| MEETING<br>PENSION FUND COMMITTEE |
| --- |
| **DATE AND TIME**<br>**TUESDAY 15TH MARCH, 2016**<br>**AT 7.00 PM** |
| **VENUE**<br>**HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX** |

**TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)**

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

| | | |
| --- | --- | --- |
| John Marshall | Jim Tierney | Hugh Rayner |
| Andreas Ioannidis | Peter Zinkin | Arjun Mittra |

**Substitute Members**

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

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10am on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is Thursday 10 March at 10am. Requests must be submitted to Paul Frost (020 8359 2205, paul.frost@barnet.gov.uk).

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

**Andrew Charlwood – Head of Governance**

Governance Service contact: Paul Frost 020 8359 2205
Media Relations contact: Sue Cocker 020 8359 7039

**ASSURANCE GROUP**

## ORDER OF BUSINESS


| Item No | Title of Report | Pages |
|---|---|---|
| 1. | Minutes | 1 - 4 |
| 2. | Absence of Members | |
| 3. | Disclosable Pecuniary interests and Non Pecuniary interests | |
| 4. | Public Question and Comments (if any) | |
| 5. | Report of the Monitoring Officer (if any) | |
| 6. | Members' Items (if any) | |
| 7. | Barnet Council Pension Fund Performance for Quarter October to December 2015 | 5 - 28 |
| 8. | Pension Fund External Audit Plan for the year ended 31 March 2016 | 29 - 52 |
| 9. | Update Report London Collective Investment Vehicle | 53 - 58 |
| 10. | Update on Admitted Body Organisations | 59 - 70 |
| 11. | Pension Fund Committee - Work Programme | 71 - 78 |
| 12. | Any item(s) that the Chairman decides is urgent | |
| 13. | Motion to Exclude the Press and Public | |
| 14. | Review of Pension Fund Investment Strategy (Exempt) | 79 - 90 |
| 15. | Any Other Exempt Item(s) that the Chairman Decides are Urgent | |


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|---|
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minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

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**Decisions of the Pension Fund Committee**

3 February 2016

Cabinet Members:-

AGENDA ITEM 1

Cllr Mark Shooter (Chairman)
Cllr John Marshall (Vice-Chairman)

* Andreas Ioannidis
* Jim Tierney
* Peter Zinkin
* Arjun Mittra
* Hugh Rayner

* denotes Member Present

**1. MINUTES (Agenda Item 1):**

The minutes of the meeting that took place on 22 October were signed as an accurate record.

**2. ABSENCE OF MEMBERS (Agenda Item 2):**

An apology of lateness was received from Councillor Jim Tierney.

**3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):**

| Member | Agenda Item | Interest declared |
|---|---|---|
| Councillor Arjun Mittra | All Items | Non Disclosable Pecuniary Interest by virtue of having shareholdings in a number of companies that the fund had investments in. |
| Councillor Mark Shooter | | Non Disclosable Pecuniary Interest by virtue of having shareholdings in a number of companies that the fund had investments in. |
| Councillor Hugh Rayner | | Non Disclosable Pecuniary Interest by virtue that he may having shareholdings in a number of companies that the fund had investments in. |
| Councillor Peter Zinkin | | Non Disclosable Pecuniary Interest by virtue of having shareholdings in a number of companies that the fund had investments in. |

**4. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):**

None.

**5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):**

None.

**6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):**

None received.

## 7. PENSION FUND PERFORMANCE FOR QUARTER JULY TO SEPTEMBER 2015 (Agenda Item 7):

The Pensions Fund Committee's independent Investment Advisor, Phil Spencer introduced the report and summarised the Pensions Fund Performance for Quarter between July to September 2015. The Committee noted the addendum to the report which contained appendix C which had been marked to follow. Having considered the item the committee:

That the Pension Fund Committee noted the report.

## 8. UPDATE ON ADMITTED BODIES ORGANISATIONS (Agenda Item 8):

Karen Scott introduced the report and therefore updated the Committee in respect to the admitted bodies participation in the Local Government scheme.

The Chairman noted that 2.5 of the report should read 'local government act 2003'. Having considered the item the committee:

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

- That the Pension Fund Committee approved the 5 new Admitted Bodies to the Fund as outlined in the Officers report.

## 9. PENSION FUND EXTERNAL AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2016 (Agenda Item 9):

The Head of Treasury, Iain Millar introduced the report. He outlined the key elements of the external auditor's proposed audit strategy and noted the contents of Appendix A.

Having considered the report the Pension Fund Committee:

That the Pension Fund Committee noted the audit strategy for the 2015/2016 external audit.

## 10. UPDATE ON INVESTMENT STRATEGY - TO FOLLOW (Agenda Item 10):

The Chairman noted that this report had been withdrawn from the agenda as it was not ready for the Committee's consideration. He requested and received support from Members of the Committee that a training day be established in order for Members to learn of the intentions of the investment strategy.

The Committee resolved that

- That the Pensions Fund Committee note the report be withdrawn from the agenda.
- That the investment Strategy be reported to the 15 March meeting.
- That a training day be arranged before the 15 March meeting.



2

**11. PENSION FUND COMMITTEE - WORK PROGRAMME (Agenda Item 11):**

The Committee noted that the next meeting is due to take place on 15 March 2016.

Resolved

That the work programme be noted.

**12. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 12):**

There were no urgent items.

The meeting finished at 19:30

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AGENDA ITEM 7

| | |
|---|---|
| | **Pension Fund Committee**<br><br>**15 March 2016** |
| **Title** | **Barnet Council Pension Fund Performance for Quarter October to December 2015** |
| **Report of** | Chief Operating Officer |
| **Wards** | n/a |
| **Status** | Public |
| **Urgent** | No |
| **Key** | No |
| **Enclosures** | Appendix A – Pension Fund Market Value of Investments as at 31 December 2015<br>Appendix B – Hymans Robinson Performance Report to 31 December 2015<br>Appendix C – WM Local Authority Universe Comparison to 31 December 2015 ( **to follow**) |
| **Officer Contact Details** | Iain Millar, Head of Treasury Services<br>0208 359 7126 |


## Summary

This report summarises Pension Fund investment manager performance for the October to December quarter 2015 based on the performance monitoring report provided by Hymans Robertson.


## Recommendations

1. **That having considered the performance of the Pension Fund for the quarter to 31 December 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 The terms of reference of the Pension Fund Committee require review and challenge of Fund Managers' quarterly investment performance against benchmarks and targets.

## 3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

## 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 On 22nd October 2015, Pension Fund Committee received an update report on progress report on the establishment of the London CIV. At that meeting Pension Fund Committee delegated authority to the Chief Operating Officer in consultation with the Chair of Pensions Committee to sign the CIV Articles of Association, the Shareholders Agreement and subsequent deeds of agreement and delegated authority to the Chief Operating Officer in consultation with the Chair of Pensions Committee to invest £150,000 required for regulatory capital to the London CIV to meet the requirements for Financial Conduct Authority (FCA) authorisation.

5.2.2 The Company (London CIV) was authorised by the FCA on 15th October 2015 and the Fund was authorised by the FCA on 13th November 2015 as an Alternative Investment Fund Manager (AIFM). This is the first in local government and the first to be authorised to be operate an Authorised Contractual Scheme Fund (ACS ). The ACS Fund will be structured as an umbrella fund with a range of sub-funds providing access over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

*5.2.3* The London CIV’s ambition *is to be, the investment vehicle of choice for Local Authority Pension Funds, through successful collaboration and delivery of compelling performance.*

5.2.4

5.2.2 The Pension Fund appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy in 2010. 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 On October 22 2015, (Item 11), Pension Fund Committee reviewed and revised the pension fund asset allocation and agreed to adopt an investment strategy based on 36% overseas equity, 21.5% diversified growth, 12% corporate bonds, 0.5% cash; 20% ‘multi asset credit; and 10% illiquid alternatives. Pension Fund Committee agreed to increase the move of the fund out of Corporate Bonds from 15% to 20% and that 10% of the proceeds of the Corporate Bonds be invested in the Schroder Strategic Bond Fund with the Investment Advisors to recommend additional fund managers for the Committee to select to invest the balance of 10%.

5.2.4 The total value of the pension fund’s investments including internally managed cash was £882.557 million as at 31 December 2016 compared to £872.014 million as at 30 September 2015, and £888.469 million as at 30 June 2015. The total market value of externally managed investments rose by £13 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2008. Following the equity rally in the quarter to December 2015, there has been significant market volatility and the total market value of the fund as at 31 January 2016 was £877.869 million.

