MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 21ST JULY, 2015
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter (Chairman),
Vice Chairman: Councillor John Marshall MA (Hons) (Vice-Chairman)

Councillors

Andreas Ioannidis	Peter Zinkin	Hugh Rayner
Jim Tierney	Arjun Mittra	

Substitute Members

Pauline Coakley Webb	Anthony Finn	Stephen Sowerby
Dean Cohen	Adam Langleben	Ross Houston

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

Andrew Charlwood – Head of Governance

Governance Services contact: Faith Mwende

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 Faith Mwende. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE
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Decisions of the Pension Fund Committee

27 May 2015

Members Present:-

AGENDA ITEM 1

Councillor Mark Shooter (Chairman)

Councillor Jim Tierney
Councillor Peter Zinkin
Councillor Dean Cohen
Councillor Arjun Mittra
Councillor Anthony Finn
Councillor Ross Huston

Apologies for Absence

Councillor John Marshall
Councillor Andreas Ioannidis
Councillor Hugh Rayner

1. MINUTES

RESOLVED - That the minutes of the meeting held on 2 March 2015 be approved as a correct record.

2. ABSENCE OF MEMBERS

An apology for absence was received from Councillor John Marshall, who was substituted by Councillor Dean Cohen, from Councillor Hugh Rayner, who was substituted by Councillor Anthony Finn and from Councillor Andreas Ioannidis, who was substituted by Councillor Ross Huston.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS

Councillor	Item/Report	Interest
Arjun Mittra	9. Appointment of an Independent Pension Fund Adviser to the Pension Fund.	Non Disclosable Pecuniary Interest by virtue of having small shareholdings in a number of companies that the fund had investments in.
Peter Zinkin		Non Disclosable Pecuniary Interest by virtue of having small shareholdings in a number of companies that the fund had investments in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY)

There were none.

5. REPORT OF THE MONITORING OFFICER (IF ANY)

There was none.

6. MEMBERS' ITEMS (IF ANY)

There were none.

7. PENSION FUND EXTERNAL AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2015

A representative from Grant Thornton UK LLP presented the Pension Fund External Audit Plan for year ended 31 March 2015.

Following questions on the various challenges, opportunities and risks the Committee;

RESOLVED - That the audit strategy for the 2014/2015 external audit be noted.

8. MOTION TO EXCLUDE THE PRESS AND PUBLIC

The Committee;

RESOLVED – that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act (as amended).

9. APPOINTMENT OF AN INDEPENDENT PENSION FUND ADVISER TO THE PENSION FUND

The Committee;

RESOLVED – That following interview with the applicants for this contract, the Chief Operating Officer in consultation with the Chair of the Pension Fund Committee will award the contract to the successful candidate for a period to end on 31 March 2020.

10. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT

There were none.

The meeting finished at 4.50 pm

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AGENDA ITEM 7

Pension Fund Committee

21 July 2015

Title	**Update on Admitted Bodies Organisations**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Appendix 1 – Admitted Bodies Monitoring Sheet
Officer Contact Details	Karen Scott Karen.scott2@capita.co.uk 07785 454929

Summary

London Borough of Barnet Pension Fund - Admitted Bodies update report

Recommendations

1. **That the Committee note the update to the issues in respect of admitted body organisations within the Pension Fund**

1. WHY THIS REPORT IS NEEDED

1.1 The report is to update the Pensions Fund Committee on the current position in terms of Admitted Bodies to the London Borough of Barnet Pension Fund.

2. REASONS FOR RECOMMENDATIONS

2.1 There are no recommendations

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

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

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

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

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

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

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

5.3 **Legal and Constitutional References**

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

5.3.2 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.

5.3.2 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

5.3.3 The Council's constitution, Part 15 – Responsibility for Functions, Pension Fund Governance Compliance Statement, 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."

5.4 **Risk Management**

5.4.1 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.

5.4.2 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.

5.5 **Equalities and Diversity**

5.5.1 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

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

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

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

5.6 **Consultation and Engagement**

5.6.1 Not Applicable

6. BACKGROUND PAPERS

6.1 None

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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 (2) New (employer 68)	56	06/09/2010	Barclays Bank	778K	30/09/2015		G	Discussions have started with the employer re renewing the Bond, awaiting acceptance of actuarial costs from employer
London Care	3	05/03/2012	Lloyds	60K	04/03/2015		G	This Admitted Body has now ceased as contract terminated, we are waiting for the Actuary to provide the cessation calculations
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	27/03/2017		G	

Greenwich Leisure	22	31/12/2002	Zurich Insurance PLC	328K	30/09/2017		G	
Birkin Cleaning Services (St James Catholic)	6	24/10/2011	Technical & General Guarantee Company SA	13K	30/08/2015		G	Actuary agreed to roll forward at same level as previous year and employer currently making the arrangements to renew the Bond
Mears Group	19	10/04/2012	Euler Hermes	320K	30/09/2017		G	
NSL	31	01/05/2012	Lloyds TSB	412K	30/04/2017		G	
Blue 9 Security	2	03/08/2012	Evolution Insurance	61K	Not required		G	The final active member has now left the scheme so we are working with the employer and actuary to obtain cessation calculations

Music Service (BEAT)	2	01/03/2013	N/A	24K	28/02/2016		G	We are contacting the employer to start the Bond review process
Capita (NSCSO)	412	01/09/2013	Barclays Bank PLC	4,731K	01/09/2017		G	
Capita (DRS)	261	01/10/2013	Barclays Bank PLC	3,813K	01/10/2017		G	
OCS Group	13	31/05/2014	TBC	102k	31/05/2017		G	
Ridgecrest Cleaning	4	03/11/2014	TBC	14k	03/11/2017		G	
Green Sky (Claremont School)	4	19/01/2015	TBC	£23K	07/07/2017		G	This employer is currently working with a bond provider to set up the bond, they have had problems finding a provider
Hartwig	1	23/06/2014	TBC	£7k	7/11/2016			This provider is one of the two new providers for care services when the London Care contract was terminated. We were not notified until well after the event. Since notification we

								have obtained the actuarial reports and issued them to Barnet Council to make the Bond arrangements
Allied Healthcare	4	23/06/2014	TBC	£23k	7/11/2016			This provider is one of the two new providers for care services when the London Care contract was terminated. We were not notified until well after the event. Since notification we have obtained the actuarial reports and issued them to Barnet Council to make the Bond arrangements

For information only (current activities)

Green Sky 2 (Queenswell Infant School)

This admission was a historical admission to the fund, it transpires that the 1 member involved is retiring in July 2015 so this negates the need for a Bond. The employer has been paying the correct employee and employer contributions, once this member has retired this employer will be removed from this report.

AGENDA ITEM 8

Pension Fund Committee

21 July 2015

Title	**Barnet Council Pension Fund Performance for Quarter January to March 2015**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 31 March 2015 Appendix B – JLT Image Report Quarterly Update 31 March 2015 Appendix C – WM Local Authority Universe Comparison to 31 March 2015
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary

This report summarises Pension Fund investment manager performance for the January to March quarter 2015

Recommendations

1. **That having considered the performance of the Pension Fund for the quarter to 31 March 2015, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary**

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the pension fund is being invested prudently and in accordance with the investment strategy.

2. REASONS FOR RECOMMENDATIONS

2.1 Not applicable

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

4.1 The Chief Operating Officer and Chief Finance Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities.

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

5.2.1 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.

5.2.2 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%.

5.2.3 The total value of the pension fund's investments including internally managed cash was £915.626 million as at 31 March 2015, up from £877.124 million as at 31 December 2014. The total market value of externally managed investments rose by £38.5 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2007.

5.2.4 **Summary**: Over the quarter at a total scheme level the Fund's externally managed investments produced an absolute positive return of 4.2% and all the growth and bond funds produced positive absolute returns. However in relative terms the scheme underperformed the liability benchmark and the overall funding level has fallen due to the significant reduction in gilt yields. The attached performance report is the final monitoring report from JLT who provided investment consultant services until May 2015.

5.2.5 **Diversified Growth Funds**: The Newton Real Return DGF outperformed for the quarter with a 4.1% return versus a benchmark return of 1.1%. One year return was 6.7% compared to a benchmark return of 4.5%. The Schroder Diversified Growth Fund outperformed for the quarter, 4.3% versus a benchmark return of 1.1%. But one year return was 10.6% versus the benchmark return of 6.0%. The Growth Portfolio, comprising the two DGF funds, underperformed the third benchmark the notional 60/40 global equity benchmark, by 1.7% over the quarter and by 3.1% over 12 months

5.2.6 **Corporate Bonds**: For the quarter, the Newton Corporate Bond portfolio underperformed by 0.3%, returning 4.3% against its benchmark of 4.7% and over one year the Fund also underperformed the benchmark with its 17.5% return against a benchmark return of 19.7%. Schroder's Corporate Bond portfolio underperformed the benchmark by 0.3% for the quarter returning 3.3% against its benchmark of 3.3%. Over the year the Schroder corporate bond return was 11.9% versus the benchmark return of 13.2%.

5.2.7 **Passive Tracker Funds**: For Legal and General, overseas equities marginally outperformed its benchmark with an absolute return of 7.8% for the quarter and with an annual return of 20% it marginally outperformed the one year benchmark of 19.9% by 0.1%. The fixed interest performed in line with its benchmark with a return of 3.1% for the quarter and with an annual return of 13.4%, it outperformed the one year benchmark return of 13.1% by 0.3%.

Investment Performance & Benchmark

5.2.8 The Fund's overall performance is measured against a liability benchmark return. Over the quarter the estimated funding position increased from 75.6 % funding level as at 31 December 2014 to 76.1% as at 31 March 2015

5.2.9 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. The one year outperformance indicates that both diversified growth funds are performing in line with the investment strategy. But over one year both Newton and

Schroders growth and bond assets are underperforming their respective benchmarks.

5.2.10 Fund Return compared with the WM Local Authority Universe over the quarter to 31 March 2015 for one, three and five years is set out in Appendix C. The relative underperformance over 1 and three years is in part because the Barnet Fund is following a different and more risk adverse strategy than most other local authorities but is also a reflection of longer-term manager underperformance by both Newton and Schroder.

5.3 **Legal and Constitutional References**

5.3.1 This report is based on the provisions of Regulation 10 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.

5.3.2 Constitution – Part 15, Annex A Responsibility for Functions Responsibility for Council Functions in relation to pensions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement. Paragraph 2.2.11 lists one of these functions as ‘To review and challenge at least quarterly the Pension Fund investment managers’ performance against the Statement of Investment Principles in general and investment performance benchmarks and targets in particular.’

5.4 **Risk Management**

5.4.1 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.

5.4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the sovereign debt crises 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

5.5 **Equalities and Diversity**

5.5.1 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.

5.5.2 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.

5.6 **Consultation and Engagement**

5.6.1 Not Applicable.

6. BACKGROUND PAPERS

6.1 None

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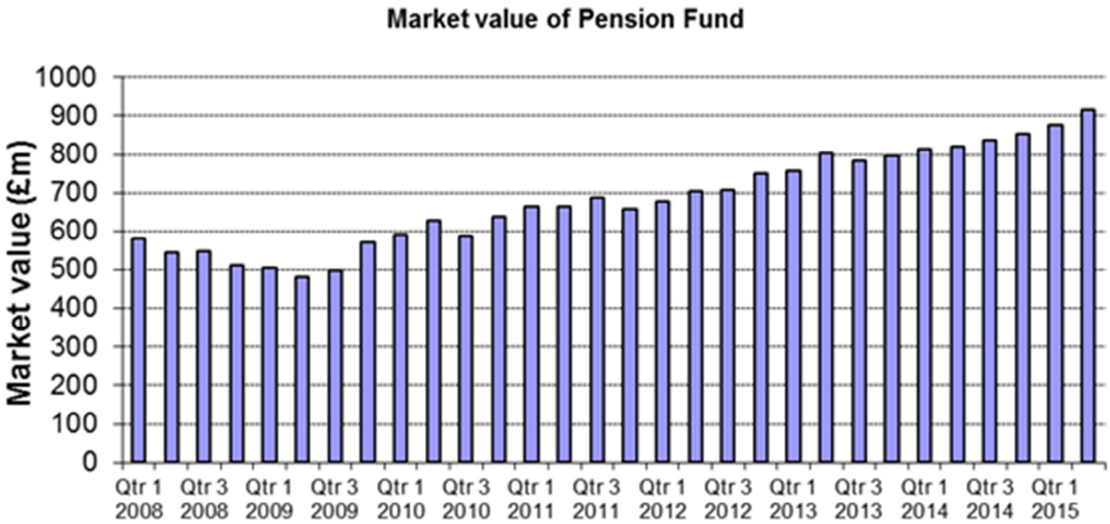
Appendix A – Pension Fund Market Value of Investments as at 31 March 2015.



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London Borough of Barnet Pension Fund

Quarterly update to 31 March 2015

Contents

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1 Executive Summary

- Over Q1 2015, the total scheme assets returned 4.2%. This was significantly above the liability benchmark return of 2.8%. As a result the scheme's estimated funding level has increased to around 76.1% as at 31 March 2015.

- Newton's Real Return Fund and Schroders' Diversified Growth Fund produced modest returns over the quarter of 4.1% and 4.3% respectively. This was significantly below L&G's overseas equity fund of 7.8%.

- The Corporate Bond funds performed strongly over the quarter against a background of falling bond yields.

- Since the implementation of the current investment strategy, the 'bond' portfolio outperformed the 'growth' portfolio by 4.4% pa. (see section 4 for more details).

- Since December 2010 the Schroder DGF has outperformed the Newton RRF, but both have returned less than the UK and overseas equity markets (see section 4 for more details).

2 Market update

Introduction

The tables below summarise the various market returns to 31 March 2015, to relate the analysis of your Scheme's performance to the global economic and market background.

