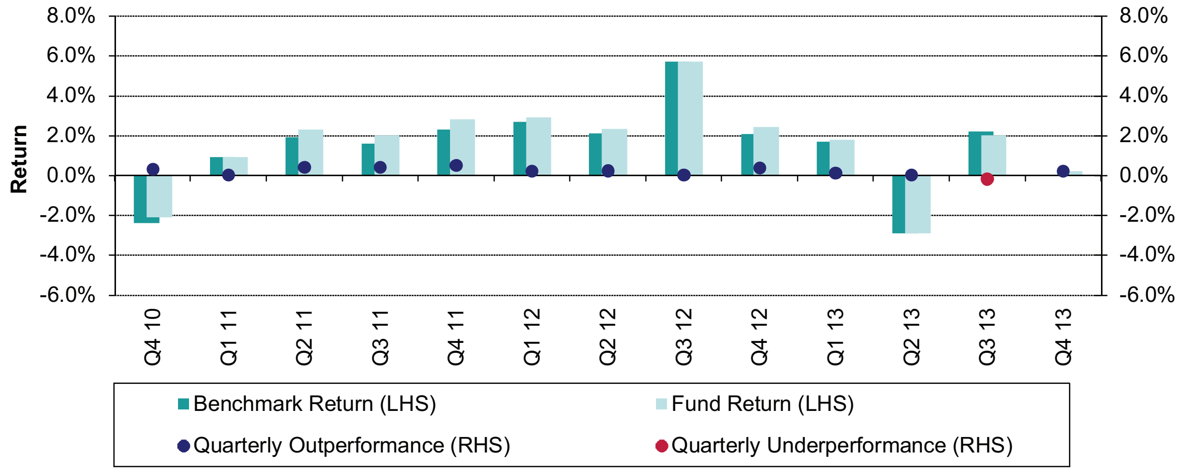
Source: Investment manager.

Over the fourth quarter of 2013, the Fund underperformed the benchmark return marginally by 0.1% and produced an absolute return of 5.1%.

The Fund generated an absolute return of 22.7% against the benchmark return of 22.7% and tracked its benchmark over the 1 year period.

Over the 3 year period, the Fund return was 8.9% p.a. against the benchmark return of 8.8% p.a. thus outperformed the benchmark by 0.1% p.a.

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



Source: Investment manager.

Over the quarter, the Fund outperformed its benchmark by 0.2% and produced an absolute return of 0.2% compared to benchmark return of 0.0%.

The Fund outperformed during the quarter mainly as a result of credit selection. It was also beneficial, that over a period where credit outperformed, that the Fund was overweight credit risk as compared with the benchmark.

In addition, the overweight exposure to Financials, particularly lower tier 2 Banks and Insurance added value both in terms of stock and sector selection.

The Fund's exposure to Dollar denominated Corporate Bonds added value over the period, following a period of extended underperformance. Additionally, holdings within 'collaterised' credit debt contributed to performance. LGIM particularly like the yields available in these bonds taking into account the relative 'safety' of the sector.

However, exposure to the Media sector detracted from performance. Particularly, holdings in Time Warner underperformed due to concerns regarding the Charter bid.