5.2.5 Following the asset allocation rebalancing decision on 22 October 2015, £180 million has been transferred to Legal and General to end January 2016 (£90 million from Newton Investment Management Real Return and £90 million from Schroders Diversified Growth Fund). In addition £90 million has been transferred from Newton Corporate Bonds to the Schroder Strategic Bond Fund.

5.2.6. LGIM passive equity funds over the period, as well as to Bond fund. benefited from the equity rally over the quarter whilst the Schroder's ISF Strategic Bond posted a small negative return for the month of December. Both Newton Real Return and Schroder DGF outperformed their respective performance targets. The Fund's three corporate bond mandates all posted positive absolute returns but each lag their performance objectives over the longer term.

5.2.7 **Performance Summary**: Over the quarter at a total scheme level the Fund's externally managed investments returned 1.4% (net of fees) over the quarter, in line with the combined benchmark for the period and comfortably ahead of index-linked gilts by c. 4.3%.The attached performance report is the third monitoring report from Hymans Robertson.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 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.

5.4.2 Constitution- Under Part 15, Annex A Responsibility for Functions one of the terms of reference of the Pension Fund Committee is '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.'

5.5 **Risk Management**

5.5.1 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 Hymans Robertson, 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.

5.5.2 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.

5.6 **Equalities and Diversity**

5.6.1 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.

5.6.2 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.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

5.9 **BACKGROUND PAPERS**

5.10 None

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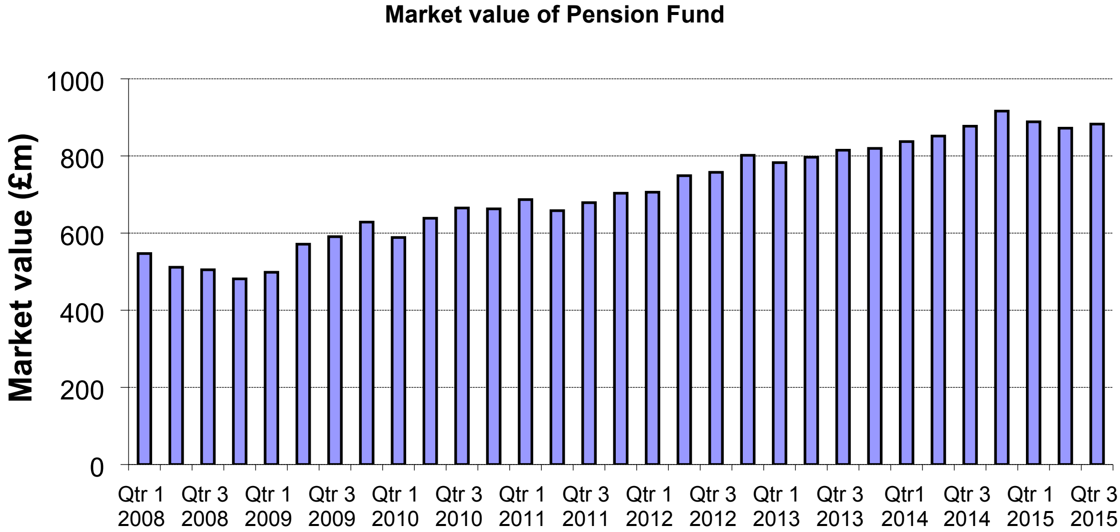
Appendix A – Pension Fund Market Value of Investments as at 31 December 2015.



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# London Borough of Barnet Pension Fund

## Review of Investment Managers' Performance for the Fourth Quarter of 2015

Prepared By:

Andrew Elliott - Senior Investment Consultant
Phil Spencer - Associate Investment Consultant

For and on behalf of Hymans Robertson LLP
February 2016

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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

# Executive Summary

## Market Summary

Following the correction in markets towards the tail-end of summer, the final quarter of 2015 saw global equity markets reverse course to finish the year in low positive territory. Market volatility continued to be high over the quarter, with concerns remaining around the longer-term growth prospects for China and what this could in turn mean for global demand. However, towards the end of the quarter, markets gave back some of the gains as the ECB's stimulus measures were less than anticipated and oil prices continued to free fall.

Global bond yields reacted to diverging central banks' policy decisions over the quarter. In the US, where the Fed took the decision at its December 2015 meeting to raise underlying US interest rates from 0.25% p.a. to 0.50% p.a. Credit spreads narrowed slightly over the quarter, resulting in marginally positive returns on corporate bonds and outperformance over conventional gilts on a duration-adjusted basis, which suffered from a slight rise in interest rates across the curve.

Commodity prices remained under pressure over the quarter, with further sharp falls in the price of oil towards the end of the year. Demand for oil continues to grow (albeit modestly on the back of lacklustre global economic growth), but a continued glut of supply saw the price of a barrel of US Brent Crude continuing to trend lower over October and November before bottoming out at around $30 USD/barrel in December after Iran announced that it planned to increase exports and current production levels following the anticipated removal of international sanctions in early 2016.

## Valuation and Performance Summary

Fund assets totalled c. £882m at the end of Q4 2015, an increase of c. £13m from the start of the quarter.

The Fund's assets returned 1.4% (net of fees) over the quarter, in line with the combined benchmark for the period and comfortably ahead of index-linked gilts by c. 4.3%.

The Fund's funding level, as estimated by Hymans Robertson's 3DAnalytics funding tool, increased over the quarter from 64.1% to 67.5%, measured on a gilts + 1.6% p.a. basis.

As part of the on-going move to the Fund's new long term investment strategy, new allocations were made to several LGIM passive equity funds over the period, as well as to Schroder's ISF Strategic Bond fund. The former benefitted from the equity rally over the quarter whilst the latter posted a small negative return for the month of December. Of the Fund's other growth mandates, both Newton Real Return and Schroder DGF outperformed their respective performance targets. The Fund's three corporate bond mandates all posted positive absolute returns but each lag their performance objectives over the longer term.

Over the 5 year period to 31 December 2015, the Fund has returned 4.8% p.a. underperforming the combined benchmark by 1.8% p.a. This is largely due to the Fund's absolute return mandates and their underperformance versus their ambitious outperformance targets which can be difficult to achieve during volatile market conditions.

## Manager Ratings Summary

| Manager | Fund Name | Rating | | | | |
|---|---|---|---|---|---|---|
| Legal & General | World ex UK Equity Index Fund | | | | | ● |
| Newton | Real Return Fund | | | | | ● |
| Schroder | Diversified Growth Fund | | | | ● | |
| Schroder | ISF Strategic Bond Fund | | | | ● | |
| Schroder | All Maturities Corporate Bond Fund | | | | ● | |
| Newton | Corporate Bond Fund | | | | ● | |
| Legal & General | Active Corporate Bond All Stocks Fund | | | | | ● |

## Actions and Recommendations

Over the quarter, the Fund started its transition to a new long term investment strategy which is to continue into 2016. Whilst this is ongoing we would not suggest any rebalancing is considered since the Fund's target asset allocation is naturally changing during this period.

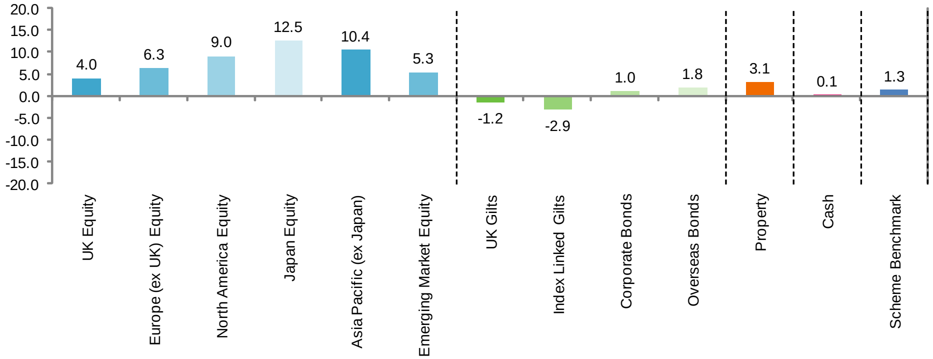
Once the Committee has completed moving the Fund to the new long term investment strategy, we would suggest a rebalancing process is formally agreed with appropriate rebalancing ranges for each of the Fund's asset classes.

All of the Fund's investment managers are currently rated either a '4 – Retain' or '5 – Preferred strategy'. There were no significant changes over the quarter to warrant any changes in rating. That said, the performance of the three active corporate bond mandates versus their long term performance targets is a little disappointing and we will therefore look to monitor this more closely over the next few quarters. Since the Fund's overall corporate bond allocation is being reduced, however, the impact of this on overall relative Fund performance will lessen.