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	**%**	**%**	**% p.a.**
UK Equities	4.7	6.6	10.6
Global Developed (MSCI World)	7.6	19.7	15.6
USA	6.4	26.4	19.1
Europe	10.8	6.8	13.1
Japan	16.4	27.1	12.7
Asia Pacific (ex Japan)	9.5	20.0	9.4
Emerging Markets (MSCI)	7.4	13.2	3.2
Frontier Markets (MSCI)	2.0	8.7	13.5
Property	3.0	18.3	11.4
Hedge Fund	2.6	6.1	6.8
Commodities	-3.6	-33.0	-14.9
High Yield	5.4	9.4	9.0
Emerging Market Debt	2.0	5.6	5.4
Senior Secured Loans	2.4	4.1	6.6
Cash	0.1	0.5	0.5

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	**%**	**%**	**% p.a.**
UK Gilts (>15 yrs)	4.1	27.0	10.0
Index-Linked Gilts (>5 yrs)	3.3	21.1	8.9
Corp Bonds (>15 yrs AA)	5.2	21.8	11.3
Non-Gilts (>15 yrs)	5.0	21.6	11.8

* Subject to 1 month's lag

Source: Thomson Reuters and Bloomberg

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

Change in Sterling	3 Mths	1 Year	3 Years
	%	**%**	**%**
Against US Dollar	-4.8	-11.0	-2.4
Against Euro	7.3	14.3	4.8
Against Yen	-4.8	3.7	10.6

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	**%**	**%**
UK Equities	-0.04	-0.08	-0.12
UK Gilts (>15 yrs)	-0.19	-1.20	-1.03
Index-Linked Gilts (>5 yrs)	-0.16	-0.83	-0.82
Corp Bonds (>15 yrs AA)	-0.31	-1.19	-1.52
Non-Gilts (>15 yrs)	-0.36	-1.22	-1.51

Yields as at 31 March 2015	% p.a.
UK Equities	3.33
UK Gilts (>15 yrs)	2.23
Real Yield (>5 yrs ILG)	-0.93
Corporate Bonds (>15 yrs AA)	3.10
Non-Gilts (>15 yrs)	3.37

Inflation Indices	3 Mths	1 Year	3 Years
	%	**%**	**% p.a.**
Price Inflation - RPI	-0.2	0.9	2.2
Price Inflation - CPI	-0.4	0.0	1.5
Earnings Inflation *	0.7	1.6	1.4

<table>
<tr><th rowspan="2">Asset Class</th><th colspan="2">Factors Affecting the Market</th></tr>
<tr><th>Positive</th><th>Negative</th></tr>
<tr><td rowspan="2">UK Equities</td><td>According to the Office for Budget Responsibility (OBR), the UK economy grew by 2.6% in 2014, its strongest level in over six years and faster than any other major advanced economy in the world. The OBR revised the UK GDP growth estimate to 2.5% for 2015, from its earlier prediction of 2.4%.</td><td>The uncertainty around the outcome of the general election scheduled for May 2015 is likely to be a headwind for the equity market in the near term. This uncertainty has led some global investors to withdraw from UK-exposed equity funds. According to data from Emerging Portfolio Fund Research (EPFR), funds with exposure to UK equities have had outflows amounting to USD 2.2 billion since the start of 2015.</td></tr>
<tr><td>The UK unemployment rate remained unchanged at 5.7% over the three months to January 2015. Moreover, the number of people claiming Jobseeker's Allowance fell to 791,200 in February, its lowest level since 2008.</td><td>The UK annual inflation rate fell to 0% in February 2015 from 0.3% in January 2015 as the slide in the oil prices continued to put downward pressure on inflation. February recorded the lowest rate of Consumer Prices Index (CPI) inflation since the estimates of the measure began in 1988.</td></tr>
<tr><td colspan="3">Overseas Equities</td></tr>
<tr><td rowspan="2">North American Equities</td><td>According to the Bureau of Economic Analysis, the US economy grew by 2.4% during 2014, up from 2.2% growth witnessed in 2013. This marks the best full-year growth since 2010 for the world's largest economy.</td><td>In March 2015, the Federal Open Market Committee (FOMC) dropped the words "remain patient" from its post-meeting statement. The Federal Reserve (Fed) had been using those words in its previous statements to indicate its dovish stance on the monetary policy front. Having altered the language, the Fed has opened the door to the possibility of the first interest rate hike since the beginning of the credit crisis.</td></tr>
<tr><td>According to the Bureau of Labor Statistics, the US economy added an average of 197,000 jobs per month during Q1 2015. The unemployment rate fell to 5.5% at the end of March 2015 from 5.6% as at the end of December 2014.</td><td>According to Factset, earnings of companies comprising the S&P 500 index are expected to decline by 4.8% year-over-year in Q1 2015, as the impact of a stronger US dollar starts to weigh on corporate profits. If the estimates turn out to be correct, the index will see earnings decline for the first time since Q3 2012. Exports account for over 30% of the S&P 500 revenues and nearly 40% of the profits.</td></tr>
</table>

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	The European Central Bank (ECB) embarked on a new episode in its history by announcing a quantitative easing (QE) programme amounting to up to EUR 60 billion a month, largely comprising purchases of Eurozone sovereign debt. The asset purchase programme, which commenced in March 2015, is expected to last until September 2016 and to add approximately EUR 1.1 trillion to the ECB's balance sheet.	Towards the end of February, Greece secured a four-month extension to its bailout programme. However, despite having secured the crucial extension, Greece runs the risk of running out of cash in April 2015 unless it secures fresh aid, implying that the chances of Greece's exit from the Eurozone cannot be ruled out completely.
	The Eurozone economy expanded at a stronger-than-expected 0.3% quarter-on-quarter growth rate in Q4 2014, faster than the 0.2% growth recorded in Q3 2014. Additionally, the European Commission upgraded its growth forecasts for the Eurozone to 1.3% from 1.1% for 2015 and to 1.9% from 1.7% for 2016.	Eurozone inflation continues to be in negative territory. Data provided by Eurostat indicates that the annual rate of inflation for the region was at -0.3% in February 2015, marginally higher than -0.6% in January 2015.
Japanese Equities	After two consecutive quarters of weakness, the Japanese economy returned to growth as GDP expanded at an annualized rate of 1.5% in Q4 2014. The economy had slipped into a tax-induced recession after shrinking at an annualised rate of 1.9% in Q3 2014, following a 7.1% contraction in Q2 2014.	Excluding the effects of a hike in levy, Japan's inflation rate eased to 0% for the month of February 2015. With low oil prices and tepid consumer demand currently acting as a drag on inflation, the Bank of Japan's (BOJ) chief admitted that it would be "very challenging" to pull the country out of deflation. The BOJ is currently targeting a 2% annualised rate of inflation.
	Japan's current account surplus surged 140.5% year-on-year in February 2015 to JPY 1.44 trillion—the highest since September 2011. A weaker Yen boosted income from abroad, while lower oil prices pushed down imports. The current account is the broadest measure of the country's global trade which also accounts for trades in services, tourism and returns on foreign investments in addition to trade of goods.	

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Asia Pacific (excluding Japan) Equities	Asia Pacific (excluding Japan) equities finished Q1 2015 with strong positive gains of 9.5%, as measured by the FTSE Asia Pac ex Japan Index. Further easing measures by the Chinese authorities and announcement of a trial programme connecting the stock exchanges of Shenzhen and Hong Kong boosted equities during the quarter.	The South Korean economy recorded a modest pace of seasonally adjusted 0.3% quarter-on-quarter growth in Q4 2014—the slowest growth rate since Q3 2012. A slowdown in investments and weak exports were the major detractors to growth for Asia's fourth largest economy.
	In February 2015, the Reserve Bank of Australia lowered the benchmark cash rate by 0.25% to 2.25%, the first cut since August 2013. This was aimed at stimulating business activity and household spending in the face of a sluggish economic growth amidst low commodity prices environment.	
Emerging Markets Equities	Emerging market equities posted positive gains of 7.4% in Q1 2015, as measured by the MSCI Emerging Market Index. Returns were led by Chinese stocks which surged as the People's Bank of China (PBoC) lowered the reserve requirement ratio by 0.5% in February 2015 before cutting interest rates in March 2015 to boost economic growth.	Turkey's stock market declined over Q1 2015 as the Lira dropped to all-time lows after the country's central bank cut interest rates by 0.5% in January 2015. Foreign investors were concerned that the political pressure on the central bank to further lower interest rates will put downward pressure on the currency.
	In January 2015, India became the fastest growing major economy in the world in Q4 2014, surpassing China after authorities changed the way GDP growth for the country is measured. Under the new method, the economy expanded at an annualised rate of 7.5% as compared to 7.3% recorded by China in Q4 2014. This change primarily includes a shift in the base year and switching to a market-price based calculation of the GDP.	Brazilian Real plunged over Q1 2015 as fears over a political crisis and possible loss of investment-grade credit rating continued to weigh on the currency. A weakening economy coupled with rising inflation and ongoing corruption scandals at the state-run energy company Petroleo Brasileiro (Petrobras) added to the woes.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Gilts	A deceleration in inflation contributed to the performance of gilts over Q1 2015. The CPI stood at 0% in February 2015, well below the Bank of England's (BOE) target of 2%.	The Markit/CIPS purchasing managers' index (PMI) for UK services sector (accounting for around 78% of the GDP), improved to 58.9 in March 2015 from 56.7 in February 2015. Also, estimates suggest that Britain's GDP rose by 0.7% quarter-on-quarter in Q1 2015, up from 0.6% growth witnessed in Q4 2014.
	The UK economy continues to struggle to improve output from existing labour and assets. The Office for National Statistics (ONS) reported a 0.2% fall in UK's labour productivity for Q4 2014. Current productivity remains below pre-crisis levels. Stagnancy in productivity hampers growth in both wages and economy, in turn boosting demand for gilts.	Gilt yields surged in February 2015, after falling in January, on account of the uncertainty around the outcome of the general elections and a sharp rise in the UK budget deficit in December 2014 (reported in January 2015). The unusual rise in UK government borrowing was on account of GBP 2.9 billion European Union contributions that became due in December 2014 .
Index-Linked Gilts	Limited issuance of new index-linked gilts compared with their demand drivers, i.e. pension liabilities, contributed to the asset class returns in Q1 2015.	Falling inflation remains a headwind for this asset class. The inflation rate fell to 0% in February 2015, down from 0.5% in December 2014, significantly below the BOE's target of 2%.
	Linkers outperformed fixed gilts in Q1 2015 as the longer duration offered by this asset class compared to traditional government bonds continued to attract investors.	
Corporate Bonds	Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.	Credit spreads are very low, which leaves them vulnerable to any adverse news that could impact this asset class.
Commodities	Crude oil price stabilised over Q1 2015 after a sharp fall over the second half of 2014. Oil price ended the quarter at USD 55.1, marginally lower than USD 57.3 at the end of Q4 2014, after increasing to nearly USD 62.6 in late February 2015. Oil prices had plunged by more than half in 2014 amidst a global supply glut and OPEC's decision not to cut its output despite falling prices.	Metals prices fell over Q1 2015 mainly on account of concerns over global growth, particularly China. The country accounts for nearly half of the world's metal consumption. Iron ore prices fell the most during the quarter, dropping 14.7% due to a surge in production, mainly from the new capacities in Australia. Nickel, copper, lead, zinc and tin prices, all inched downwards on excess supply concerns. Also, aluminium prices (up by 9.8% in 2014 due to declining inventories and production cuts outside China) fell by 7.1% in Q1 2015.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Property	Commercial property values rose by 3.3% over three months to February 2015. The Office sector continues to lead the market with 4.3% gains during the same period, followed by Industrials and Retail segments with 4.0% and 2.1% gains, respectively.	The Construction PMI fell to 57.8 in March 2015, down from 60.1 in February 2015—the lowest level in the first three months in 2015.
	Mortgage approvals rose to 61,780 in February 2015, from 60,710 in January 2015.	

3 Total scheme performance

		Start of quarter			End of quarter	
Manager	**Fund**	**Value (£)**	**Proportion of total (%)**	**Net new money (£)**	**Value (£)**	**Proportion of total (%)**
Newton Investment Management Limited (Newton)	Real Return	264,250,494	30.1	-	275,111,100	30.0
Schroder Investment Management Limited (Schroder)	Diversified Growth	271,913,590	31.0	-	283,658,006	31.0
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	48,211,546	5.5	-	51,958,089	5.7
Newton	Corporate Bond	140,970,588	16.1	-	147,310,675	16.1
Schroder	All Maturities Corporate Bond	128,297,429	14.6	-	132,131,163	14.4
L&G	Active Corporate Bond – All Stocks	19,196,790	2.2	-	19,789,472	2.2
Newton	Cash	730,460	0.1	-	428,283	0.0
Schroders	Cash	711,056	0.1	-	731,355	0.1
Internal	Cash	2,842,075	0.3	-	4,508,000	0.5
Asset split						
Growth assets		587,928,760	67.0	-	615,966,551	67.3
Bond assets		289,195,267	33.0	-	299,659,593	32.7
Total		**877,124,027**	**100.0**	**-**	**915,626,143**	**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 Q1'15 (%)	Benchmark return Q1'15 (%)	Portfolio return 12 Months (%)	Benchmark return 12 months (%)
Total Scheme	4.2	2.8	11.2	15.6
Growth portfolio				
Growth vs. global equity	4.2	5.9	8.7	11.8
Growth vs. RPI+5% p.a.	4.2	1.1	8.7	6.0
Growth vs. LIBOR + 4% p.a.	4.2	1.1	8.7	4.6
Bond portfolio				
Bond vs. over 15 year gilts	3.7	4.1	14.8	27.0
Bond vs. index-linked gilts (> 5 yrs.)	3.7	3.3	14.8	21.1

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All-Share Index, 40% MSCI World Index. *Liability benchmark (see page 18).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 18). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder Corporate Bond Portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

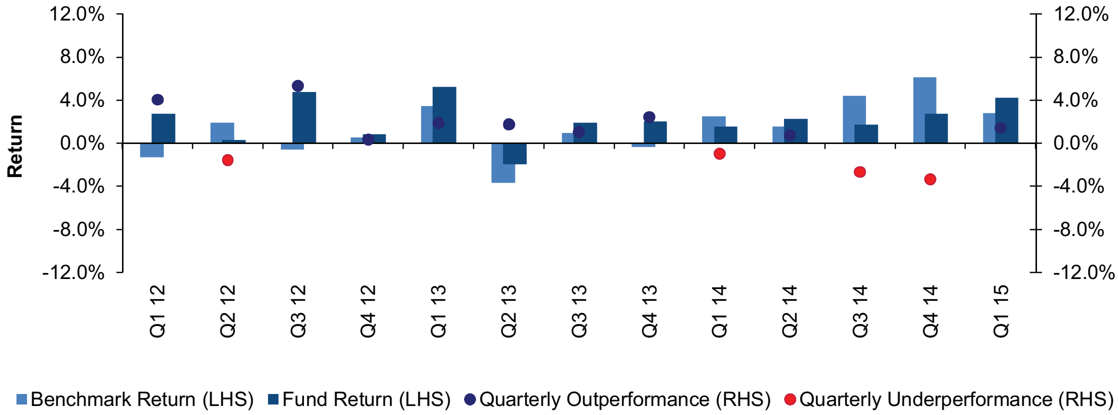
Individual manager performance

Manager/fund	Portfolio return Q1'15 (%)	Benchmark return Q1'15 (%)	Portfolio return 12 Months (%)	Benchmark return 12 months (%)
Newton Real Return	4.1	1.1	6.7	4.5
Schroder Diversified Growth	4.3	1.1	10.6	6.0
L&G – Overseas Equity	7.8	7.7	20.0	19.9
Newton Corporate Bond	4.3	4.7	17.5	19.7
Schroder Corporate Bond	3.0	3.3	11.9	13.2
L&G – Corporate Bond	3.1	3.2	13.4	13.1

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

Total scheme performance relative to liability benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 4.2% over the quarter and outperformed the liability benchmark return by 1.4%. The over 15-year gilt yield, upon which the liability analysis is based, decreased over the quarter resulting in an increase in the estimated value of the liabilities.