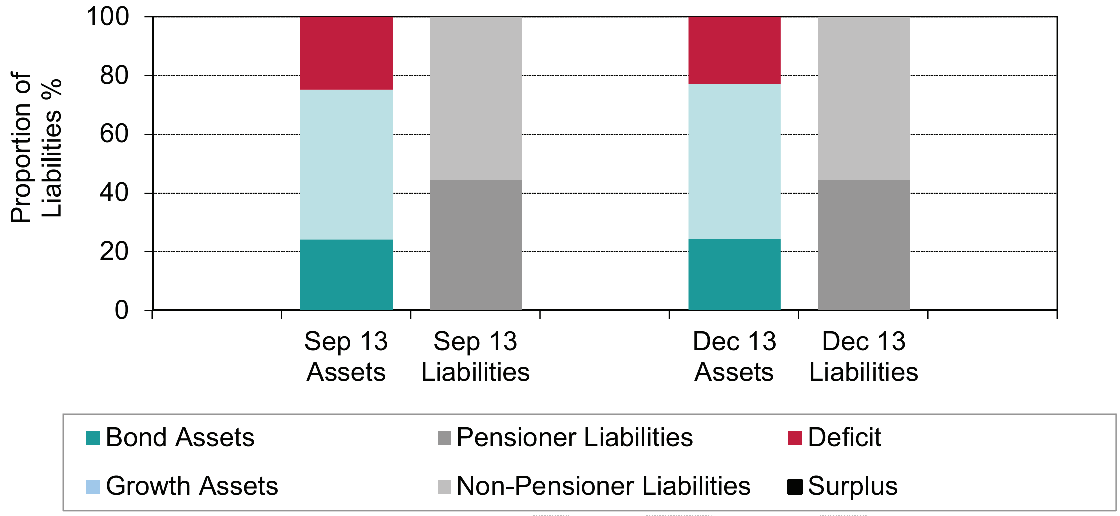
Over the 12 month period, the Fund has produced return of 1.0% compared with the benchmark return of 0.9%.

The Fund has produced return of 7.6% p.a. compared with the benchmark return of 6.8% p.a.

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

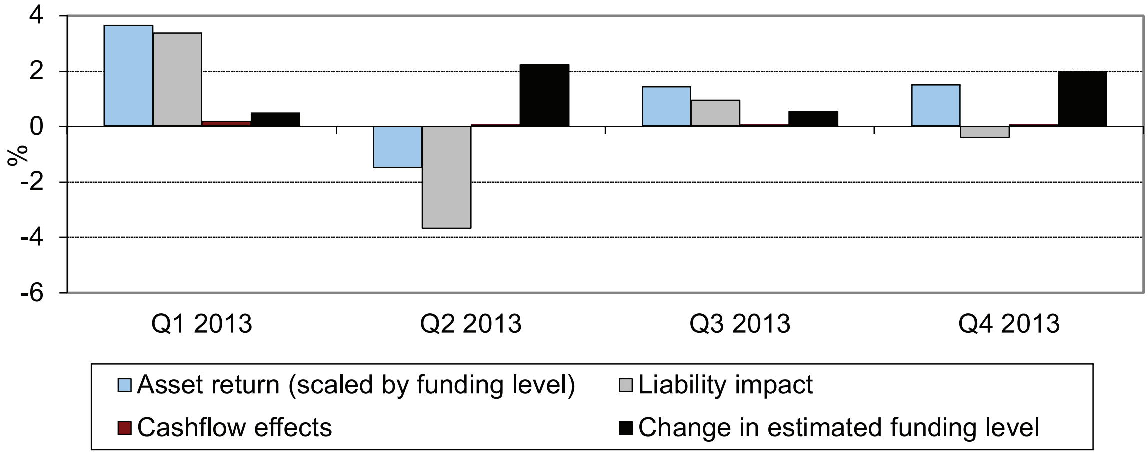


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the 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 expected funding position increased by 2.0%, due to a decrease in expected liabilities coupled with an increase in the assets. The Scheme was approximately 77.1% funded as at 31 December 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 2.0% due to a decrease in the value of the liabilities coupled with an increase in asset value.

Overall, Q4 2013 has been a positive quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a positive quarter for the Scheme as equity and bond markets performed positively and the funding level has improved by 2.0%.

In absolute terms, the Scheme's assets produced a return of 2.0% over the quarter. All the underlying funds of Growth and Bond portfolios produced positive absolute returns except for the Newton Corporate Bond Fund.

In relative terms, the Scheme outperformed the liability benchmark return (see page 19) by 2.4%. All the underlying funds outperformed their respective benchmarks except for the L&G Overseas Equity which only marginally underperformed.