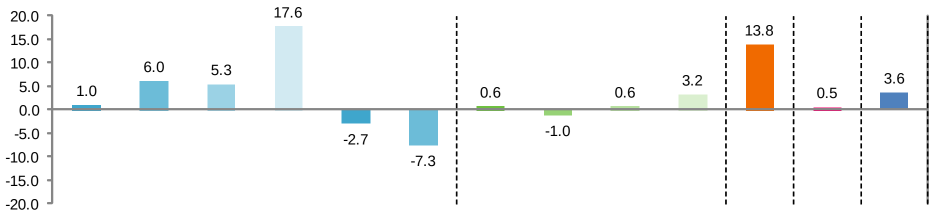
# Historic Returns for World Markets to 31/12/2015

## Historic Returns [1] [i]

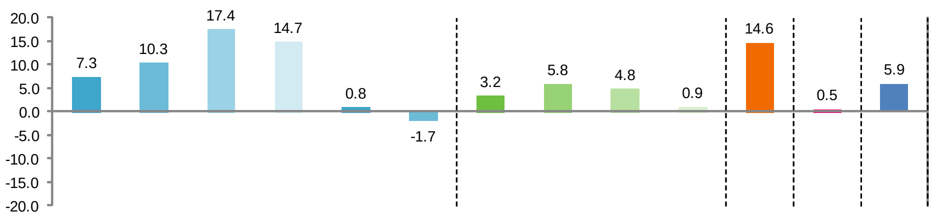
3 Months (%)




12 Months (%)




3 Years (% p.a.)




## Market Comment

Global equity markets rebounded strongly from the setback of Q3, with the FTSE All World index returning 8.1%. In the UK the FTSE All Share index rose by 4.0%; in the US, the S&P 500 index increased by 10.0%. The defensive qualities of government bonds were in less demand and they delivered negative returns over the period.

Economic news was varied. The US and China appeared to be slowing, while Japan and Eurozone showed signs of improvement. There was no relief for oil exporting countries as oil prices fell to their lowest level in seven years. Brent crude finished the year just above $35 per barrel, less than one-third of its mid-2014 highs.

There was growing divergence in the policies of major central banks. In response to stubbornly low inflation, the European Central Bank extended its monthly €60bn quantitative easing programme by six months and cut its overnight deposit rate from -0.2% p.a. to -0.3% p.a. Many had expected more drastic measures. After almost a decade of no change, the Federal Reserve raised US interest rates from 0.25% p.a. to 0.50% p.a. Continuing labour market strength had made this all but inevitable and market reaction was muted. In the UK, the Bank of England hinted that a rise in UK interest rates was unlikely until much later this year.

Key events during the quarter included:

**Global Economy**
- December's rise in US interest rates was the first for nearly 10 years.
- In November's Inflation Report, the Bank of England indicated that UK interest rates were unlikely to rise until late 2016.
- Oil prices fell to their lowest levels in seven years, finishing the year just above $35 per barrel.
- Slowdown in the Chinese economy continued with GDP growth falling below 7% for the first time since 2009.
- Cyclical commodities such as industrial metals and energy have particularly suffered from China's slowdown.

**Equities**
- The strongest sectors relative to the FTSE All World Index were Technology (+3.2%) and Health Care (+2.0%); the weakest were Oil & Gas (-2.0%) and Utilities (-3.9%).
- Japan was the strongest performer during the quarter; while Emerging Markets were again the weakest.

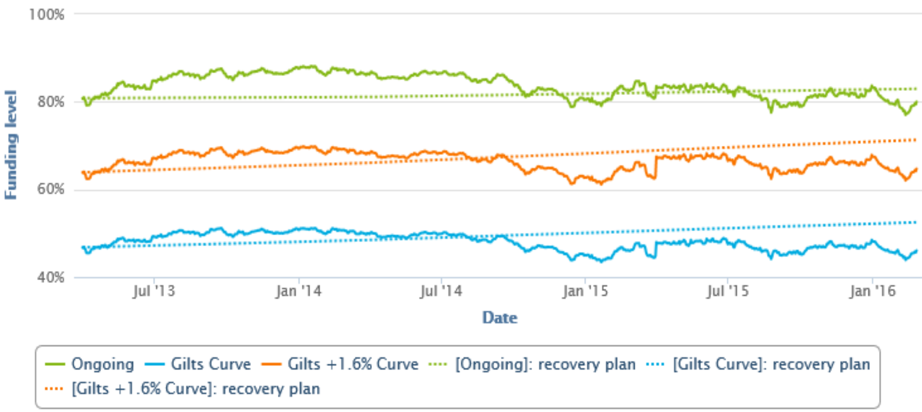
**Bonds and currencies**
- Sterling was broadly flat against the Euro but weakened against the Dollar and Yen.
- UK gilts fell (yields rose) as equity markets rallied and investors switched to higher risk assets.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

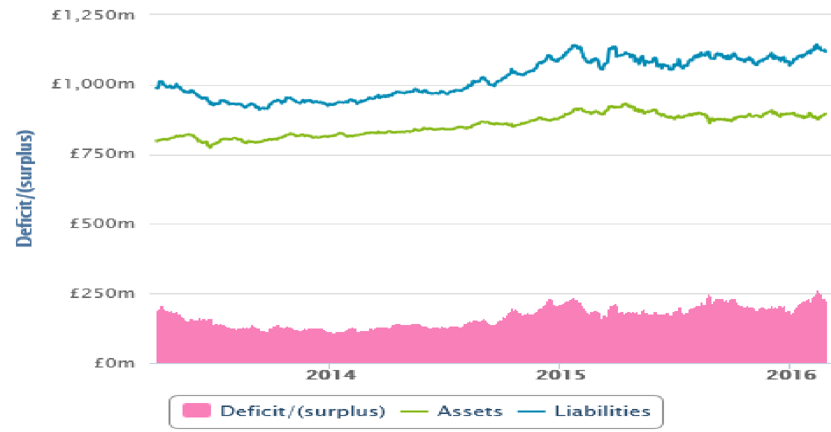
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

# Funding update

## Progression of funding level (on different bases)




## Funding position (gilts + 1.6% p.a. basis)




## Comments

We have estimated the progression of the Fund's funding position (on different bases) since the last actuarial valuation at 31 March 2013. The analysis is based on the 2013 actuarial valuation report and subsequent funding updates provided by the Fund actuary. The liabilities have been "rolled forward" allowing for changes in gilt yields over time.

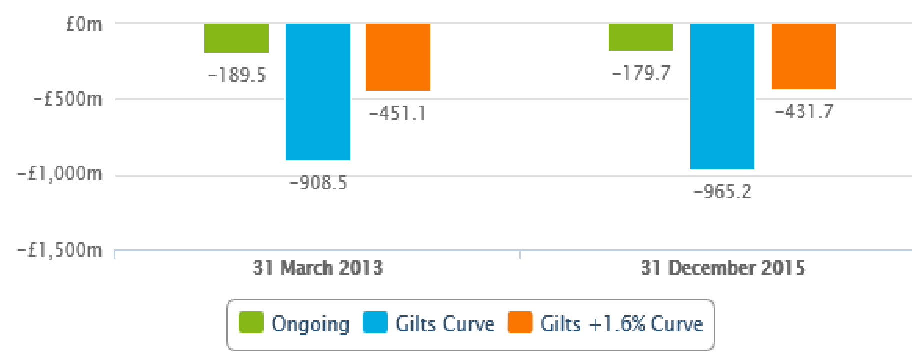
We estimate that since 31 March 2013 the Fund's funding level (on a gilts + 1.6% p.a. basis) has increased from c. 64% to c. 68% as at 31 December 2015.

As at 31 December 2015, we estimate that the Fund's deficit on a gilts + 1.6% p.a. basis is around £432m, a decrease of c. £19m since 31 March 2013.

Since the end of 2015, we estimate the Fund's funding level (on a gilts + 1.6% p.a. basis) has fallen to c. 65% as at 25 February 2016.

Please note that the Fund's funding position estimated here will differ from that calculated by the Fund Actuary, Barnett Waddingham. This is due primarily to the roll forward of the Fund's liabilities and also due to differences in our assumptions used to calculate the funding level.