The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The L&G Overseas Equity Fund was the best performing fund in absolute terms, while on a relative basis, all the underlying funds underperformed their respective benchmarks except for the DGFs which significantly outperformed the respective cash benchmarks and the L&G Overseas Equity Fund which marginally outperformed.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark by 1.7% over the quarter. It is usual to expect DGF funds to underperform equities in rising markets and conversely outperform in falling markets. The Growth portfolio outperformed the RPI +5% benchmark and the LIBOR +4% benchmark by 3.1% each over the same period. The Growth portfolio's positive absolute return over the quarter was driven by the performance of both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, underperformed the Over 15 Year Gilts Index (by 0.4%) and outperformed the Over 5 Years Index Linked Gilts Index (by 0.4%).

Over the twelve months to 31 March 2015

The Scheme achieved a return of 11.2%, which was 4.2% below the liability benchmark return of 15.6%.

The three corporate bond funds performed strongly in absolute terms against a background of falling yields, but underperformed the return from long dated fixed interest and index-linked gilts.

Although both DGF funds outperformed their respective benchmarks, they underperformed the return on global equities.

4 Longer Term Performance

The table below shows the performance of the scheme's assets over the last four years, i.e. since the implementation of the current investment strategy in December 2010.

	2011 (%)	2012 (%)	2013 (%)	2014 (%)	Q1 2015 (%)	4.25 Years (%pa)
Total scheme	**1.0**	**8.7**	**7.0**	**8.3**	**4.2**	**6.9**
Growth portfolio	**-1.8**	**5.8**	**8.9**	**5.2**	**4.2**	**5.2**
UK equity	-3.5	12.3	20.8	1.2	4.7	8.0
Overseas equity	-6.9	12.1	21.2	12.2	7.6	10.5
RPI + 5% p.a.	9.8	8.1	7.7	7.0	1.1	7.9
LIBOR + 4% p.a.	4.5	4.5	4.5	4.5	1.1	4.5
Bond portfolio	**8.3**	**13.9**	**1.3**	**13.9**	**3.7**	**9.6**
Over 15 year gilts	26.3	2.9	-5.9	26.1	4.1	11.8
Index-linked gilts (> 5 yrs.)	23.3	0.5	0.6	21.4	3.3	11.1

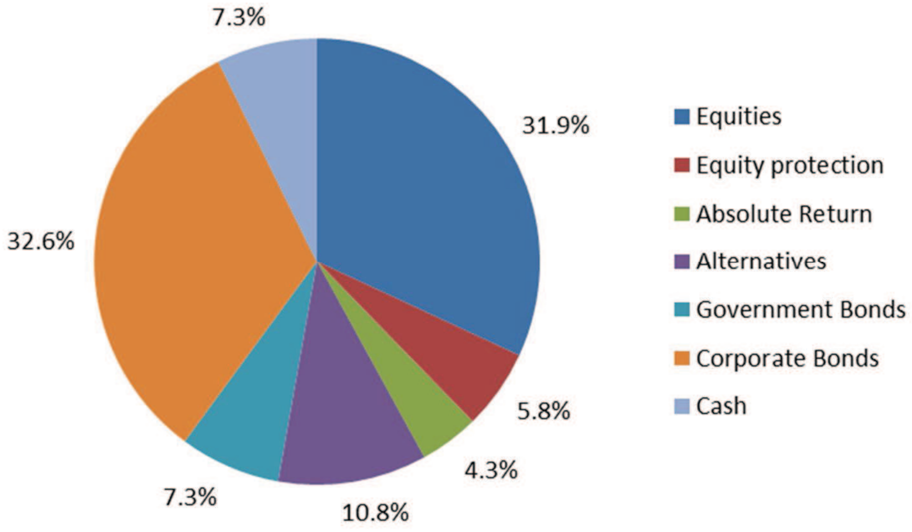
- Since the implementation of the current investment strategy, the bond portfolio has outperformed the growth portfolio by 4.4% pa.

Manager/fund	2011 (%)	2012 (%)	2013 (%)	2014 (%)	Q1 2015 (%)	4.25 Years (%pa)
Growth Assets						
Newton Real Return	0.9	4.2	6.4	3.9	4.1	4.6
Schroder Diversified Growth	-4.5	7.6	11.6	6.4	4.3	5.8
L&G – Overseas Equity	-6.1	11.9	22.7	12.3	7.8	11.0
Bond Assets						
Newton Corporate Bond	12.4	13.9	0.4	15.9	4.3	10.9
Schroder Corporate Bond	4.1	13.9	2.4	11.9	3.0	8.2
L&G – Corporate Bond	8.2	14.0	1.0	12.7	3.1	9.1

- Since the implementation of the current investment strategy, the Schroder DGF has outperformed the Newton RRF, but both have returned less than the UK and overseas equity markets.
- Newton's corporate bond fund has performed above the other bond funds, but this is due to it being benchmarked against a longer duration index.

5 Asset Allocation

The chart below sets out the Scheme's underlying asset allocation as at 31 March 2015, which takes account of how the two Diversified Growth Funds are invested and the other assets held in the portfolio.



The Scheme's overall exposure to equities was 37.7% (gross) at the end of the quarter, but taking account of the hedging positions within the Newton RRF the net exposure was 31.9%.

Exposure to government and corporate bonds was 39.9%, 10.8% was invested in alternative assets and 7.3% was held in cash.

The asset allocation of the two DGFs, before hedging of underlying equity exposure, is set out in the table below.

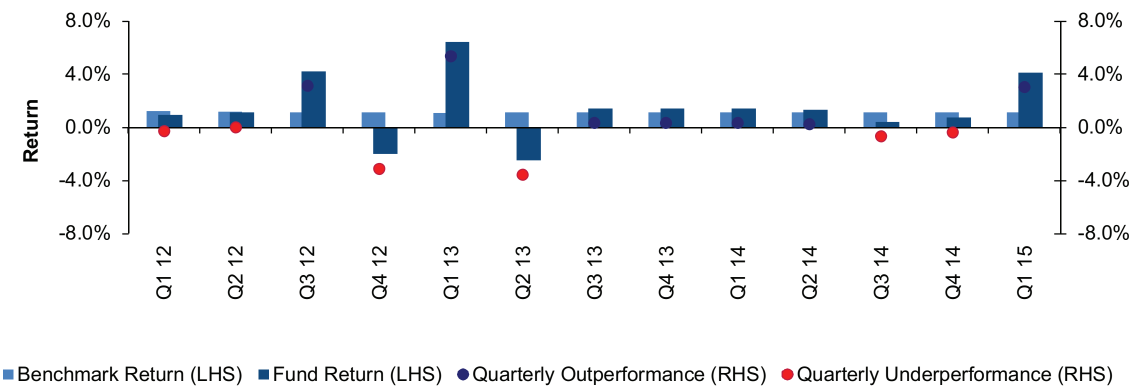
	Q1'15 Newton (%)	Q1'15 Schroder (%)	Q4'14 Newton (%)	Q4'14 Schroder (%)
Global equities	47.9	56.9	56.6	48.1
Government bonds	19.3	3.1	21.0	6.3
Corporate bonds	2.4	-	1.2	-
Convertible bonds	2.3	3.0	2.2	2.9
High yield/EMD	-	3.2	-	3.0
Private equity	-	0.7	-	0.8
Commodities	4.6	2.7	4.1	3.9
Absolute return	-	13.7	-	12.2
Other assets*	3.3	5.9	2.8	6.0
Property	-	3.3	-	3.3
Infrastructure	1.6	3.8	1.6	3.8
Cash	18.7	3.6	10.5	9.7
Total	100.0	100.0	100.0	100.0

Source: Investment managers. * Includes precious metal, renewables, asset-backed and insurance-linked securities.

6 Manager performance

6.1 Newton – Real Return Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 4.1% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 3.0%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 1.8%.

The Fund produced a positive absolute performance, ahead of its performance objective over the quarter. The Fund's equity and bond assets both provided a positive contribution over the quarter. The Fund's cash, derivative and floating rate note holdings all detracted from performance. The notable contributors over the period were the Fund's equity positions in consumer services, basic materials, industrials, and health care. The Fund's government bond position also produced a strong contribution over the period.

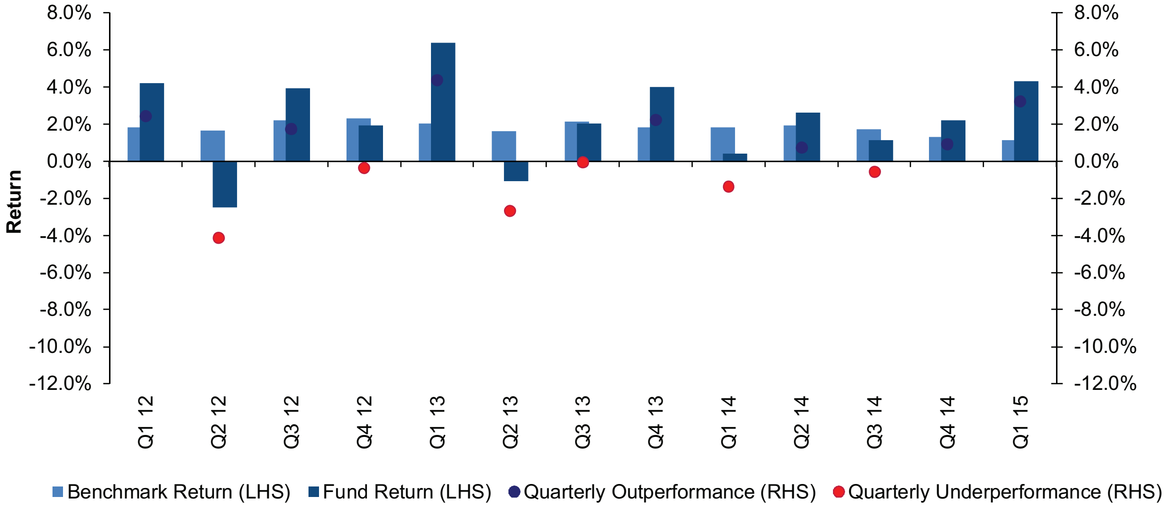
The Fund's holdings related to the utilities sector, Centrica in particular, fell in absolute value due to the fallout which followed the recent declines in the oil price and the uncertainty around the upcoming UK election. Derivative instruments also provided a negative contribution, as the short futures position on the Eurostoxx index underperformed partly due to the unexpectedly strong return from European equities. This position has now been replaced with a relatively wide 'put spread collar' which provides a little more flexibility.

Government bond exposures made a positive contribution, in particular US and Australian sovereign debt, as signs of slowing growth in China and mixed comments from the US Federal Reserve caused investors to adjust their interest rate expectations in a number of major economies, sending yields lower. The Fund's exposure to gold benefited from US dollar strength, which positively affected a number of the larger gold-mining equities and exchange traded notes held.

The Fund continues to maintain a significant proportion of its holdings in stabilising and hedging assets, as the gross exposure to return-seeking assets was reduced. Newton believe that uncertainty will persist and as a result look to balance the portfolio to counteract various possible outcomes. Over the 12 month period, the Fund returned 6.7% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 5.1%.

6.2 Schroder – Diversified Growth Fund

Performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 4.3% compared to its RPI + 5% p.a. portfolio benchmark return of 1.1% and outperformed by 3.2%. The Fund underperformed the notional 60/40 global equity benchmark by 1.6% over the quarter.

The Fund outperformed against its benchmark, but underperformed versus its global equity comparator, over the quarter. The Fund's regional equity positions were the biggest contributors to the Fund's overall performance with allocations to European, Global, Japanese and UK equities all contributing positively to performance. However, commodities, emerging market equity and US equity positions detracted from performance. Allocations to absolute returns, currency, and convertible bonds also added to performance. Schroders went into the period with the expectation of continuing divergence in monetary policy across the developed world and narrow equity performance due to stretched valuations. The initial strategy was to allocate to the regions best placed to benefit from central bank's accommodative policy.

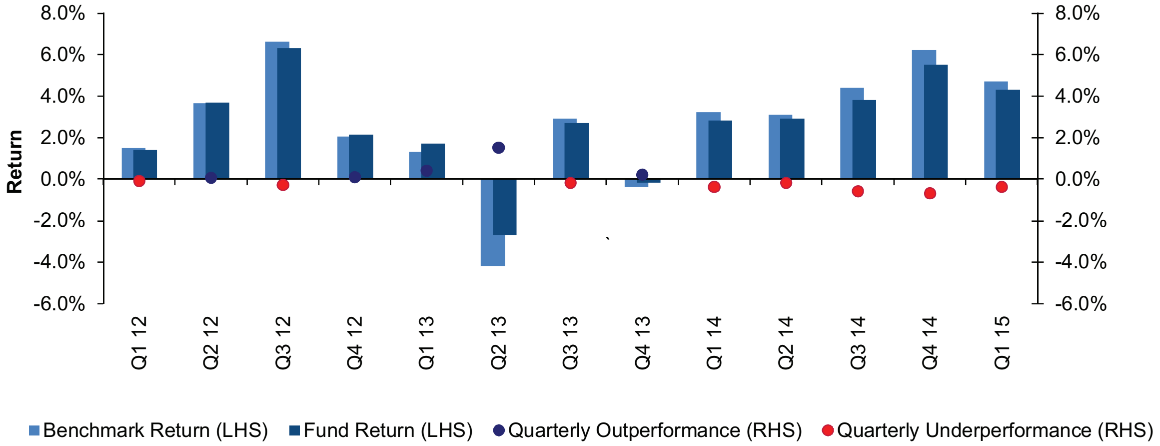
During the quarter, the Fund rotated out of US equities into European equities. The view was that the US equity market was beginning to struggle in the face of a stronger dollar. In Europe, the European Central Bank's (ECB) larger than expected stimulus injection in January piqued investor interest and led European indices higher. The Fund also increased its Canadian and Japanese equity holdings.