The combined Growth portfolio underperformed a notional 60/40 global equity return producing a positive absolute return of 2.7%.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 2.0% and the Index Linked Gilts (>5 Years) Index by 1.1%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a positive impact on the Scheme's estimated funding level which was 77.1% as at 31 December 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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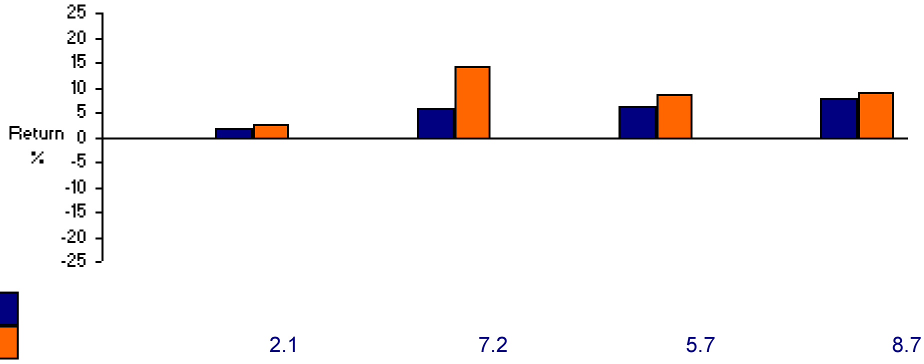
Appendix C – WM Local Authority Universe Comparison to 31 December 2013

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	2.1	7.2	5.7	8.7
Benchmark	3.7	15.0	7.7	10.8
Relative Return	-1.5	-6.8	-1.8	-1.9

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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BARNET LONDON BOROUGH

AGENDA ITEM 11

Meeting	Pension Fund Committee
Date	18 March 2014
Subject	**Admission of OCS Group UK LTD to the Borough of Barnet Pension Fund**
Report of	Director of Adults and Communities
Summary	This report sets out further information on the application from The OCS Group UK Limited for Admitted Body status within the Pension Fund.

Officer Contributors	Mathew Kendall , Adults and Communities
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	None
Contact for Further Information:	Rena Abraham, Human Resources Business Partner, ext 4773

1. RECOMMENDATIONS

1.1 That the Committee approve admission to the Local Government Pension Scheme under Admission Body Status for OCS Group UK LTD, subject to sign off of the Business Transfer Agreement between the Council and that company, the Admission Agreeement and a bond being put in a place.

2. RELEVANT PREVIOUS DECISION

2.1 Relevant Previous Decisions:

2. 2 Cabinet, 29 November 2010 (Decision item 6) – approved the One Barnet Framework and the funding strategy for its implementation.

2.3 Cabinet, 14 September 2011 (Decision item 5) – approved the Safer Communities Strategy.

2.4 Cabinet, 20 February 2012 (Decision item 6) – approved the Business Planning Report 2012/13 – 2014/15 which included within the report the five projects to be developed through strategic outline cases.

2.5 Cabinet Resources Committee, 20 June 2012 (Decision item 6) – approved the Strategic Outline Case for the strategic review of Community Safety.

2.6 Cabinet Resources Committee, 18 April 2013 (Decision item 10) – approved the Outline Business Case for the Future CCTV Service and authorised the procurement of a fully outsourced service.

2.7 Cabinet Resources Committee, 16 December 2013 (Decision item 9) approved the Full Business Case for the future of the CCTV service and authorised the procurement of a fully outsourced service through OCS Group UK Ltd, for a period of five years (with a potential extension of an additional two years).

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Crime reduction and community safety are top priorities for Barnet residents. One of the Corporate Plan 2013-16 priorities is “to promote family and community well-being and encourage engaged, cohesive and safe communities”.

4. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

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

5. RISK MANAGEMENT ISSUES

5.1 The on-going 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 militate against any risk to the financial viability of the pension fund.

5.2 The pension regulations require actuarial assessments of the value of the Pension Fund and the liabilities of the employer. This is done initially and at each triennial valuation. The actuarial assessment will determine the employer contribution rate required to be made to the fund dependent on the profile of the workforce and the potential risk to the fund of admitting the body.