## Surplus / deficit (on different bases)

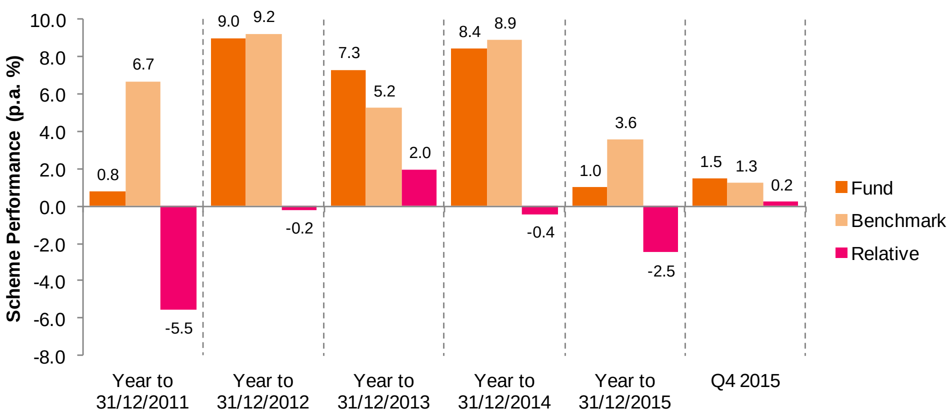


# Fund Summary

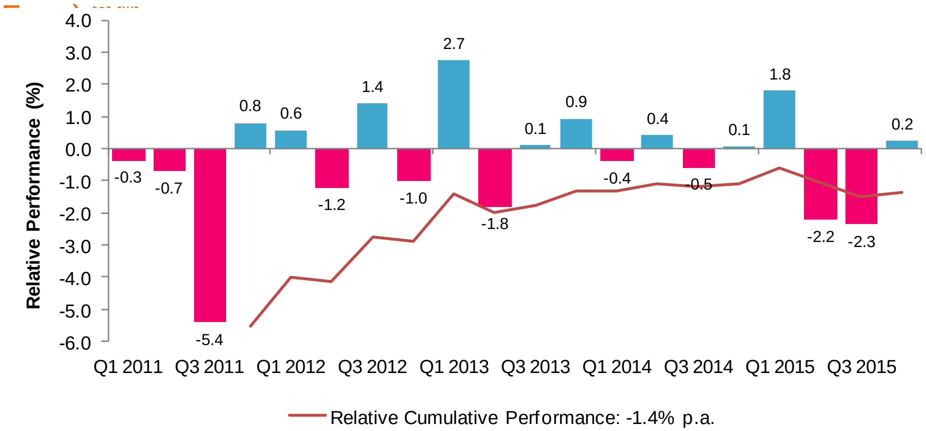
## Valuation Summary [1] [i]

| | Values (£m) | | | | |
|---|---|---|---|---|---|
| Asset Class | Q3 2015 | Q4 2015 | Actual Proportion % | Target Proportion % | Difference % |
| Global Equity | 46.6 | 150.6 | 17.1 | 17.0 | 0.1 |
| Absolute Return Funds | 532.9 | 440.5 | 49.9 | 51.0 | -1.1 |
| Multi-Credit | 0.0 | 60.0 | 6.8 | 7.0 | -0.2 |
| Corporate Bonds | 289.6 | 230.9 | 26.2 | 25.0 | 1.2 |
| **Total Client** | **869.1** | **882.0** | **100.0** | **100.0** | |

## Performance Summary [2] [ii]




## Relative Quarterly and Relative Cumulative Performance (Gross of




[1] Excludes operating cash held in Fund bank account., [2] Gross of fees, [3] Gross of fees

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Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

# Manager Summary

## Manager Summary

| Manager | Investment Style | Benchmark Description | Annual Fee (bps) | Rating * | | | | |
|---|---|---|---|---|---|---|---|---|
| LGIM Global Equity | Passive | FTSE World Net Tax (UKPN) | 15 | | | | | ● |
| Newton Real Return Fund | Active | 1 month £ LIBOR + 4% p.a. | 59 | | | | | ● |
| Schroder Life Diversified Growth Fund | Active | RPI + 5% p.a. | 60 | | | | ● | |
| LGIM Active Corporate Bond All Stocks Fund | Active | Markit iBoxx GBP Non-Gilts (All Stocks) | 20 | | | | | ● |
| Newton Corporate Bond Fund | Active | Merrill Lynch Sterling (Over 10 years) Investment Grade Index | 10 | | | | ● | |
| Schroder All Maturities Corporate Bond Fund | Active | Merrill Lynch Sterling Non-Gilts All Stocks Index | 18 | | | | ● | |
| Schroder ISF Strategic Bond Fund | Active | 3 month £ LIBOR + 2% p.a. | 52 | | | | ● | |

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

## Manager Valuations [1] [i]

| Manager | Value (£m) Q3 2015 | Net Investment | Q4 2015 | Actual Proportion % | Target Proportion % | Difference % |
|---|---|---|---|---|---|---|
| LGIM Global Equity | 46.6 | +100.0 | 150.6 | 17.1 | 17.0 | 0.1 |
| Newton Real Return Fund | 265.3 | -50.0 | 216.9 | 24.6 | 25.0 | -0.4 |
| Schroder Life Diversified Growth Fund | 267.6 | -50.0 | 223.5 | 25.3 | 26.0 | -0.7 |
| LGIM Active Corporate Bond All Stocks Fund | 19.3 | - | 19.4 | 2.2 | 2.0 | 0.2 |
| Newton Corporate Bond Fund | 142.1 | -60.0 | 82.5 | 9.4 | 8.0 | 1.4 |
| Schroder All Maturities Corporate Bond Fund | 128.1 | - | 129.0 | 14.6 | 15.0 | -0.4 |
| Schroder ISF Strategic Bond Fund | 0.0 | +60.0 | 60.0 | 6.8 | 7.0 | -0.2 |
| **Total** | **869.1** | **-** | **882.0** | **100.0** | **100.0** | 0.0 |

[1] Excludes operating cash held in Fund bank account

Source: [i] Fund Manager, Hymans Robertson

# Performance Summary (Net of Fees)

## Performance Summary [i]

| | | LGIM Global Equity | Newton Real Return Fund | Schroder Life Diversified Growth Fund | LGIM Active Corporate Bond All Stocks Fund | Newton Corporate Bond Fund | Schroder All Maturities Corporate Bond Fund | Schroder ISF Strategic Bond Fund | Total Fund |
|---|---|---|---|---|---|---|---|---|---|
| 3 Months (%) | Absolute | 5.7 | 1.1 | 2.1 | 0.2 | 0.0 | 0.6 | -0.2 | 1.4 |
| | Benchmark | 5.7 | 1.1 | 1.4 | 0.4 | 0.3 | 0.5 | 0.3 | 1.3 |
| | Relative | 0.0 | 0.0 | 0.7 | -0.2 | -0.3 | 0.1 | -0.5 | 0.1 |
| 12 Months (%) | Absolute | 1.9 | 1.2 | -0.0 | 0.5 | 0.3 | 0.4 | N/A | 0.6 |
| | Benchmark | 2.0 | 4.6 | 6.1 | 0.5 | -0.3 | 0.8 | N/A | 3.6 |
| | Relative | -0.1 | -3.2 | -5.8 | 0.0 | 0.6 | -0.3 | N/A | -2.9 |
| 3 Years (% p.a.) | Absolute | 11.8 | 3.5 | 5.8 | 4.5 | 5.2 | 4.8 | N/A | 5.1 |
| | Benchmark | 11.9 | 4.5 | 6.9 | 4.4 | 5.3 | 4.5 | N/A | 5.9 |
| | Relative | -0.1 | -1.0 | -1.0 | 0.1 | -0.1 | 0.3 | N/A | -0.7 |
| Since Inception (% p.a.) | Absolute | 7.9 | 2.9 | 3.8 | 7.0 | 8.2 | 6.5 | -0.2 | 4.8 |
| | Benchmark | 8.0 | 4.6 | 7.5 | 6.6 | 8.4 | 6.7 | 0.3 | 6.7 |
| | Relative | -0.1 | -1.6 | -3.5 | 0.4 | -0.2 | -0.2 | -0.5 | -1.8 |

Long term performance returns for LGIM Global includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015. 3 month performance for Schroder ISF Strategic Bond Fund is since inception on 30 November 2015. Total Fund performance for the quarter has been approximated given the transition of monies over the period.