The Fund reduced its overall weight in US equities but did introduce a position in US banks, one of the few sectors which would benefit from higher interest rates. In March, the Fund added some tactical opportunities in emerging markets. These markets have benefited from the lower oil price and renewed stimulus from the Chinese central bank.

Over the quarter, the Fund reduced its duration position through the sale of its US and UK bond exposure. The Fund then hedged its equity and duration exposure through the use of options. The Fund's gold position was closed in the first quarter due to improved economic data in the US and a stronger US dollar. The Fund maintained its commodity exposure via a broad commodities position. Schroders expect a number of cyclically depressed commodities to recover through a combination of improved demand and reduced supply. Over the 12 month period, the Fund returned a positive absolute return of 10.6% versus the benchmark return of 6.0%. In comparison to a notional 60/40 global equity benchmark return, the Fund underperformed by 1.2%.

6.3 Newton – Corporate Bond Portfolio

Performance relative to portfolio benchmark



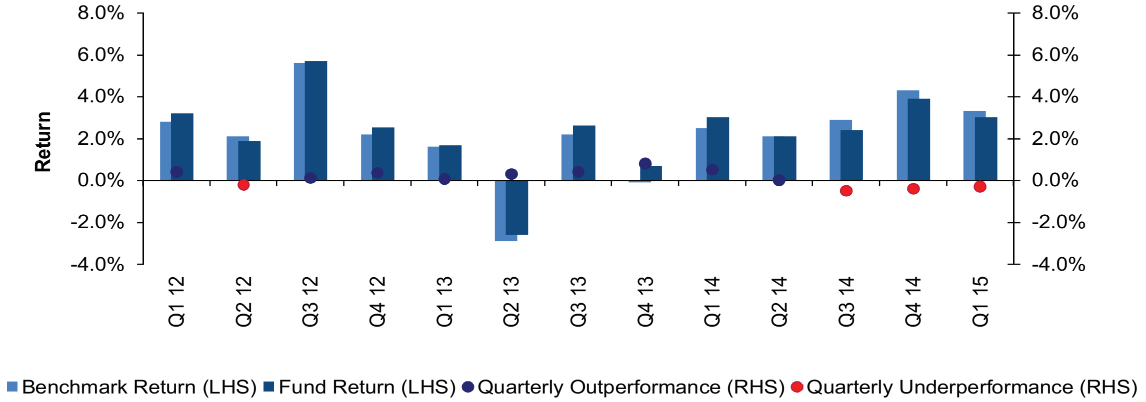
Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.4%; it returned 4.3% versus the benchmark return of 4.7%. The underperformance was attributable to the Fund's overall short duration relative to the index over the period.

Over the 12 month period, the Fund returned 17.5% against the benchmark return of 19.7%.

6.4 Schroder – All Maturities Corporate Bond Portfolio

Performance relative to portfolio benchmark

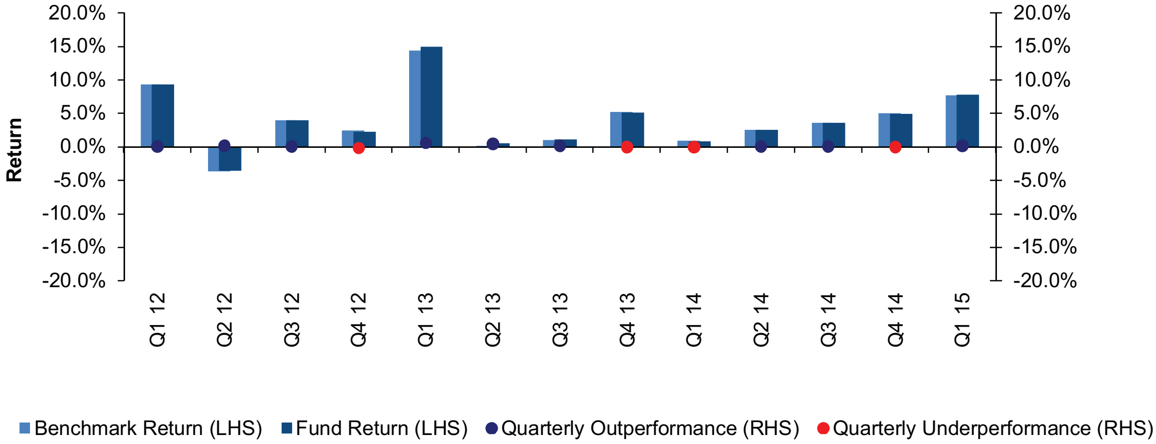


Source: Investment manager.

The Schroders Corporate Bond portfolio underperformed its benchmark by 0.3% and produced an absolute return of 3.0%. The Fund's credit selection in AAA, AA and A bonds and sectorial allocations in industrials and government related securities were negative contributors to the performance.

Over the 12 month period, the Fund returned 11.9% versus the benchmark return of 13.2%.

6.5 L&G – Overseas Equities



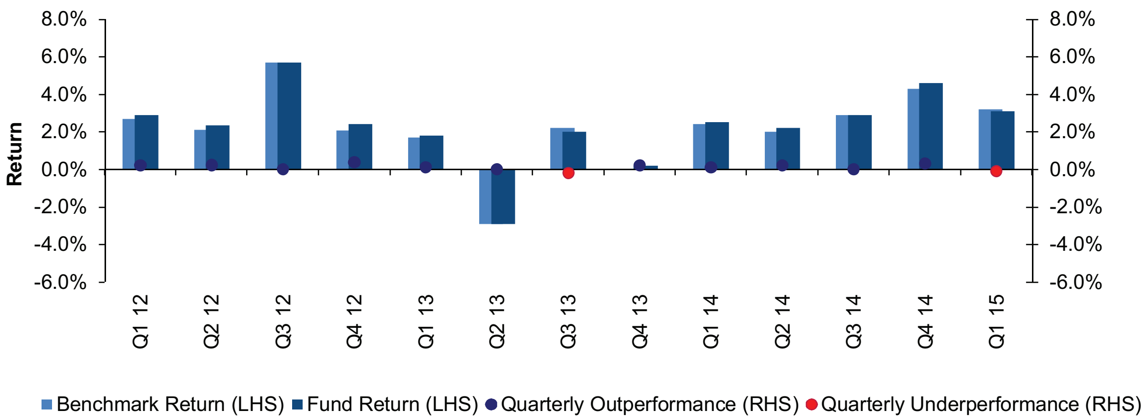
Source: Investment manager.

Over the first quarter of 2015, the Fund marginally outperformed its benchmark return by 0.1% and produced an absolute return of 7.8%.

The Fund generated an absolute return of 20.0% marginally outperforming its benchmark of 19.9% over the 1 year period.

6.6 L&G – Active Corporate bond – All Stocks Fund

Performance relative to portfolio benchmark



Source: Investment manager.

Over the quarter, the Fund marginally underperformed its benchmark by 0.1% and produced an absolute return of 3.1%.

The Fund underperformed the benchmark over the quarter mainly driven by negative credit selection particularly in the securitised and sub-sovereign sectors.

In terms of credit selection the holding in Peterborough Progress Health, in which the Fund was overweight, had a small detrimental impact. This is a Hospital PFI securitisation, which was downgraded to sub-investment grade due to a dispute over compliance with fire regulations. In addition not holding Legal & General Bonds also detracted from relative performance (L&G bonds are in the benchmark but were not held by the Fund).

The Fund was underweight holdings in sub-sovereign bonds which proved detrimental as the sector benefited from downward pressure on yields - driven by the European Central Bank (ECB) announcement on quantitative easing. In addition being overweight to collateralised bonds was negative as this sector lagged the benchmark over the quarter. In addition the Fund had some exposure to US Dollar holdings - which had a very small negative impact as these performed less well than sterling bonds over the period.

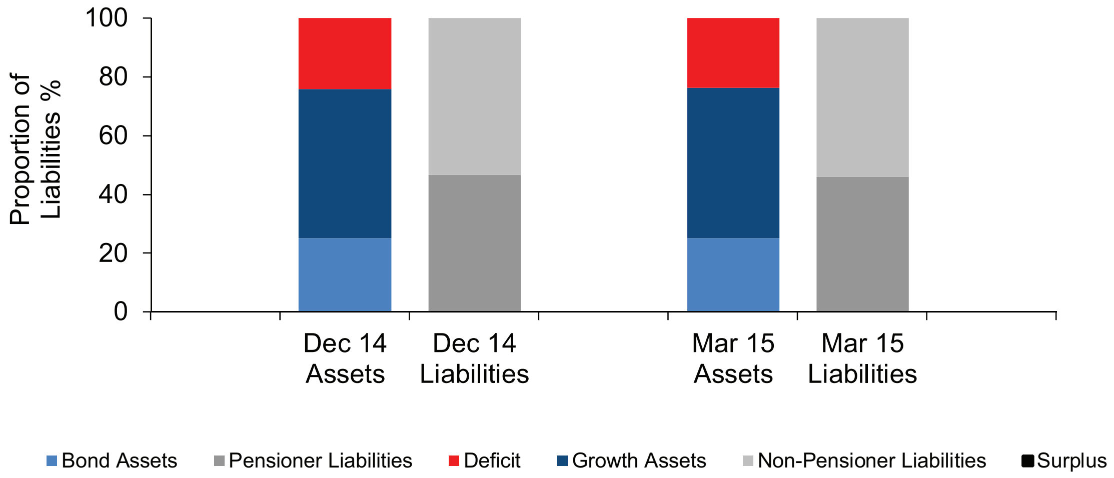
On the positive side, the Fund was underweight Utilities which proved a small positive but not sufficient to offset the negatives above. Sectors such as Utilities, which have a bias towards longer issuance, were negatively impacted by the annuity reforms and thus being underweight in this sector proved beneficial for the Fund. Also there were some positives from stock selection, namely the overweight positions in Standard Life, Heathrow Airport Holdings and Gazprom.

We note that LGIM have stated that the Fund at the quarter was positioned 'cautiously' and overall had a neutral credit risk position. Over the 12 month period, the Fund has produced a return of 13.4% compared with the benchmark return of 13.1%.

7 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



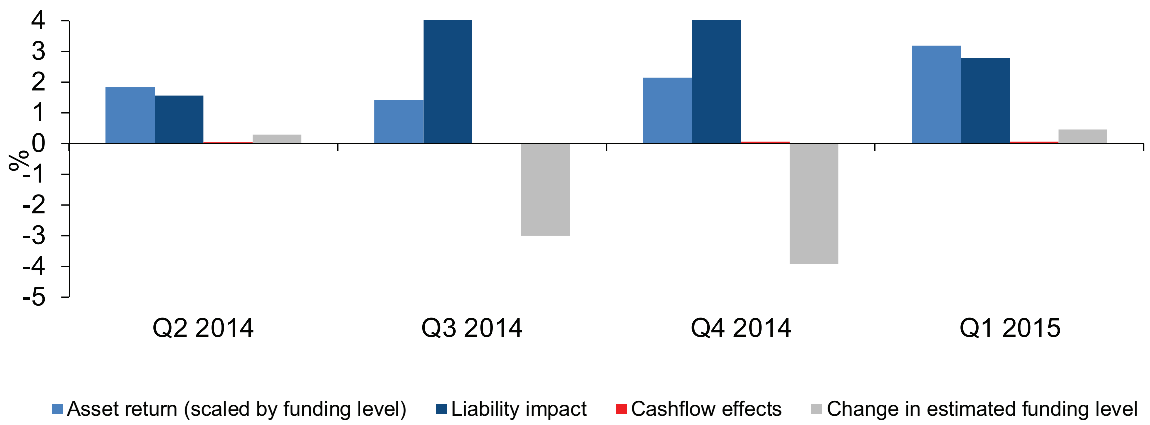
The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 1. 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 Pension Fund Committee in making informed decisions on asset allocation.

Over the quarter, the expected funding position increased by 0.5%, due to an increase in assets which was partially offset by an increase in expected liabilities. The Scheme was approximately 76.1% funded as at 31 March 2015.

The split between non-pensioner and pensioner liabilities moved in favour of non-pensioners over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities (circa £549 million as at 31 March 2015); a mismatch that leaves the Scheme exposed to interest rate risk.

The "liabilities" estimated above represent the actuarial liabilities disclosed in the Actuarial Valuation report as at 31 March 2013.

Scheme performance relative to estimated liabilities



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

Over the quarter, the estimated funding level increased by 0.5% due to an increase in assets which was partially offset by an increase in expected liabilities.

Overall, Q1 2015 has been a positive quarter for the Scheme in terms of the funding level.

8 Summary

Overall this has been a positive quarter for the Scheme as the assets increased due to positive returns and the funding level increased by 0.5%.

In absolute terms, the Scheme's assets produced a return of 4.2% over the quarter. All the underlying funds of the Growth and Bond portfolios produced positive absolute returns.

In relative terms, the Scheme outperformed the liability benchmark return by 1.4%. All of the underlying funds underperformed their respective benchmarks except for the DGFs which significantly outperformed the respective cash benchmarks and the L&G Overseas Equity Fund which marginally outperformed.

The combined Growth portfolio underperformed the notional 60/40 global equity return by 1.7% producing a positive absolute return of 4.2%.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 0.4% and outperformed the Over 5 Years Index Linked Gilts Index by 0.4%.

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 76.1% as at 31 March 2015.

Appendix 1:

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.

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.

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 2013, 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.

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 statistics indices	The following indices are used for asset returns: ▪ UK Equities: FTSE All-Share Index ▪ Overseas Equities: MSCI World Index ▪ 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: IBA GBP IBK LIBOR 1 Week Delayed – Offered 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.

Term	Definition
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.
Three year return	The total return on the fund over a three 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.

JLT Employee Benefits

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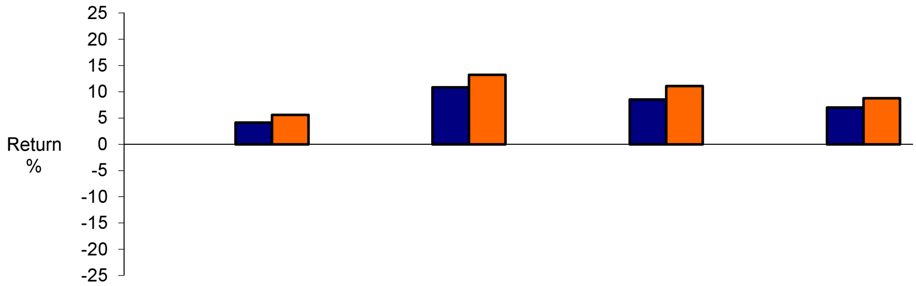
Appendix C – WM Local Authority Universe Comparison to 31 March 2015.