5.3 The risk has commonly been addressed by the employer being required to take out an Indemnity Bond to ensure payment to the pension fund in case of default. However, the Local Government Pension Scheme Regulations 2012 which came into effect on 1 October 2012 relaxed this requirement and promoted the fact that a guarantee could give the same level of cover as a bond at a lower cost – which would reduce the cost of the service to the contracting organisation.

5.4 The Authority on behalf of the employer has carried out an assessment with actuarial advice, as required under the Regulations, of the level of risk exposure arising on premature termination of the contract by reason of the solvency, winding up or liquidation of the Admission Body. The employer contribution rate will be 13.5% and an actuarial assessment indicated that the bond or guarantee level required is £102,000. This will remain so unless there are any staffing changes before the transfer. In addition, the actuarial assessment is based on an assumption that the transfer will be fully funded. The bond level is assessed at regular intervals (at each valuation) and can increase or decrease. It is proposed that the admission agreement will be on a "closed" basis (i.e. limited to the employees transferring from the Council).

6. EQUALITIES AND DIVERSITY ISSUES

6.1 Pursuant to section 149 of the Equality Act, 2010, the Council has a public sector duty 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 those with a protected characteristic and those without; 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 of discrimination.

6.2 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to it. Access to and participation in the Pension

Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the, relevant, Regulations are met.

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

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

7.2 Staff will transfer on a "fully funded basis". This means that the pensions' deficit will not transfer to OCS from Barnet in respect of these staff. The total deficit retained by Barnet has been calculated at £98k. £25k per annum needs to be retained from Adults and Communities budget to fund the repayment of the deficit over the lifetime of the contract.

7.3 There are no procurement, performance, value for money, staffing, IT, property or sustainability implications.

8. LEGAL ISSUES

8.1 **Section 102 Local Government Act 2003 requires a contractor receiving Council employees under a TUPE transfer to provide a pension benefits same as or are broadly comparable to or better than that provided by the authority.**

8.2 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. OCS Group UK LTD would be 'a transferee admission body'.

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

8.4 The Admission agreement will make a provision for the admission body to maintain a bond or guarantee in an approved form and to vary the level of risk exposure under the bond or guarantee as may be required from time to time.

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

9.1 The Council's constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, and 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."

10. BACKGROUND INFORMATION

10.1 The Committee is asked to approve admission to the Local Government Pension Scheme under Admission Body Status for OCS Group UK LTD, subject to sign off of the Business Transfer Agreement between the Council and that Company, the Admission Agreement and a bond being put in a place.

10.2 Staff will transfer on a "fully funded basis". This means that the pensions deficit will not transfer to OCS from Barnet in respect of these staff.

10.3 The Council's CCTV service makes an important contribution towards delivering Barnet's Safer Community Strategy, by helping the Council and police to prevent and tackle priority issues such as anti-social behaviour, violence and theft and by making a significant impact on resident's perception of safety.

10.4 However, it is recognised that the CCTV system in Barnet is out of date, expensive relative to more modern systems, and could be more effective. In light of significant saving pressures across the Council, the Outline Business Case proposes a cost effective solution for future management of the monitoring service and technical platform, with the primary aim of improving delivery against the service's community safety objectives.

10.5 In order to help mitigate the impact of the ageing technical platform and expected future savings required, a detailed review and options appraisal for the CCTV service has been competed to inform the Outline Business Case.

10.6 The Council has opted therefore, to award the contract to OCS Group UK LTD under the Transfer of Undertakings (Protection of Employment) Regulations 2006. Under TUPE, existing contractual terms and conditions are protected on transfer and, under the TUPE Transfer Commitments LLB implemented in the summer of 2011, all employees terms and conditions are protected for at least a year including pension provision..

11. LIST OF BACKGROUND PAPERS

11.1Barnett Waddingham's Deficit Report for London Borough of Barnet, 27 February 2014

None