Source: [i] DataStream, Fund Manager

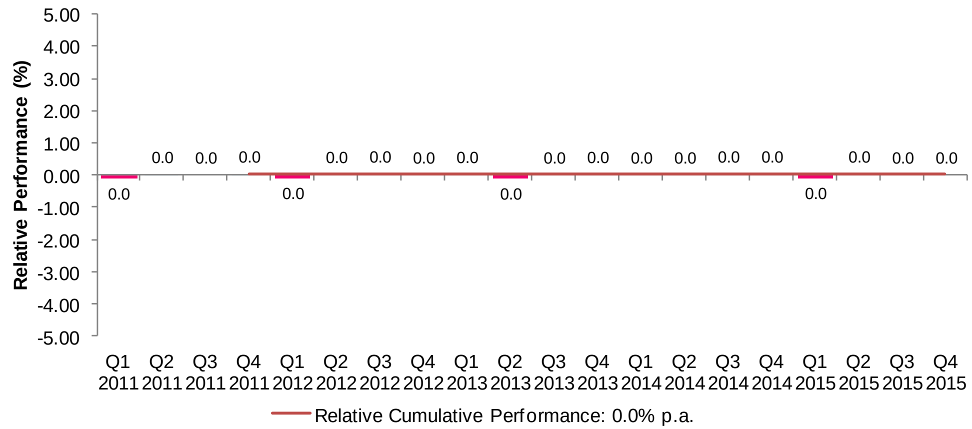
# LGIM Global Equity

## HR View Comment & Rating


We rate Legal & General Investment Management's ('LGIM') index-tracking equity capability at '5 - Preferred strategy'.

There were no further business changes at LGIM since our last report.

## Relative Quarterly and Relative Cumulative Performance [i]




## Fund Commentary

As part of the agreed move to the Fund's new long term investment strategy, LGIM's global equity mandate increased in size over the quarter from c. 5.4% of Fund assets to c. 17% at the end of the fourth quarter.

Long term performance shown has been retained to include the performance of the World (ex UK) Equity Index fund since 31 December 2010.

LGIM's global equity mandate has been set up to broadly hedge 50% of its overseas currency exposure.

The final quarter of 2015 was positive for equity markets, with the Fund's overall equity portfolio returning 5.7%, in line with the benchmark as expected of a passive manager.

## Performance Summary (Gross of fees) [1] [ii]

| | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|---|---|---|---|---|
| Fund | 5.7 | 2.0 | 12.0 | 8.1 |
| Benchmark | 5.7 | 2.0 | 11.9 | 8.0 |
| Relative | 0.0 | 0.0 | 0.0 | 0.0 |

* Inception date 31 Dec 2010.

[1] Long term performance returns includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015.

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Source: [i] DataStream, Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

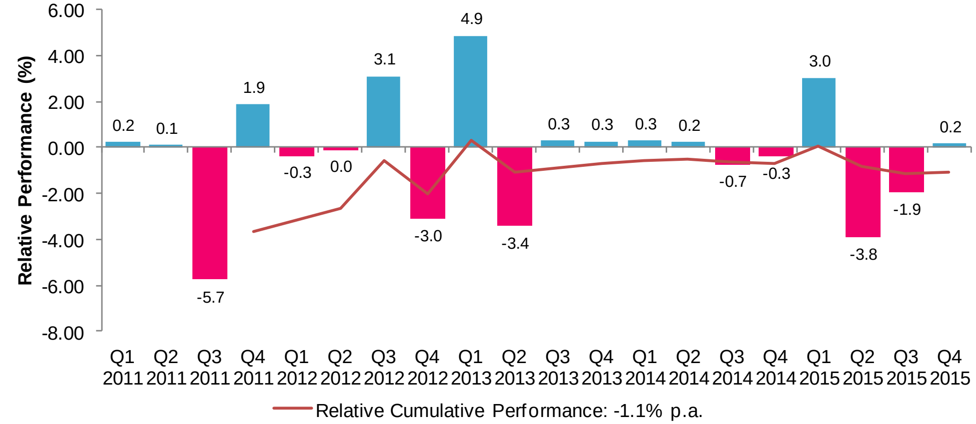
# Newton Real Return Fund

## HR View Comment & Rating

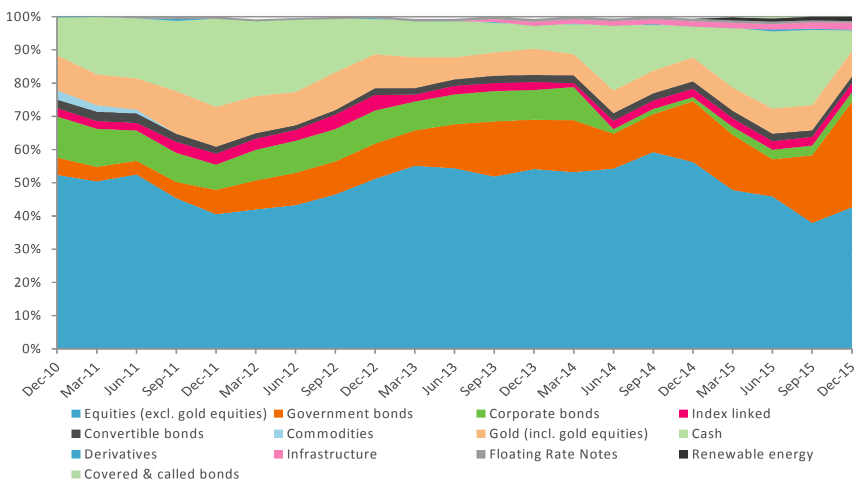

During Q4 2015, Newton announced the departure of James Harries, the alternate lead manager for the Real Return strategy. Suzanne Hutchins, one of the senior investment managers in the team, rejoined Newton in 2010 after 5 years away and will take over Harries' responsibilities.

In our view we do not think this warrants a downgrade of our manager rating, and maintain the fund's rating at '5 - Preferred strategy'. Firstly, we still view Iain Stewart as the key decision maker for the Real Return strategy and secondly, we believe there is a 'Newton' approach to investing and that is demonstrated throughout the investment process and by all members of the team. However, we are well aware that Harries' departure is a set back to the succession planning for the Real Return fund. We intend to monitor developments closely and have set up a meeting for Q1 2016 with Suzanne Hutchins, the now alternative manager for the Real Return Fund and Aron Pataki, a senior investment manager within the Real Return team. We will update our views accordingly.

## Relative Quarterly and Relative Cumulative Performance [ii]




## Change in asset allocation over time [i]




## Fund Commentary

The fund was up 1.3% (gross of fees) over the quarter resulting in a return of 1.2% (net of fees) over the past 12 months. Despite outperforming its performance target of LIBOR + 4% over the final quarter, the fund continues to lag over long term periods.

The fund's return-seeking core, of which equities form the majority, provided a significant positive contribution. There was strong performance from the technology, tobacco and pharmaceutical sectors, where Microsoft, Japan Tobacco, Merck, Roche and Reynolds American performed strongly. The fund's exposure to alternative assets, along with convertible bonds, was also beneficial. Exposure to gold and other precious metals generated a small positive contribution. As the quarter was generally a buoyant one for risk assets, the risk-offsetting and hedging positions in the portfolio proved a negative contributor towards the overall fund return.

The most significant headline change during the quarter was a marked reduction in cash levels, along with an increase in government bond weighting. Since the end of September, gross equity exposure has increased by around 5%, with a subsequent increase in the fund's gross return-seeking core. Newton believes downside volatility is more likely to develop, and so throughout 2015 has been de-risking the strategy. Newton believes the ability for the strategy to remain patient, and not to be fully invested, will prove beneficial. Going into 2016, the management team remain cautious and highly selective. The team do not believe that inflation will pick up significantly and do not expect an aggressive US Federal Reserve tightening cycle, and have positioned the portfolio accordingly.

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Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

# Schroder Diversified Growth Fund

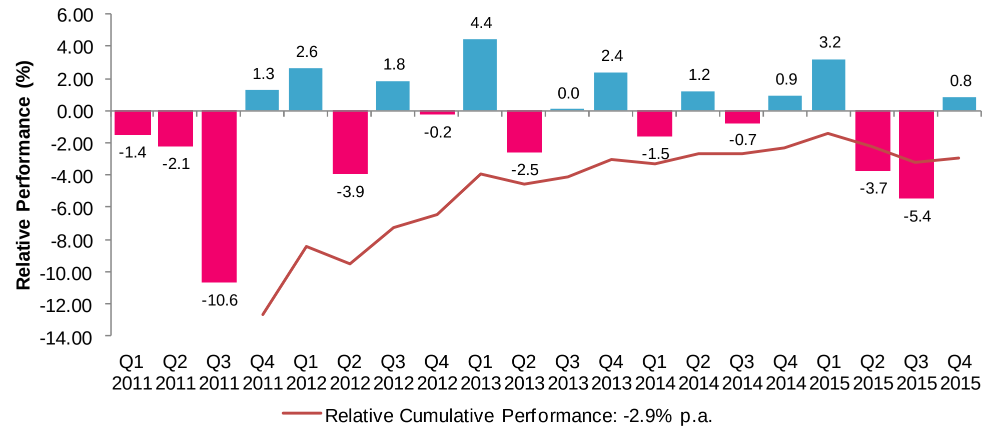
## HR View Comment & Rating


We rate Schroder's Diversified Growth fund ('DGF') at '4 - Retain' .