Fund Returns

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa



Fund	4.2	10.9	8.5	7.0
Benchmark	5.6	13.2	11.1	8.8
Relative Return	-1.4	-2.1	-2.3	-1.6

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

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AGENDA ITEM 9

Pension Fund Committee

21 July 2015

Title	**Pension Fund Annual Report and External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2014/15**
Report of	Chief Operating Officer
Wards	N/A
Status	Public
Enclosures	Appendix A – ISA 260 report (to follow) Appendix B – Grant Thornton LB Barnet Pension Fund Audit Plan Appendix C – Pension Fund Annual Report 2014/15 and pension fund accounts
Officer Contact Details	Iain Millar, Head of Treasury Services 0208 359 7126

Summary

This report considers the detailed report from the external auditors on matters arising from the audit of the 2014/15 pension fund accounts and annual report.

Recommendations

1. **That the Committee note the audit approach set out in Appendix B.**
2. **That the Committee approve the Annual Report and Pension Fund Accounts 2014/15.**

3. That the Committee note the matters raised by the external auditor relating to detailed aspects of the 2014/15 accounts audit, including the pension fund accounts and officers responses to matters raised
4. That the Committee consider whether there are any areas on which they require additional information or action

1. WHY THIS REPORT IS NEEDED

1.1 Under Section 151 Local Government Act 1972- "every local authority shall make arrangements for the proper administration of their financial affairs". Additionally in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts. The final report of the auditors will be provided at the meeting.

2. REASONS FOR RECOMMENDATIONS

2.1 So that the Council can meet its obligations as set out in paragraph 1 above.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not Applicable

4. POST DECISION IMPLEMENTATION

4.1 None

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Review of reports made under the International Standard on Auditing (ISA) 260 are an integral part of corporate governance. This is in line with the council's strategic objective set out in the Corporate Plan 2015-20 that "The council…will strive to ensure that Barnet is a place…where services are delivered efficiently to get value for money for the taxpayer".

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

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

5.2.2 The external audit fees for 2014-15 are £21,000 and were £25,500 in 2013-14.

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

5.2.4 The ISA 260 report has to be considered by “those charged with governance” before the External Auditor can sign the accounts, which legally has to be done by 30 September 2013.

5.2.5 The External Auditor, Grant Thornton (GT) was presented with the draft financial statements in June 2014.

5.2.6 It is an anticipated that there will be an unmodified opinion on the accounts

5.3 **Legal and Constitutional References**

5.3.1 Constitution – Part 15 Responsibility for Functions Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement, Paragraph 2.2.3 of the Statement lists the responsibilities of the Committee as ‘To meet, review and approve the Pension Fund Statement of Accounts’ and 2.2.4, ‘To receive and approve the Pension Fund Annual Report’

5.4 **Risk Management**

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

5.5 **Equalities and Diversity**

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

5.6 **Consultation and Engagement**

5.6.1 Not Applicable

6. BACKGROUND PAPERS

6.1 None

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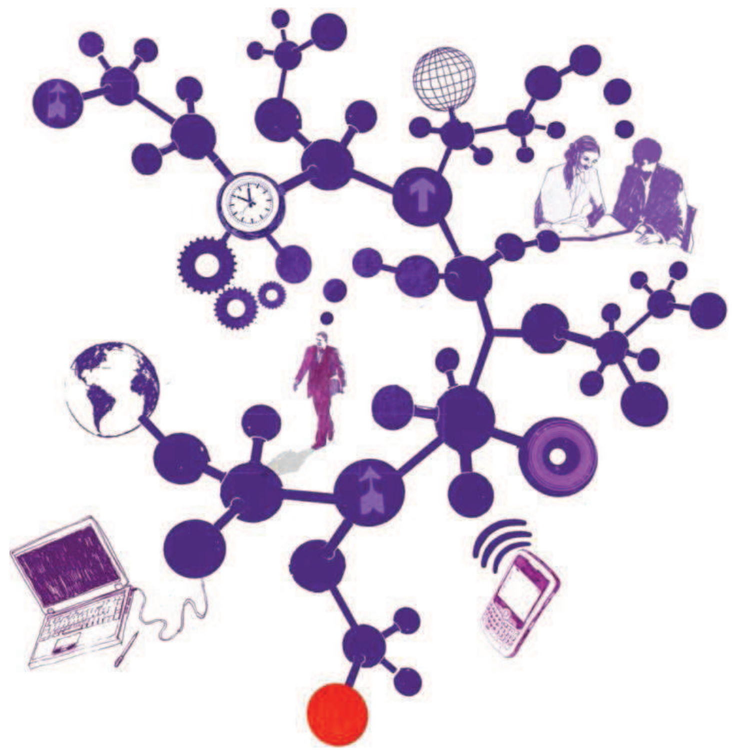
Grant Thornton

The Audit Plan
London Borough of Barnet Pension Fund

Year ended 31 March 2015

27 May 2015



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

Contents

Section

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which enhances the governance of the funds.

2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

4. Local government outsourcing

- Many council's are looking to follow Barnet's model by outsourcing services as a more cost effective way to provide services.
- Funds will need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

Our response

1. New governance arrangements

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share good practice that is emerging with officers.

2. Pensions Regulator

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

3. Future structural reform

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

4. Local government outsourcing

- Through our regular liaison with officers we will continue to monitor the impact of the outsourced services and the effect on the Pension Fund.
- We will share good practice that is emerging with officers.

Developments relevant to your business and the audit

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

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code.

3. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May

Our response

1. LGPS 2014:

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.
- We will confirm the existence of controls to ensure that it identifies and receives all expected contributions from member bodies and that benefits are correctly calculated and that the appropriate payments are generated and recorded

2. Financial Reporting:

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

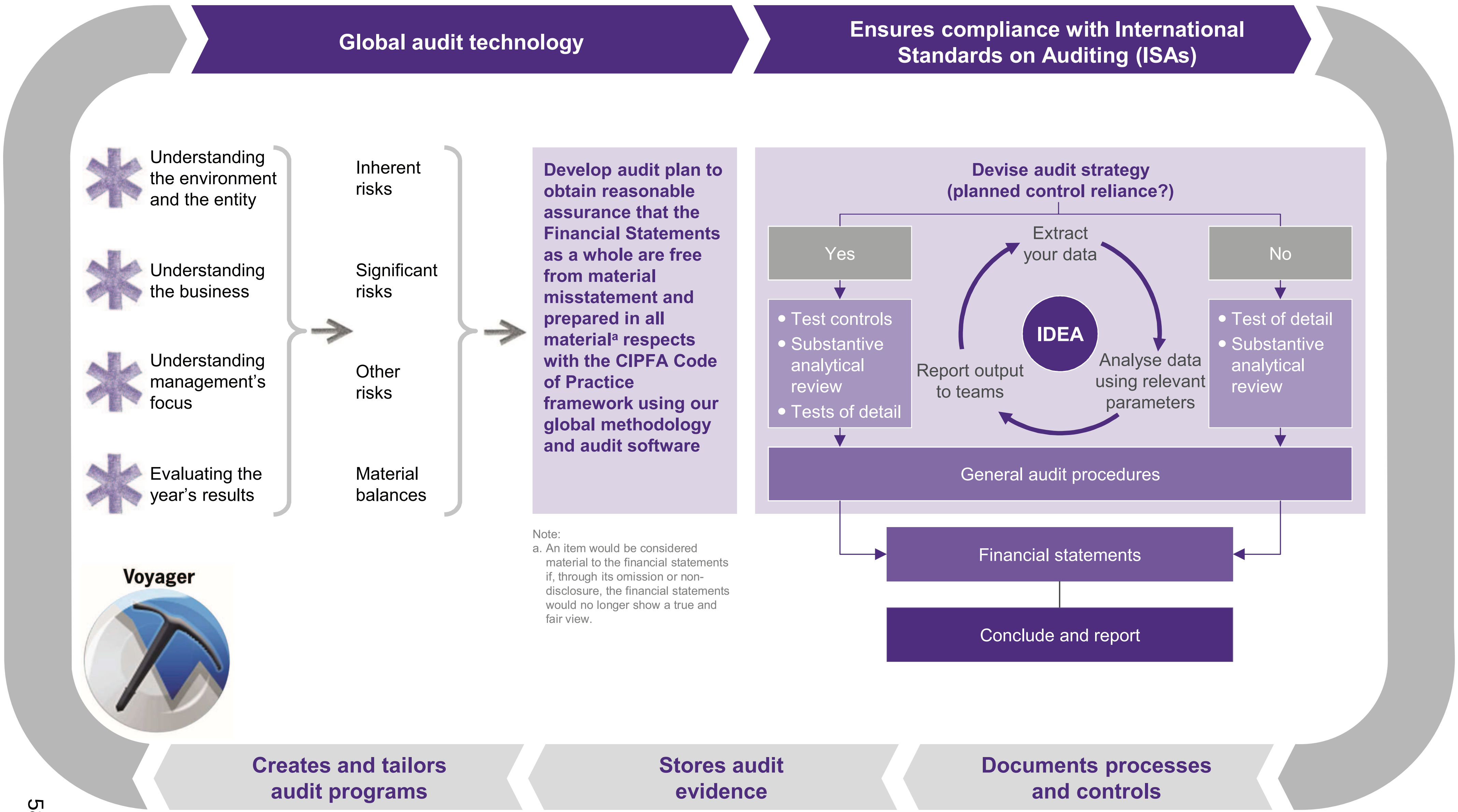
3. Accounting for Fund management costs:

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

4. Timetable for financial reporting:

- Although not an issue for 2014/15 we will continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

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

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Barnet Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including London Borough of Barnet Pension Fund who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Risk assessment of accounting estimates, judgments and decisions made by management **Work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions.
Risk of new accounting system Integra produces Fund balances that are materially mis-stated	As at 1 April 2014, the ledger system was migrated from SAP to Integra which is hosted by Capita. 2014/15 will be year one the Fund accounts will be compiled on Capita's ledger system.	Document our understanding of the controls put in place by management over data migration. **Work completed to date:** • Testing the completeness of data migration to the new systems as part of our IT review • Complete walk through tests of the new ledger system **Work planned:** • Review of subsystem reconciliations

Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investments	Investment activity not valid Valuation is incorrect	**Work completed to date:** • We have documented and confirmed the operation of controls around investment activities **Further work planned:** • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances • We will complete a predictive analytical review for different types of investments • We will test a sample of purchases and sales during the year back to detailed information provided by the fund managers.
Contributions	Recorded contributions not correct	**Work completed to date:** • We have confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from member bodies **Further work planned:** • We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified continued

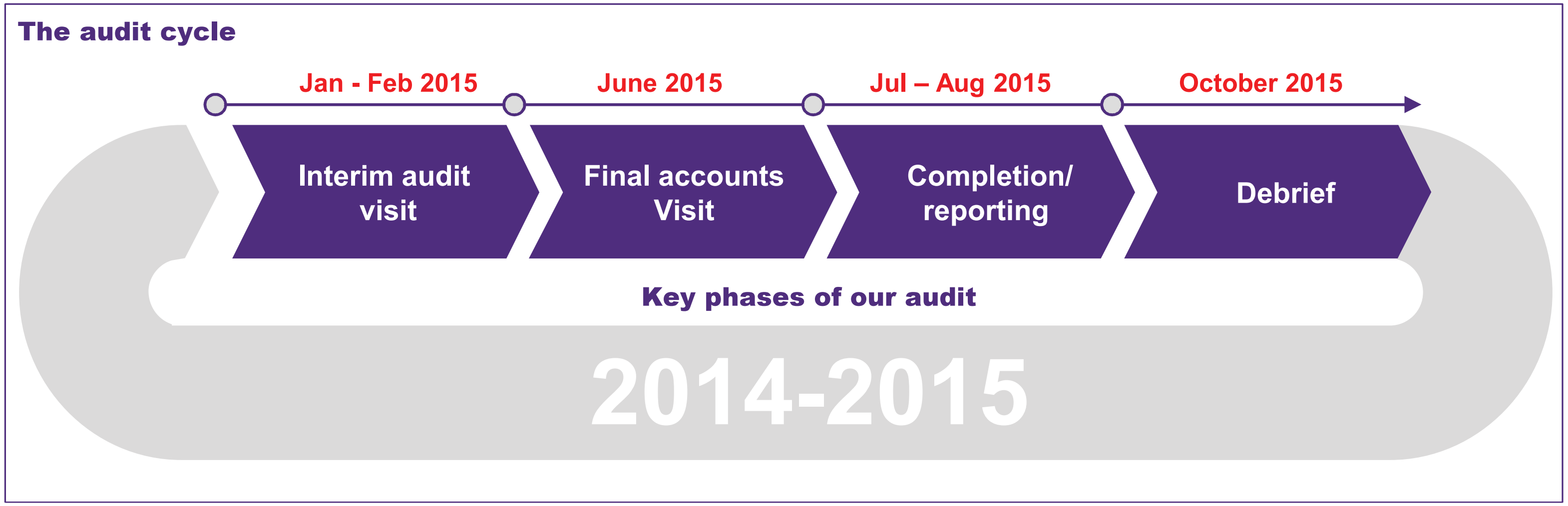
Other risks	Description	Audit Approach
Benefits payable	Benefits improperly computed/claims liability understated	**Work completed to date:** • We have confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded **Further work planned:** • Test a sample of individual pensions in payment by reference to member files. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct	**Work completed to date:** • We have confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records **Further work planned:** • Sample testing of changes to member data made during the year to source documentation.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	We completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements other than observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system (details set out on page 10). At the time of our review (February 2015), we were unable to observe or confirm the controls operating over the entry of accounting information from Acclink system into the Integra accounting system. We understand there had been technical issues in entering journals onto the Integra accounting system. This had resulted in the delay of the following posting into the Integra system: • monthly posting of investment journal until month 6 • monthly posting of months 1 - 10 of journal entries of contributions received and benefits paid. Delays in posting of Fund transactions to the ledger increases the risk of errors not being identified and materially mis-stated in the Fund statements.	Subject to observing controls over subsystems are periodically reconciled to the ledger, our work has not identified any additional weakness which impact on our audit approach. We will ensure the accounting entries are correctly posted from Acclink into Integra during our final accounts testing.
Review of information technology controls	As part of the overall review of the internal controls system, our information systems specialist has performed a high level review of the general IT control environment, including a follow up of any issues identified in the previous year. The review was undertaken as part of the main financial statements audit.	This work is currently in progress. Should any issues arise from this work, we will discuss these with management and report our findings in the Audit Findings Report.
Journal entry controls	We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our review of the Fund's journal entry policies and procedures has not identified any weaknesses which impact on our audit approach.