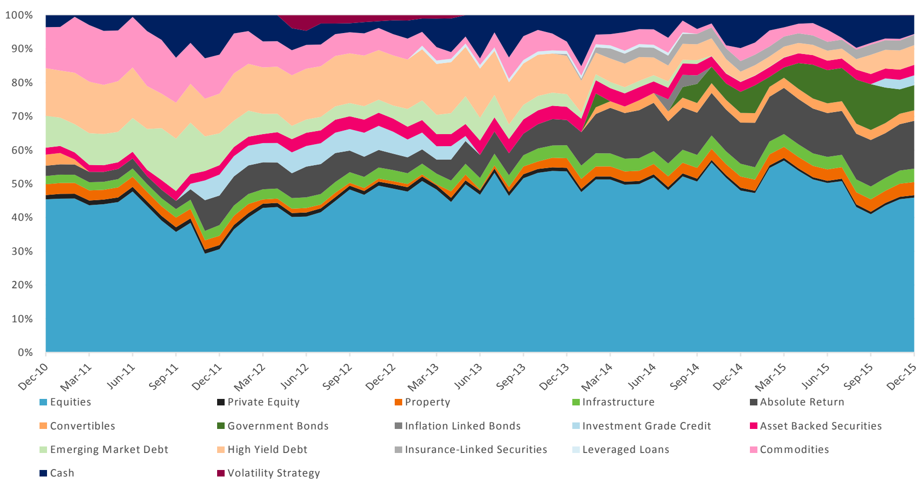
As a large, long-established multi-asset manager, Schroder is well placed to manage a mandate of this type. The Diversified Growth Fund (DGF) was one of the first of its kind to gain traction in the institutional market, albeit largely amongst small pension funds. The product has a dual objective – on-going access to growth asset classes, and the tactical management of those exposures. Schroder has tended to restrict its dynamic asset allocation within narrower bands than many. This fund will typically be highly dependent on the performance of equity markets to generate returns. It therefore offers less diversification benefits than some of the other multi-asset funds available.

There were no significant changes over the fourth quarter to the end of 2015.

## Relative Quarterly and Relative Cumulative Performance [ii]




## Change in asset allocation over time [i]




## Fund Commentary

Over the final quarter of 2015, the Schroder DGF fund outperformed its RPI + 5% p.a. target by 0.5% as global equities recovered from their falls over Q3.

Equities were naturally the greatest contributor to performance over the quarter although the majority of the fund's alternative growth assets also performed well. Over the quarter, the big news was the decision by the Federal Reserve to raise short term interest rates; however, the overall impact on the fund and indeed the wider market was, perhaps surprisingly, relatively muted implying such a move had already been accounted for by markets in the run up to the decision. Having commented last quarter that the manager was now seeing some attractive entry points within emerging market currencies, the decision was taken at the beginning of Q4 to initiate positions in the Brazilian real, Mexican peso and Indian rupee. The manager also continued to hold short positions in Asian currencies versus long positions in safe haven currencies such as the Yen and US dollar; the latter position, in particular, we would expect to have benefitted the fund since year end.

The manager acknowledges that focus for the last few years has been on areas that are key beneficiaries of quantitative easing. This is expected to change, however, over 2016 as the manager starts to look, albeit cautiously, towards more cyclically exposed value opportunities.



Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

# Schroder ISF Strategic Bond Fund

## HR View Comment & Rating


We rate Schroder's ISF Strategic Bond fund at '4 - Retain'.

Over the quarter the Fund made a new allocation to Schroder's ISF Strategic Bond fund as part of a move towards the Fund's new long term investment strategy. The allocation was funded from the Fund's corporate bond holding with Newton.

There was no significant business news to report over Q4 2015.

## Performance Summary (Gross of fees) [i]

| | Since Inception* (% p.a.) |
|---|---|
| Fund | -0.2 |
| Benchmark | 0.3 |
| Relative | -0.5 |

* Inception date 30 Nov 2015.

## Fund Commentary

The fund has a stated performance target of LIBOR + 4% p.a. over a market cycle which is typically c. 5 years. We view this performance target as ambitious given the type of strategy being employed. For the purposes our reporting, we have therefore chosen to measure the fund against a benchmark of LIBOR + 2% p.a., at least over the shorter term, as we believe this level of outperformance to be a more realistic target for the fund to achieve.

Since implementation on 30 November 2015 to the end of 2015, the fund underperformed its performance target of LIBOR + 2% p.a. by 0.5%, delivering a small negative absolute return of -0.2%. Rising yields over Q4 will have had a negative impact on bond prices, however, the fund's active duration positioning will have helped dampen the effect of this slightly.

More detailed performance commentary will be provided in our Q1 2016 report.



Source: [i] Fund Manager

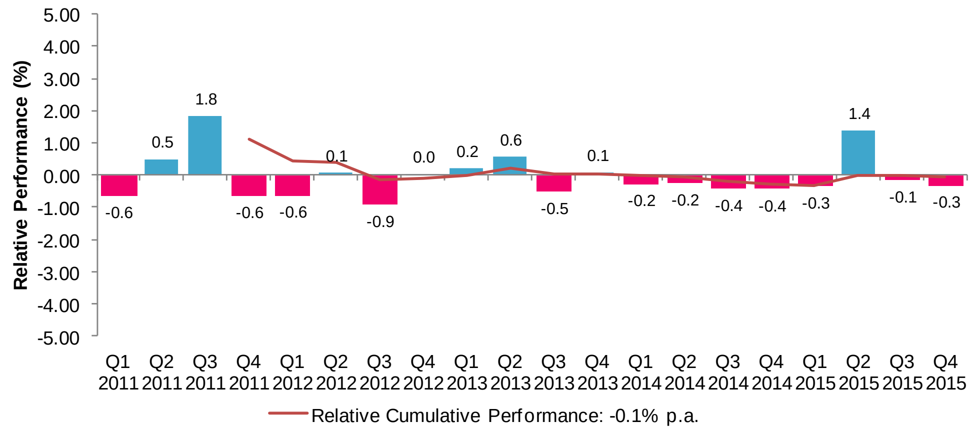
# Newton Corporate Bond Fund

## HR View Comment & Rating

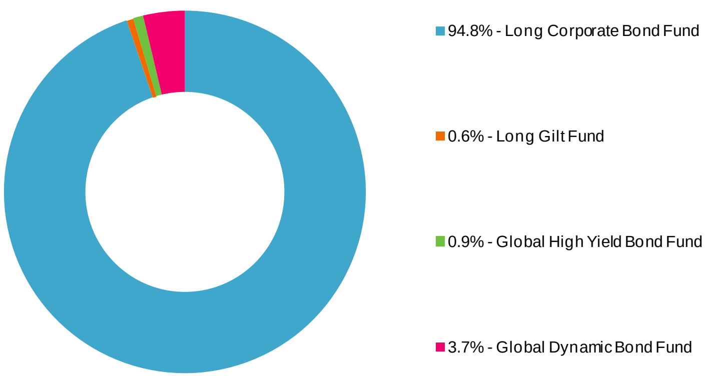

We rate Newton's fixed income capabilities at '4 - Retain'.

There was no significant business news to report over Q4 2015.

## Relative Quarterly and Relative Cumulative Performance [i]




## Fund Holding as at 31 December 2015




## Fund Commentary

The Newton bond mandate seeks to outperform its benchmark by 1% p.a. (gross of fees) over a rolling 5 year period.

Returns were flat over the quarter to end December 2015 with the fund underperforming its benchmark by 0.3%.Over the last 5 years, the fund has delivered solid absolute performance but only just in line with benchmark. It is therefore disappointing that the manager has not managed to achieve any outperformance over this longer term period.

The Newton Long Corporate Bond fund, in which c. 93% of assets are currently invested in, lagged its benchmark for a second consecutive quarter as the fund's shorter duration position detracted, together with a slight cash drag from monies being returned from gains achieved over November. The fund's underweight to long-dated financials was also a notably detractor as financials proved to be one of the best performing sectors over the quarter.

The Fund's small allocations to Newton's Long Gilt fund and Global High Yield Bond fund both managed to outperform their respective benchmarks over the period. The latter, in particular, was up nearly 2% on the index as a defensive stance away from the energy sector and commodities benefitted the fund considerably.



Source: [i] DataStream, Fund Manager, Hymans Robertson

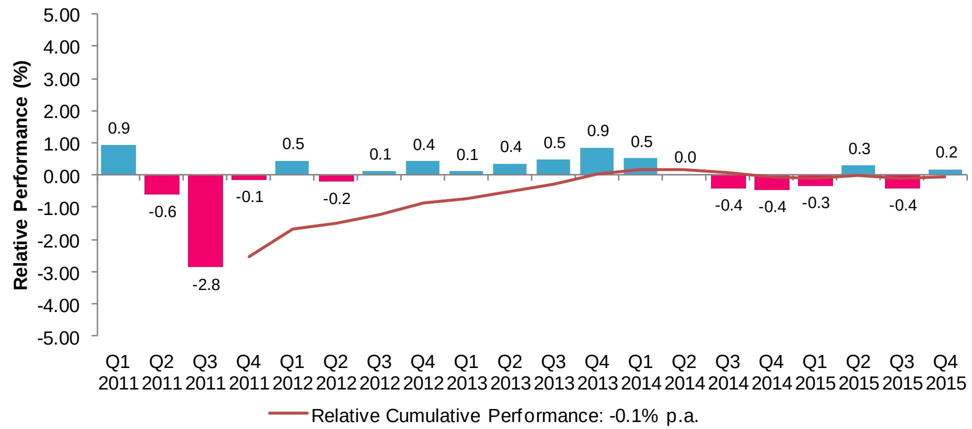
# Schroder Corporate Bond Fund

## HR View Comment & Rating


We rate Schroder's corporate bond fund at '4 - Retain'.

There was no significant business news to report over Q4 2015.

## Relative Quarterly and Relative Cumulative Performance [i]




## Fund Commentary

The Schroder All Maturities Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period.

The fund delivered an absolute return of 0.7% over the final quarter of 2015, outperforming its benchmark by 0.2% and thus finishing the year broadly in line with benchmark. Whilst the fund has managed to perform in line with the benchmark since inception, no outperformance has been delivered over this 5 year period.

Credit sector allocation was the main contributor to relative outperformance over the period with the majority of performance coming from the financials sector. Credit selection, however, particularly within the basic industries sector, detracted for a second consecutive sector. With the outlook for commodity prices and emerging markets remaining very uncertain, the manager is choosing to focus on corporate bonds with greater domestic exposure. The largest overweight positions at the end of the quarter were to utilities and subordinated financials.

## Performance Summary (Gross of fees) [ii]

| | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|---|---|---|---|---|
| Fund | 0.7 | 0.6 | 5.0 | 6.7 |
| Benchmark | 0.5 | 0.8 | 4.5 | 6.7 |
| Relative | 0.2 | -0.1 | 0.5 | -0.1 |

* Inception date 31 Dec 2010.



Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

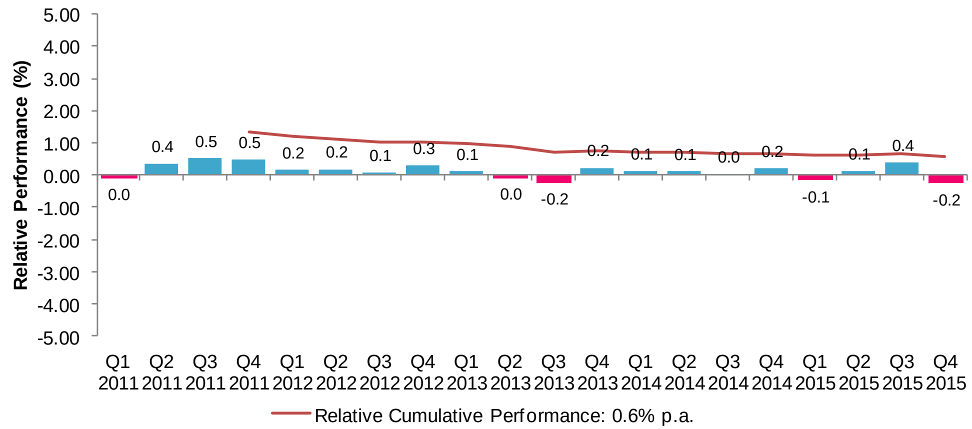
# LGIM Corporate Bond Fund

## HR View Comment & Rating


There were no significant changes to report over the quarter to end December 2015.

We continue to rate the manager as '5 - Preferred manager'.

## Relative Quarterly and Relative Cumulative Performance [i]




## Fund Commentary

The Legal & General Active Corporate Bond fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period.

Over the 3 month period to 31 December 2015, the fund delivered a small positive return but underperformed its benchmark by 0.2% as an overweight position to collateralised bonds detracted. Exposure to high yield also contributed to relative underperformance on concerns over liquidity and the potential for rising defaults, particularly within the energy sector. Positive contributors to performance came from an underweight position to utilities and an overweight to selected lower tier two and senior bank bonds.

Since 31 December 2010, the fund has outperformed its benchmark by 0.6% p.a. which, whilst positive, continues to lag its overall performance objective. The manager continues to position the fund cautiously, with a preference for financials over non-financials and collateralised bonds which offer stable, high quality cashflows backed by high quality assets.

## Performance Summary (Gross of fees) [ii]

| | 3 Months (%) | 12 Months (%) | 3 Years (% p.a.) | Since Inception* (% p.a.) |
|---|---|---|---|---|
| Fund | 0.2 | 0.7 | 4.7 | 7.2 |
| Benchmark | 0.4 | 0.5 | 4.4 | 6.6 |
| Relative | -0.2 | 0.2 | 0.3 | 0.6 |

* Inception date 31 Dec 2010.

Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

# Performance Calculation

## Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

( ( 1 + Fund Performance ) / ( 1 + Benchmark Performance ) ) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

| | Arithmetic Method | | | Geometric Method | | | Difference |
|---|---|---|---|---|---|---|---|
| Period | Fund Performance | Benchmark Performance | Relative Performance | Fund Performance | Benchmark Performance | Relative Performance | |
| Quarter 1 | 7.00% | 2.00% | 5.00% | 7.00% | 2.00% | 4.90% | **0.10%** |
| Quarter 2 | 28.00% | 33.00% | -5.00% | 28.00% | 33.00% | -3.76% | **-1.24%** |
| Linked 6 months | | | -0.25% | | | 0.96% | **-1.21%** |
| 6 Month Performance | 36.96% | 35.66% | 1.30% | 36.96% | 35.66% | 0.96% | **0.34%** |

### Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

### Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

AGENDA ITEM 8

# Pension Fund Committee

## 15 March 2016

| | |
|---|---|
| **Title** | **Pension Fund External Audit Plan for the year ended 31 March 2016** |
| **Report of** | Chief Operating Officer |
| **Wards** | All |
| **Status** | Public |
| **Urgent** | No |
| **Key** | No |
| **Enclosures** | Appendix A – BDO External Audit Plan Workplan |
| **Officer Contact Details** | Iain Millar, Head of Treasury Services<br>0208 359 7126 |

## Summary

In line with International Standard on Auditing 260 (ISA 260) the Pension Fund's external auditors, BDO, should be provided with access to those charged with governance .
BDO are the Pension Fund's appointed external auditors for the 2015/16 financial year, replacing Grant Thornton.

Appendix A to this report sets outs the audit plan for external audit activities for 2015/16 which will be presented to Pension Fund Committee by BDO.

## Recommendations

1. **That the Pension Fund Committee note the audit strategy for the 2015/2016 external audit.**

## 1. WHY THIS REPORT IS NEEDED

1.1 The audit plan contained at appendix A of the report highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance.

## 2. REASONS FOR RECOMMENDATIONS

2.1 The recommendations are required in order for the Council to comply with statutory audit requirement.

## 3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None-statutory function

## 4. POST DECISION IMPLEMENTATION

4.1 The External Auditor will report to the next Pension Fund Committee to provide a follow up on the previous period's detailed audit findings.