Key dates



Date	Activity
Jan – Feb 2015	Planning / Interim
27 May 2015	Presentation of audit plan to Pension Fund Committee
8 June 2015	Year end fieldwork commences
July 2015 TBC	Audit findings clearance meetings
30 July 2015	Report audit findings to the Pension Fund Committee
By August 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Total fees (excluding VAT)	21,000

Our fee assumptions include:

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

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Grant Thornton

grant-thornton.co.uk

The London Borough of Barnet Pension Fund

Draft Annual Report

For the year ended 31 March 2015

Contents

1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

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

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

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

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

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

Since the LGPS was introduced in 1972, pensions have changed considerably. People now live longer, and this has put increasing strain on pension funds for the future. Public-Sector pension funds face similar demands to the private sector. To respond to these changes, the Government introduced a new look LGPS that took effect from 1st April 2008. Employees pay pension contributions at a rate determined by their full time equivalent level of pay. The pay bands increase each April in line with the Consumer Prices Index. (CPI)

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

The Government accepted the long-term recommendations of the Hutton Review; to move from a final salary scheme to a career average pension scheme for future service, protecting accrued rights on the final salary scheme and ensuring normal retirement age is in line with the state pension age. The changes to the scheme took effect from April 2014.

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

In May 2014 the Government launched a second consultation on further proposed changes to the LGPS which included proposals for cost savings and efficiencies through the establishment of Collective Investment Schemes. The Pension Fund is a participant in the establishment of the London Councils' Pensions Collective Investment Vehicle.

The new Pension Fund Board enacted through the Public Services Pensions Act 2013 has been established as a Council Committee and will convene from July 2015.

1.2 Administration of the London Borough of Barnet Pension Fund

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

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

After running a competitive procurement process, Barnet Council awarded Capita the contract to run the council's back office services, the Customer and Support Group (CSG). The contract with Capita was signed on 5 August 2013 and the service commenced in September 2013. This includes Pension Financial Management and Pension Administration.

1.3 Management Structure

Administrating Authority
London Borough of Barnet

Pension Fund Committee Members

Chairman:	Councillor Mark Shooter
Vice-Chairman	Councillor John Marshall
Members:	Councillor Andreas Ioannidis
	Councillor Arjun Mittra
	Councillor Jim Tierney
	Councillor Peter Zinkin
Substitutes:	Councillors Dean Cohen; Anthony Finn; Ross Houston; Adam Langleben; Pauline Coakley Webb

Officers

LB Barnet

Andrew Travers,	Chief Executive
John Hooton,	Chief Operating Officer
Ruth Hodson,	Head of Finance, Commissioning

Capita CSG (Customer and Support Group)

Paul Thorogood	Assistant Director of Finance
Iain Millar,	Head of Treasury, Capita CSG Barnet

Observers

John Burgess, Unison
David Woodcock, Middlesex University

Actuary

Barnett Waddingham

Investment Advisors

JLT Benefit Solutions (formally HSBC Actuaries and Consultants) till May 2015
Hymans Robertson from June 2015

Auditor

Grant Thornton UK LLP

Performance Monitoring

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

Custodians

JP Morgan
The Bank of New York

Pensions Administration Manager

Karen Scott
Service Delivery Manager (Pensions) Capita Employee Benefits

Employee Benefits
Capita, PO Box 215, Mowden Hall, Darlington, DL3 9GT

2. Investment Policy

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

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

The Fund

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

Benchmark

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

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

Manager	Fund	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years Investment	To outperform the benchmark by 1% p.a. over rolling 5 years

		Grade Index	
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years

Investment Ranges

There are statutory restrictions and parameters for investments as per the Local Government Pensions (Management and Investment of Funds) 1998 and subsequent amendments. The restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits may be increased, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.
The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed below.

Investment	Limits Adopted
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	2%
3. All contributions to partnerships	5%
4. The sum of all loans and any deposits with – • Any local authority, or • Any body with power to issue a precept or requisition to a local	10%

authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	35%
10. 10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Independent Advisor

The Chief Operating Officer and Council Officers received investment advice from the independent advisor to the fund. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

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

Actuary

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

The results of the 2013 actuarial valuation showed that the Fund had a funding level of 79%, i.e. the assets were 79% of the value that they would have needed to be, to pay for the benefits accrued to that date, based on the assumptions used. A total common contribution rate of 24.0% of pensionable salaries is required to cover the cost of new benefits building up for current members of the Fund, and to also pay off the deficit over a period of 15 years.

Custodian

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

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the fund's corporate governance and proxy voting policy. Details of this policy can be found by using the link below.
http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010 (updated July 2014)

3 Management and Financial Performance of the fund for the Year 2013-2014

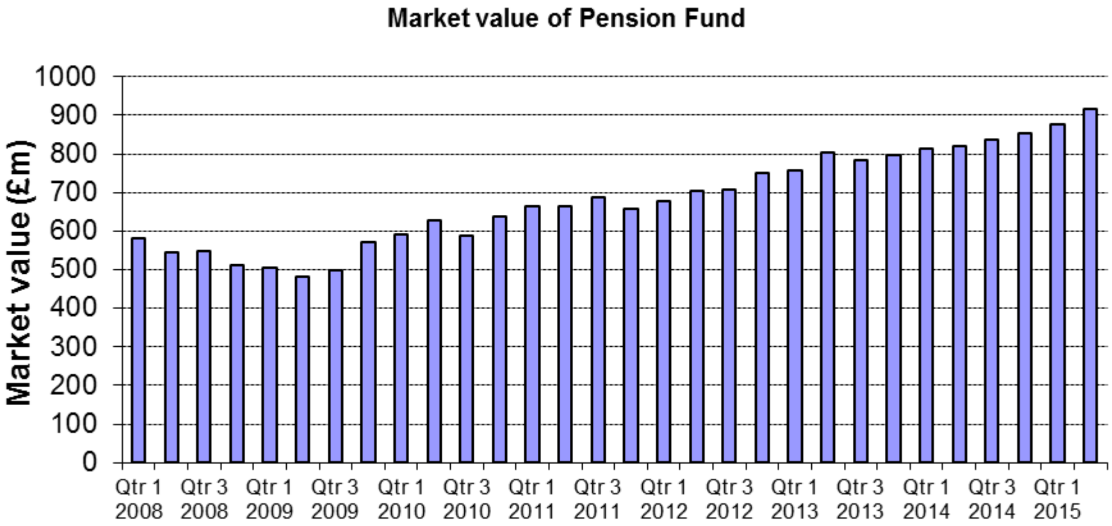
3.1 Fund Performance

The current investment strategy has been in place since December 2010. The revised asset allocation was the result of the ongoing consultation the Fund has with its investment advisor JLT. After a review of the available diversified growth market the Fund retained the services of its two investment managers, Schroder Investment Management and Newton Investment Management, for the efficient implementation of the revised asset allocation. It also retained pooled funds with Legal and General.

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

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the Fund from 1 January 2008 to 31 March 2015.



3.3 Investment Report

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

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

The Council expected that the revised investment strategy would provide the most efficient diversification of assets with no loss in expected return. The Fund's revised investment strategy utilises 'diversified growth' investments that aim to provide equity-like return with reduced volatility. These growth investments are complemented by an allocation to corporate bonds, in order to provide interest rate sensitivity between the Fund's assets and liabilities. This allocation would protect the Fund from sharp movements in its liabilities due to interest rate changes. In practice while the Fund has benefited from low volatility, it has also resulted in lower returns when compared to other LGPS funds. A strategic review of the current investment strategy will take place in 2015-16.

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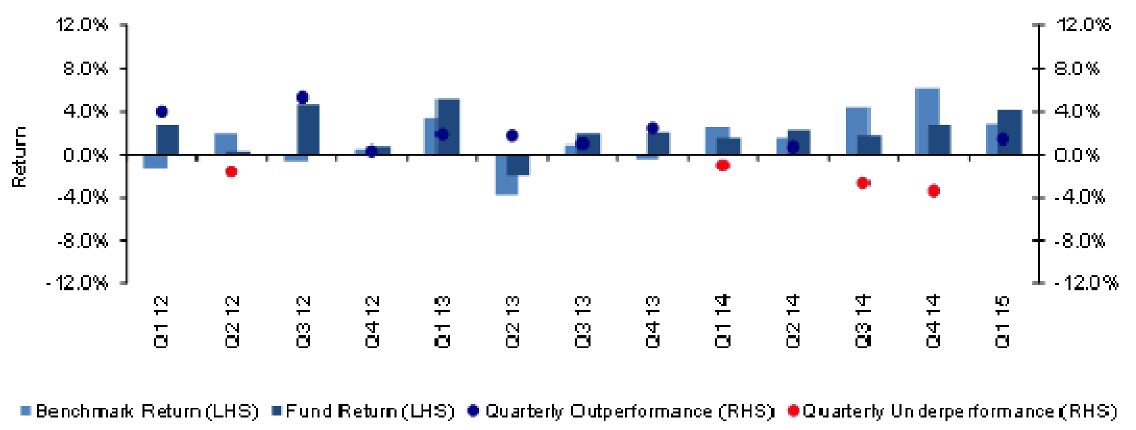
Total Fund – performance relative to benchmark

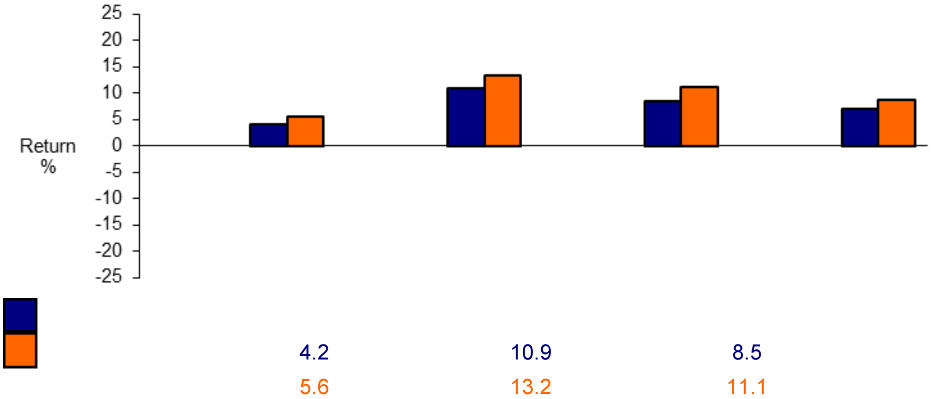
Over the 12 months to 31 March 2015, the total Scheme return (ex property) was 11.2% versus the liability benchmark return of 15.6%.



The chart below shows the fund's historical returns against the WM Local Authority Universe and the portfolio against the liability benchmark:

Fund Returns

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	4.2	10.9	8.5	7.0
Benchmark	5.6	13.2	11.1	8.8
Relative Return	-1.4	-2.1	-2.3	-1.6

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

3.4 Scheme Administration

The administration of the Pension Scheme is provided by the Pensions Office. The performance table below shows the range of work undertaken. This information will be provided in July 2015

Performance Indicator *(from point at which all required information has been received)*	**Local Government Pension Committee Target**	**Authority Target**	**Achieved (%)**
Letter detailing transfer ***in*** quote	10 days	10	79.6%
Letter detailing transfer ***out*** quote	10 days	10	90.2%
Process and pay refund	5 days	5	92.4%
Letter notifying estimate of retirement benefits	10 days	10	95.7%
Letter notifying actual retirement benefits	5 days	5	97.8%
Process and pay lump sum retirement grant	5 days	5	97.8%
Initial letter acknowledging death of active/deferred/pensioner member	5 days	5	62.2%
Letter notifying amount of dependant's benefits	5 days	5	97.1%
Calculate and notify deferred benefits	10 days	10	83.4%

Barnet Pension Fund Membership Movement Analysis 2014-15

		2014/15
Employees		
Number of Employees at 31/03/2014		7,802
Employees joining during the year		581
		8,383
Members leaving during the year:		
Normal retirements	124	
Ill-health retirements	0	
Deaths in service	0	
Refunds of Contributions	7	
Deferred pensions	372	(503)
Number of Employees at end of year		**7,880**
Pensioners		
Number of Pensioners at start of year		6,772
New pensioners during the year:		
Normal retirements	632	
Ill-health retirements	3	
Dependants' pensions	32	
Deferred pensions becoming payable	112	779
		7506
Deaths/dependants ceasing to be eligible		(214)
Number of Pensioners at end of year		**7,292**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		8,427
New Deferred Pensioners at start of year		372
Backdated Deferred Pensioners		134
		8,933
Deferred Pensioners leaving the fund during the year		
Normal retirements	112	
Ill-health retirements	3	
Transferred	76	
Back to active status	0	
Deaths	6	(197)
Number of Deferred Pensioners at end of year		**8,736**
Total Membership at 31 March 2015		**23,908**

4. Governance Compliance Statement

The Governance compliance statement for the Barnet Pension Fund is set out below

Principle	Compliance Status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined.
Representation	Partial Compliance	Main employers and scheme members represented on the committee. However no individual representation for admitted bodies.
Selection/ role of lay members	Partial Compliant	Lay members observer role.
Voting	Partial Compliance	Voting rights have not been extended to employer and member representatives.
Training/Facility time/ Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	Pension Investment Panel terms of reference investment related
Publicity	Compliant	All statutory documents are made available to members.

5. Funding Strategy Statement

The funding strategy statement for the Barnet fund can be found on the Barnet website at http://barnet.moderngov.co.uk/Data/Pension%20Fund%20Committee/200806261900/Agenda/Document%204.pdf

6. Statement of Investment Principles

The authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, updated in July 2014, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Council's website at: http://barnet.moderngov.co.uk/documents/s16640/Appendix%20A%20Statement%20of%20Investment%20Principles%20July%202014.pdf

7. Communication Policy Statement

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

This document sets out a policy framework within which the Pensions Office will communicate with:-

- Fund members and their representatives
- Prospective Fund members and their representatives
- Fund employers

Set out in this statement are the mechanisms which are used to meet those communication needs.

It identified the format, frequency and method of distributing of distributing information and publicity.

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

- **Pensions Office:** for day-to-day contact between the hours of 9am and 5pm.

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

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

- **Website:** The members website will be available other information is available on the national websites at http://www.lgps.org.uk/lge/core/page.do?pageId=97977

- **Member Self-Service** as above

- **Annual Benefits:** An Annual Benefits Statement is sent direct to the home addresses of deferred members where a current address is known and will be available online for active members.

- **Pensions Roadshows:** The Pensions team also stages ad hoc Roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.

- **Existence Validation – Pensioners Living Abroad:** The Pensions team undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

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

Comments

We welcome and value your comments on the standards of service we provide. If you have any comments please contact us.

barnetpensions@capita.co.uk
Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ
Telephone: 01325 746010/11/12/13/14

On behalf of the Pension Fund Committee

Councillor Mark Shooter
Chairman of the Pension Fund Committee
London Borough of Barnet Pension Fund

London Borough of Barnet Pension Fund

Actuary's Statement as at 31 March 2015

Barnett Waddingham
Public Sector Consulting

Introduction

The last full triennial valuation of the London Borough of Barnet Pension Fund (the "Fund") was carried out as at 31 March 2013 in accordance with current Regulations and the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows

- The Fund had a funding level of 79% i.e. the assets were 79% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £211m.
- To cover the cost of new benefits, building up for current members of the Fund, and to also pay off the deficit over a period of 15 years, a total contribution rate of 24.0% of pensionable salaries is required.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit reflecting the employer's experience within the Fund.

Contribution rates

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

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

Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2015 are summarised below:

Assumption	31 March 2013	31 March 2015
Discount rate	6.0% p.a.	5.4% p.a.
Pension increases	2.7% p.a.	2.5% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.	4.3% p.a.
Mortality	110% of the S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date, therefore the smoothed asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the smoothed value of the assets used was £789m and this has increased over the period to an estimated £920m.

Updated position since the 2013 valuation

Since March 2013, the assets have achieved an estimated return of 15.2%, which is higher than expected at the 2013 valuation and so has improved the position. The value placed on the liabilities will have increased slightly due to the accrual of new benefits and due to the decrease in the real discount rate underlying the valuation funding model

Overall, we anticipate that the financial position of the Fund will be similar to the position at the 2013 valuation.

The next full triennial valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF BARNET ON THE PENSION FUND FINANCIAL STATEMENTS

Draft
Pension Fund
Statement of Accounts

for the year ended

31 March 2015

Pension Fund Account

Pension Fund Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of Barnet Council's Pension Fund Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

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

Certification of Accounts

I certify that the Pension Fund Statement of Accounts gives a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund at 31 March 2015 and its income and expenditure for the year then ended.

John Hooton, Chief Operating Officer and Director of Finance (Section 151 Officer)

Approval of Accounts

In accordance with the Accounts and Audit (England) Regulations 2011, I certify that the Statement of Accounts was approved by the Pension Fund Committee.

Chair of Pension Fund Committee

Pension Fund Account

	Note	2014/15			2013/14
		£'000	£'000	£'000	£'000
Contributions and Benefits					
Contributions Receivable	4	**54,489**		52,207	
Transfer in	5	**1,391**		2,591	
Other income		**12**		24	
			55,892		54,822
Benefits Payable Account	6	**46,385**		44,874	
Payments to and on behalf of Leavers	7	**2,593**		3,818	
Administrative Expenses	8	**1,889**		1,088	
			50,867		49,780
Net additions from dealings with members			**5,025**		5,042
Return on investments					
Investment income	9	**29**		58	
Change in market value of investments	10	**92,163**		27,963	
Investment management expenses	12	**(2,625)**		(1,620)	
Net returns on investments			**89,567**		26,402
Net increase in the fund during the year			**94,592**		31,444

Net Assets of the Scheme	2014/15	2013/14
	£'000	£'000
At 1 April	**829,782**	798,337
At 31 March	**924,374**	829,782

Net Assets Statement	Note	2014/15	2013/14
		£'000	£'000
Investment assets	10	**911,724**	819,561
Current assets	13	**18,397**	12,990
Current liabilities	14	**(5,748)**	(2,769)
		924,374	829,782

Notes to the Pension Fund Accounts for the year ended 31 March 2015

1. Introduction

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

The day to day administration of the fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer and Director of Finance of the Council.

Further details of the management, operation and investment objectives of the fund are provided in the Fund's Annual Report for 2014/15, the Actuary's report (contained in Appendix 2 to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the underlying statutory powers underpinning the scheme.

General

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

The Fund is financed by contributions from members, employees and the interest and dividends from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

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

Membership

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

Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation; these include organisations undertaking a local authority function following the outsourcing of that service:

BEAT (Barnet
Education Arts Trust)
Birkins - St James Sch
Blue 9 Security Ltd
Capita CSG
Capita RE
Fremantle Trust (2)
Greenwich Leisure
Housing 21 (2)
Mears Group
NSL Ltd
OCS Group UK Ltd
Viridian Housing
Ridge Crest Cleaning
Hartwig

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

Barnet Voluntary Service Council
Enterprise Cleaning
Barnet MENCAP
KGB Cleaning Services Ltd

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

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

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

The number of employees contributing to the fund increased during the year from 7,802 to 7,880 at 31 March 2015*. During the same period the number of pensioners increased from 6,772 to 7,292 and the number of deferred pensioners increased from 8,427 to 8,736.

*The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2015; including the comparative figures. An analysis of membership movement in the year is provided in note 20 of these accounts.
A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

2. Accounting Policies

Accounting Standards

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

Basis of Preparation

Accruals Concept

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

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 17 and these financial statements should be read in conjunction with them.

Financial Assets

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

a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2015.
b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2015.
c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2015.
d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

Sale and Purchase of Investments

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

Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund managers analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments. The fund does not participate in stock lending arrangements.

Administration Expenses

Administration expenses include the recharge from the London Borough of Barnet for administration, and processing which includes the cost of pension administration provided by Capita Employee Benefits and financial administration from Capita Customer Support Group.

Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Contribution Income

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

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

Investment Income

i. Interest Income: Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination. Income includes the amount of any amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis
ii. Dividend Income: Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
iii. Distribution from pooled funds: Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
iv. Movement in the net market value of investments: Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

Cash and cash equivalents accounting policy

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Related party disclosure

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

Taxation

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

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

Investment Management Expenses

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

3. Assumptions made about the future and other major sources of uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However as balances cannot be determined with certainty, actual result could be materially different as follows:

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are protected to increase changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund managers with expert advice about the assumptions to be applied. (See Note 16).

4. Contributions Receivable

	2014/15	2013/14
Employers	**£'000**	£'000
Council	**23,274**	22,759
Scheduled bodies	**17,792**	16,493
Admitted bodies	**3,009**	2,930
	44,075	42,182
Members		
Council	**4,799**	5,110
Scheduled bodies	**4,293**	3,988
Admitted bodies	**1,322**	927

	10,414	10,025
Total Contributions	**54,489**	52,207

5. Transfers In

	2014/15 £'000	2013/14 £'000
Individual transfers in from other schemes	**1,391**	2,591

6. Benefits Payable

	2014/15 £'000	2013/14 £'000
Pensions	**40,016**	38,106
Commutations and lump sum payments	**5,577**	5,783
Lump sum death benefits	**792**	985
	46,385	44,874

7. Payments to and on Account of Leavers

	2014/15 £'000	2013/14 £'000
Refunds to members leaving service	**56**	8
Individual transfers to other schemes	**2,537**	3,810
	2,593	3,818

8. Administrative Expenses

	2014/15	2013/14
Administration and processing	**917**	957
Actuarial fees	**51**	100
Audit Fees	**21**	31
Provision for Bad Debt	**900**	-
	1,889	1,088

9. Investment Income

	2014/15 £'000	2013/14 £'000
Interest on cash deposits	**29**	25
Other income	**0**	33
Total investment income	**29**	58

10. Investments

2014/15	Value at 1/4/2014 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Unrealised loss (gain) £'000	Change in Market Value £'000	Value at 31/3/2015 £'000
Pooled investment vehicles	**818,587**	**5,640**	**(5,742)**	**(84)**	**92,163**	**910,564**
	818,587	**5,640**	**(5,742)**	**(84)**	**92,163**	**910,564**
Cash Deposits	**974**					**1,160**
	819,561					**911,724**

2013/14	Value at 1/4/2013 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Unrealised loss (gain) £'000	Change in Market Value £'000	Value at 31/3/2014 £'000
Pooled investment vehicles	**790,106**	**6,887**	**(6,300)**	**(68)**	**27,963**	**818,587**
	790,106	**6,887**	**(6,300)**	**(68)**	**27,963**	**818,587**
Cash Deposits	**1,492**					**974**
	791,598					**819,561**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year as any income attributed to the unitised funds are reinvested and accounted for as a change in market value as opposed to income.

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

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund's investment managers at year end including cash deposits totalled £911.724 million. This was split as follows:

Investment Portfolio	2014/15 £'000	%
Schroder Investment Management	**416,520**	**45.7**

Newton Investment Management	**423,456**	**46.4**
Legal & General	**71,748**	**7.9**
	911,724	**100.0**

Major Investment

The fund investments are all held in pooled funds.

	2014/15	2013/14
Pooled investment Vehicles	**£'000**	£'000
UK Managed funds	**838,816**	757,747
UK Unit Trusts	**71,748**	60,840
	910,564	818,587
Cash Deposits		
Sterling	**1,160**	974
	911,724	819,561

The following investments represent more than 5% of the net assets of the scheme:

£'000	2013/14 as % of investment assets		**£'000**	**2014/15 as % of investment assets**
257,787	31.45	Newton Real Return Fund	**275,693**	**30.24**
120,499	14.7	Newton Long Corporate Bond Fund	**139,977**	**15.35**
256,539	31.3	Schroder Life Diversified Growth Fund	**283,658**	**31.11**
118,081	14.41	Schroder All Maturities Corporate Bond Fund	**132,131**	**14.49**
43,305	5.28	Legal and General Index Linked Tracker Fund	**51,958**	**5.70**
796,211	97.14		**883,417**	**96.89**

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

	Long Corporate Bond	**Long Gilt**	**Index-Linked Gilt**	**Global Dynamic Bond**	**Real Return**
Newton as at 31 March 2015					
EQUITIES					
UK	-	-	-	-	11.76
North America	-	-	-	-	15.79
Europe ex UK	-	-	-	-	19.23
Japan	-	-	-	-	3.51
Asia ex Japan	-	-	-	0.11	2.49
Other	-	-	-	-	1.92
Total Equities	0	0	0	0.11	54.7
FIXED INTEREST					
UK Gilts	-	91.03	0.39	1.66	9.74
UK Index Linked Gilts	-	0.42	89.85	3.38	-

UK Corporate Bonds	60.18	1.76	3.17	19.21	1.89
Overseas Government Bonds	-	2.94	5.58	24.99	15.49
Overseas Corporate Bonds	38.10	0.61	-	47.79	4.98
Overseas Index Linked Corporate Bonds	-	-	-	1.97	0.44
Total Fixed Interest	98.28	96.76	98.99	99.00	32.54
OTHER ASSETS					
Ishares	-	-	-	2.01	-
Commodities	-	-	-	-	4.59
Derivatives	-	-	-	(12.22)	(14.96)
Total Other assets	-	-	-	(10.21)	(10.37
Cash	1.72	3.24	1.01	11.1	23.13
Total Assets	100	100	100	100	100

Schroder as at 31 March 2015

	Diversified Growth Fund	Schroder All Maturities Corporate Bond
Equities		
Schroder QEP Global Dynamic Blend Portfolio	19.10	
Shareholder Focus Basket	4.30	
Passive Equities	35.00	
	58.40	
Commodities		
Schroder ISF Global Energy	0.60	
	0.60	
High Yield Debt		
Schroder High Yield Portfolio	3.10	
	3.10	
Emerging Market Bonds		
Stone Harbor Emerging Debt Fund	0.10	
	0.10	
Property		
Schroder UK Property Fund	3.30	
Absolute Return		
Schroder ISF Emerging Market Debt	5.80	

Schroder GAIA Sirios US Equity	2.20	
Bespoke Hedge Fund Portfolio	0.80	
Diversified Trend Strategy	2.90	
Gam Star Global Rates	1.00	
Henderson UK Absolute Return Fund	1.00	
Brevan Howard Macro	0.80	
	14.50	
Infrastructure		
John Laing Infrastructure Limited	1.40	
International Public Partnerships Ltd	1.10	
HICL Infrastructure Company Limited	0.70	
Bilfinger Berger Global infrastructure	0.50	
	3.70	
Other Assets		
Private Equity	0.70	
Asset Backed Securities Portfolio	2.90	
RWC Global Convertibles Fund	1.90	
Oaktree Global Convertibles Fund	1.10	
Insurance-Linked Securities	3.00	
Cash	3.60	
Securitised		25.10
Government Related	3.10	10.05
Corporate		58.21
Cash		6.64
Total	100.00	100.00

11. AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC).

Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

2014/15 **AVC Investments**	**2013/14 b/f £'000**	**Contributions £'000**	**Income £'000**	**Expenditure £'000**	**2014/15 c/f £'000**
Aviva /Norwich Union (amended)	**551**	**11**	**20**	**-**	**582**
Prudential					
With Profits	**559**	**74**	**28**	**(80)**	**581**
Deposit	**390**	**83**	**2**	**(56)**	**419**
Unit Linked	**763**	**141**	**123**	**(58)**	**968**
Total Prudential AVCs	**1,712**	**298**	**153**	**(194)**	**1,968**
Total AVC's	**2,429**	**296**	**74**	**(144)**	**2,655**

2013/14 AVC Investments	2012/13 £'000	Contributions £'000	Income £'000	Expenditure £'000	2013/14 £'000
Aviva /Norwich Union (amended)	651	14	18		687
Prudential					
With Profits	532	79	25	(77)	559
Deposit	325	82	2	(19)	390
Unit Linked	665	120	26	(48)	763
Total Prudential AVCs	1,522	281	53	(144)	1,712
Total AVC's	2,203	295	71	(144)	2,399

The Additional Voluntary contributions in respect of 2014/15 and 2013-14 are revised to reflect updated termination figures.

12. Investment Management Expenses

	2014/15 £'000	2013/14 £'000

Administration, management and custody	**2,573**	**1,547**
Performance Measurement Services	**11**	**8**
Investment advisor fees	**41**	**65**
	2,625	**1,620**

13. Current Assets

	2014/15 £'000	2013/14 £'000
Contributions due from employers in respect of		
Employer Strain contributions	**5,808**	1,292
Employer contributions	**3,121**	354
Member contributions	**1,000**	
Sundry Debtors	**1,210**	2,180
Cash Balance	**8,159**	9,164
Bad Debt Provision	**(900)**	-
	18,398	12,990

14. Current Liabilities

	2014/15 £'000	2013/14 £'000
Unpaid Benefits	**65**	369
Accrued Expenses	**5,683**	2,400
	5,748	2,769

15. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in July 2014 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at:

http://barnet.moderngov.co.uk/documents/s16640/Appendix%20A%20Statement%20of%20Investment%20Principles%20July%202014.pdf

16. Related Party Transactions

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

	2014/15 £'000	2013/14 £'000
Human Resources	**717**	580
Accountancy Administration	**173**	342
Oversight and Governance	**11**	10
	901	932

The recharge from the London Borough of Barnet for administration, and processing includes the cost of pension administration provided by Capita Employee Benefits and financial administration and financial accounting from Capita Customer Support Group. Included in creditors is a liability for an intercompany bank transfer for £2.1 million (owed to the Council) at the end of the financial year.

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)–(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

17. Actuarial Valuation

Barnett Waddingham LLP undertook the last formal triennial actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives.
The funding level at 31 March 2013 was 79%. The common contribution rate is 24% of pensionable pay, This is the average required employer contribution to restore the funding position to 100% over the next 15 years.
The actuarial method used by the Actuary is known as the "projected unit credit method".
The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

Assumption	Rate
Future pension increases	2.8%
Future salary increases	4.6%
Price inflation	3.5%
Risk adjusted discount rate	6.1%

The 2013 actuarial valuation actuarially assessed the value of the Fund's assets as, being sufficient to meet 79% of the Fund's liabilities. This corresponded to a deficit of £211 million. The latest valuation as at 31st March 2015 as per the requirements of IAS26 is attached. The figures below relate to the IAS 26 valuation as at 31st March 2015, and are given for comparison;

Assumption	Rate
Assumed retail price inflation (RPI)	3.1%
Assumed customer price inflation (CPI)	2.3%
Salary increases	4.1%
Pension increases	2.3%
Discount rate	3.2%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 18 March 2014. The next actuarial valuation will be based on the value of the fund as at 31 March 2016.
The common rate of employer contribution set by the actuary was

18. Classification of Financial Assets

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

31 March 2015	Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Pooled Investments	910,564	-	-
Pooled Property		-	-
Cash Deposits	-	**8,159**	-
Investment income due	-	-	-
Debtors	-	**10,239**	**-**
Financial Liabilities			
Creditors	-	-	(**5,748**)
	910,564	**18,398**	**(5,748)**

31 March 2014	Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Financial Assets			
Pooled Investments			
Pooled Property	818,517	-	-
Cash Deposits		10,138	-
Investment income due	-	**-**	-
Debtors	-	2,180	-
Financial Liabilities			
Creditors	-	-	(2,349)
	818,517	12,318	(2,349)

19. Nature and Extent of Risks Arising from Financial Instruments

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

Overall procedures for managing risk

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

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

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

Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund.
The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2015 working capital was held in the Pension Fund Bank account with Natwest bank and, in a call account with the Bank of Scotland, in accordance with the Council's Treasury management strategy credit rating criteria. Pension Administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

	Long Term Credit Rating	Source	**Holding 31/3/2015 £'000**	Holding 31/3/2014 £'000
Schroder Group	A-1	Moodys		
JP Morgan (Schroder Custodian)	A-1	Standard and Poors	**415,520**	375,269
Newton –Bank of New York Mellon (Newton Custodian)	A-1	Standard and Poors	**423,456**	383,452
Bank of Scotland	A1	Moodys	**4,508**	8,779
Co operative Bank	BBB+	Fitch		155
Natwest Bank	BBB+	Fitch	**212**	
Royal Bank of Scotland CEB	BBB+	Fitch	**3,367**	

Liquidity Risk

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

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

Market risk

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

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

Details of these can be found in the Pension fund's Statement of Investment Principles.

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

2014/15

Asset Type	Market Value 31.3.2015 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Pooled Investments	**910,564**	**10.0**	**1,001,620**	**819,508**
Cash Deposits	**8,159**	**1.0**	**8,975**	**8,077**

2013/14

Asset Type	Market Value 31.3.2014 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Pooled Investments	818,587	10.0	900,445	736,728
Cash Deposits	9,164	1.0	10,239	10,037

Exchange rate risk

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

Refinancing risk

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

20. Membership of the Pension Fund

		2014/15
Employees		
Number of Employees at 31/03/2014		7,802
Employees joining during the year		581
		8,383
Members leaving during the year:		
Normal retirements	124	
Ill-health retirements	0	
Deaths in service	0	
Refunds of Contributions	7	
Deferred pensions	372	(503)
Number of Employees at end of year		**7,880**

Pensioners		
Number of Pensioners at start of year		6,727
New pensioners during the year:		
Normal retirements (508 Enhanced Teachers not included in previous data)	632	
Ill-health retirements	3	
Dependants' pensions	32	
Deferred pensions becoming payable	112	779
		7,506
Deaths/dependants ceasing to be eligible		(214)
Number of Pensioners at end of year		**7,292**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		8,427
New Deferred Pensioners at start of year		372
Backdated Deferred Pensioners		134
		8,933
Deferred Pensioners leaving the fund during the year		
Normal retirements	112	
Ill-health retirements	3	
Transferred out	76	
Back to active status	0	
Deaths	6	(197)
Number of Deferred Pensioners at end of year		**8,736**
Total Membership at 31 March 2015		**23,908**

21. Events after the Balance Sheet date

Since the Balance Sheet date of 31 March 2015, there have been no post balance sheet events to report. The only non-adjusting event that is reported is the latest market value of the total externally managed investments of the Fund which moved slightly from £911.724 million to £911.334 as at 31 May 2015.

London Borough of Barnet Pension Fund

Pension accounting disclosure as at 31 March 2015
Prepared in accordance with IAS26

Barnett Waddingham
Public Sector Consulting

13 May 2015

Contents

Introduction

We have been instructed by the London Borough of Barnet, the administering authority to the London Borough of Barnet Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2015.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

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

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

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014, with various protections in place for those members in the scheme before the changes took effect.

Valuation data

Data sources

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

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2015;
- • Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2013, 31 March 2014 and 31 March 2015, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2015; and
- Details of any new early retirements for the period to 31 March 2015 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2013.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	6,702	141,943	47
Deferred pensioners	8,992	14,264	46
Pensioners	6,738	33,831	71

Assets

The return on the Fund (on a bid value to b id value basis) for the year to 31 March 2015 is estimated to be 11%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2015 is as follows:

Employer asset share - bid value	31 Mar 2015		31 Mar 2014	
	£000s	%	£000s	%
Equities	613,735	67%	563,734	68%
Gilts	n/a	n/a	0	
Other bonds	296,829	32%	256,996	31%
Cash	9,339	1%	8,290	1%
Total	**919,903**	**100%**	**829,020**	**100%**

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2015 is likely to be different from that shown due to estimation techniques.

Unfunded benefits

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

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2015, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2015	31 Mar 2014
Retiring today			
	Males	22.1	22.0
	Females	24.4	24.3
Retiring in 20 years			
	Males	24.2	24.1
	Females	26.8	26.7

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- 10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in Section 0 and the Appendices are as follows:

Assumptions as at	31 Mar 2015		31 Mar 2014	
	% p.a.	Real	% p.a.	Real
RPI increases	3.1%	-	3.5%	-
CPI increases	2.3%	-0.8%	2.7%	-0.8%
Salary increases	4.1%	1.0%	4.5%	1.0%
Pension increases	2.3%	-0.8%	2.7%	-0.8%
Discount rate	3.2%	0.1%	4.4%	0.9%

These assumptions are set with reference to market conditions at 31 March 2015.

Our estimate of the duration of the Fund's liabilities is 17 years.

The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 17 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.1% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 2.3% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salaries are then assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

Results and disclosures

We estimate that the net liability as at 31 March 2015 is a liability of £681,268,000.

The results of our calculations for the year ended 31 March 2015 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2015; and
- Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

M.W. Stephenson.

Melanie Stephenson FIA
Actuary

Appendix 1 Statement of financial position as at 31 March 2015

Net pension asset as at	31 Mar 2015 £000s	31 Mar 2014 £000s	31 Mar 2013 £000s
Present value of the defined benefit obligation	1,601,171	1,344,574	1,305,450
Fair value of Fund assets (bid value)	919,903	829,020	801,693
Net liability in balance sheet	**681,268**	**515,554**	**503,757**

*Present value of funded obligation consists of £1,443,919,000 in respect of vested obligation and £157,252,000 in respect of non-vested obligation.

Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2015

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2015 £000s	Year to 31 Mar 2014 £000s
Opening defined benefit obligation	**1,344,574**	**1,305,450**
Current service cost	38,080	40,544
Interest cost	58,234	59,331
Change in financial assumptions	202,906	49,856
Change in demographic assumptions	-	(21,008)
Experience loss/(gain) on defined benefit obligation	-	(56,965)
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(53,763)	(44,332)
Past service costs, including curtailments	-	1,671
Contributions by Scheme participants	11,140	10,027
Unfunded pension payments	-	-
Closing defined benefit obligation	**1,601,171**	**1,344,574**

AGENDA ITEM 12

Pension Fund Committee

21 July 2015

Title	**Pension Fund Committee Work Programme**
Report of	Chief Operating Officer
Wards	Not Applicable
Status	Public
Enclosures	Committee Work Programme July 2015-May 2016
Officer Contact Details	Faith Mwende: faith.mwende@barnet.gov.uk 020 8359 4917

Summary

The Committee is requested to consider and comment on the items included in the 2015-16 work programme

Recommendations

1. **That the Committee consider and comment on the items included in the 2015-16 work programme**

1. WHY THIS REPORT IS NEEDED

1.1 The Pension Fund Committee Work Programme 2015-16 indicates forthcoming items of business.

1.2 The work programme of this Committee is intended to be a responsive tool, which will be updated on a rolling basis following each meeting, for the inclusion of areas which may arise through the course of the year.

1.3 The Committee is empowered to agree its priorities and determine its own schedule of work within the programme.

2. REASONS FOR RECOMMENDATIONS

2.1 There are no specific recommendations in the report. The Committee is empowered to agree its priorities and determine its own schedule of work within the programme.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 N/A

4. POST DECISION IMPLEMENTATION

4.1 Any alterations made by the Committee to its Work Programme will be published on the Council's website.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The Committee Work Programme is in accordance with the Council's strategic objectives and priorities as stated in the Corporate Plan 2015-20.

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

5.2.1 None in the context of this report.

5.3 Legal and Constitutional References

5.3.1 The Terms of Reference of the Pension Fund Committee is included in the Constitution, Responsibility for Functions, Annex A.

5.4 Risk Management

5.4.1 None in the context of this report.

5.5 Equalities and Diversity

5.5.1 None in the context of this report.

5.6 **Consultation and Engagement**

5.6.1 None in the context of this report.

6. BACKGROUND PAPERS

6.1 None.

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BARNET
LONDON BOROUGH

Pensions Fund Committee Work Programme
June 2015 - May 2016

Contact: Faith Mwende; 020 8359 4917 Email: faith.mwende@barnet.gov.uk

Subject	Decision requested	Report Of	Contributing Officer(s)
21 July 2015			
Barnet Council Pension Fund Performance for Quarter January to March 2015	To consider the performance of the Pension Fund for the quarter to March 2015.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Update on Admitted Bodies Organisations	To note the update to the issues in respect of admitted body organisations within the Pension Fund.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Karen Scott
Pension Fund Annual Report and External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2014/15	To consider the detailed Audit Review of the approval of Pension Fund Account and Annual Report 2014/15.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Local Pension Board Report	To approve the annual budget for the Local Pension Board.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Review of the investment strategy and work Plan	To receive the Review of the current investment strategy and work Plan from the Investment Managers.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
22 October 2015			
Statement of Investment principles	Review the statement of Investment Principles	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar

Subject	Decision requested	Report Of	Contributing Officer(s)
Knowledge and Understanding Policy and Training Plan	To approve the Knowledge and Understanding Policy and Training Plan.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Actuarial Review Final Report and Funding Strategy Statement	To review that funding strategy statement	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Barnet Council Pension Fund Performance for Quarter April to June 2015	To consider the performance of the Pension Fund for the quarter to June 2015.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Update on admitted body organisations issues and monitoring report	To note the update to the issues in respect of admitted body organisations within the Pension Fund	Chief Operating Officer (Director of Finance / Section 151 Officer)	Karen Scott
Update on Collective Investment Vehicle	For information / investment management decisions	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Review of the investment strategy	To receive the Review of the current investment strategy	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Local Pension Board Report	To receive the report on the work of the Local Pension Board.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Andrew Charlwood
20 January 2016			

Subject	Decision requested	Report Of	Contributing Officer(s)
Barnet Council Pension Fund Performance for July to September 2015	To consider the performance of the Pension Fund for the quarter to September 2015.	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Update on admitted body organisations issues and monitoring report	To note the update to the issues in respect of admitted body organisations within the Pension Fund	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Update on Collective Investment Vehicle	For information / investment management decisions	Chief Operating Officer (Director of Finance / Section 151 Officer)	Karen Scott
Review of the investment strategy	Hymans Report	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
15 March 2016			
Barnet Council Pension Fund Performance for October to December 2015	To consider the performance of the Pension Fund for the quarter to December 2015	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Update on admitted body organisations issues and monitoring report	To note the update to the issues in respect of admitted body organisations within the Pension Fund	Chief Operating Officer (Director of Finance / Section 151 Officer)	Karen Scott
Update on Collective Investment Vehicle	For information / investment management decisions	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar

Subject	Decision requested	Report Of	Contributing Officer(s)
Review of the investment strategy	Hymans Report	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar
Local Pension Board Report	To receive the report on the work of the Local Pension Board	Chief Operating Officer (Director of Finance / Section 151 Officer)	Andrew Charlwood
External Auditor: Audit Approach Memorandum for the year ended 31 March 2016	To note detailed Audit Approach Memorandum report from the external auditors for the year ended 31 March 2016	Chief Operating Officer (Director of Finance / Section 151 Officer)	Iain Millar

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