## 5. IMPLICATIONS OF DECISION

### 5.1 Corporate Priorities and Performance

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

### 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 financial management as well as providing value for money.

5.2.1 The external audit fees for 2015-16 are £21,000, external audit fees were £21,000 in 2014-15).

### 5.3 Social Value

5.3.1 Contributing to Pension Fund ensures that contributing members have a secured income on retirement.

### 5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Part 15 – Annex A - Responsibility for Functions, outlines the terms and reference of the Pension Fund Committee which include the approval of the Pension Fund Statement of Accounts.

5.5 **Risk Management**

5.5.1 The external audit progress report attached highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

5.6 **Equalities and Diversity**

5.6.1 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.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used-external report.

**6. BACKGROUND PAPERS**

6.1 None

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# LONDON BOROUGH OF BARNET PENSION FUND

## PLANNING REPORT TO THE PENSION FUND COMMITTEE

## Audit for the year ending 31 March 2016

22 February 2016

BDO

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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Pension Fund Committee and should not be shown to any other person without our express permission in writing.

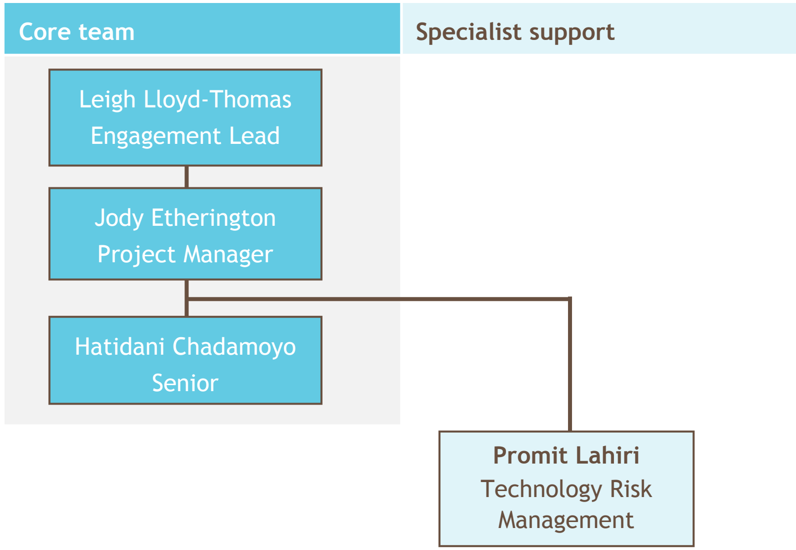
In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

## CONTENT OF OUR REPORT

In this report, we set out the following:

- Our team and responsibilities for this year's audit
- Our client service commitment
- An overview of the audit timetable with key dates and deliverables
- The audit scope and objectives
- Our preliminary evaluation of materiality
- Our overall audit strategy
- Our initial assessment of the key audit risks and other relevant matters along with our planned audit approach
- Confirmation of independence and consideration of any independence related matters
- Our proposed fees for the audit.

# YOUR BDO TEAM




| Name | Contact details | Key responsibilities |
|---|---|---|
| **Leigh Lloyd-Thomas**<br>**Engagement Lead** | Tel: 020 7893 2616<br>leigh.lloyd-thomas@bdo.co.uk | Oversee the audit and sign the audit report |
| **Jody Etherington**<br>**Project Manager** | Tel: 01473 320 790<br>jody.etherington@bdo.co.uk | Management of the audit |
| **Hatidani Chadamoyo**<br>**Senior** | Tel: 020 7893 3202<br>hatidani.chadamoyo@bdo.co.uk | Day to day supervision of the on-site audit |
| **Promit Lahiri**<br>**Technology Risk Manager** | Tel: 020 7893 3526<br>promit.lahiri@bdo.co.uk | Manage IT review for audit purposes |

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error.

Leigh is responsible for the overall quality of the engagement.

# OUR CLIENT SERVICE COMMITMENT TO YOU

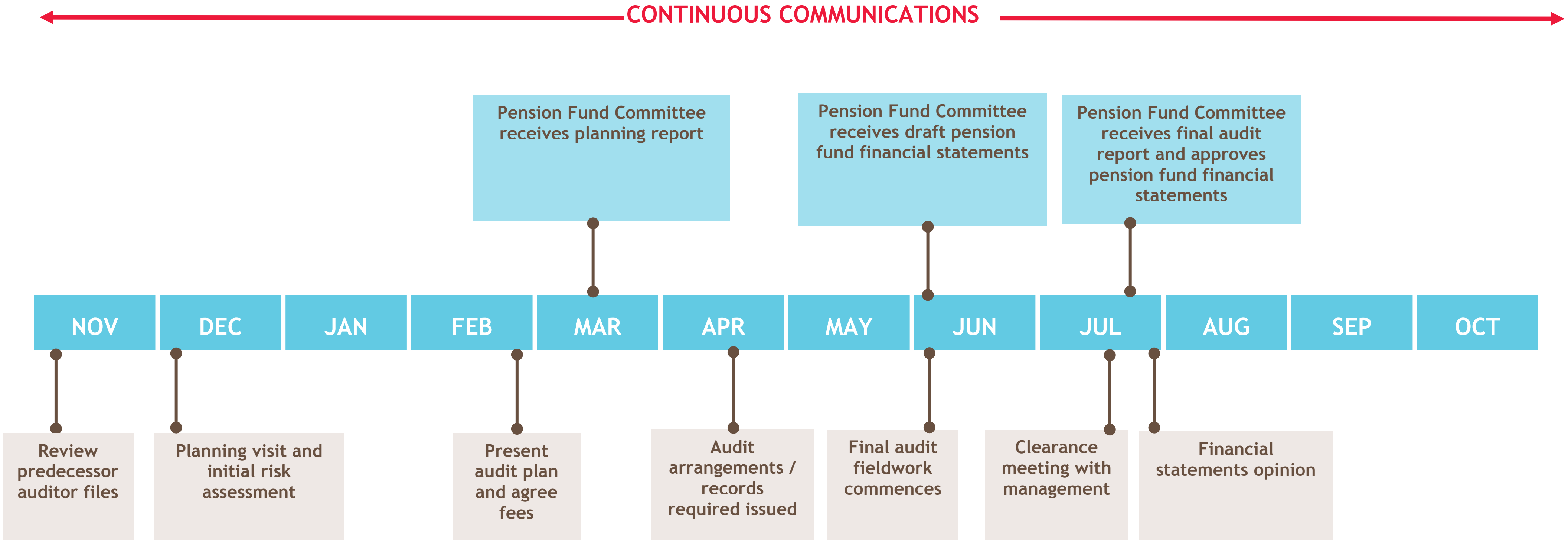
## CLIENT SERVICE EXPECTATIONS

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|
| High quality audit service at a reasonable cost. | A quality team, with relevant expertise. | Clear communication. | Concentrating our work on areas of higher risk. | Avoiding surprises through timely reporting of issues. | Consulting with management to resolve matters early. | Meeting deadlines. | Identifying shortcomings in controls and processes. |

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

| FINANCIAL STATEMENTS | | OTHER INFORMATION | ADDITIONAL REQUIREMENTS |
|---|---|---|---|
| 1 The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end. | 2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction. | 3 Other information published together with the audited financial statements is consistent with the financial statements. | 4 Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts. |

# MATERIALITY

## MATERIALITY

| | MATERIALITY | CLEARLY TRIVIAL THRESHOLD |
|---|---|---|
| Pension fund overall materiality | £9,200,000 | £184,000 |
| Specific materiality for other financial statement areas: | | |
| - Fund account | £2,700,000 | - |

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the fund account at 5% of contributions receivable.

At this stage, these figures are based on the prior year net asset amounts and contributions receivable. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

# OVERALL AUDIT STRATEGY

### We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to risks.

### Risks and planned audit responses

Under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

### Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

| AUDIT RISK AREAS - FINANCIAL STATEMENTS | | | |
|---|---|---|---|
| RISK | DESCRIPTION | PLANNED AUDIT RESPONSE | EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE |
| Management override | The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing | Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible | Not applicable. |

| | | | |
|---|---|---|---|
| | fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund’s policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.<br><br>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. | for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.<br><br>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly. | |
| **Revenue recognition (contributions)** | Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk.<br><br>For pension funds, the risk can be identified as affecting the completeness, accuracy and existence of contributions income. | We will carry out audit procedures to gain an understanding of the pension fund’s internal control environment for receiving and recording contributions income in accordance with the schedule of contributions, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.<br><br>We will perform an examination, on a test basis, of evidence relevant to the amounts and timing of contributions receivable to the fund including checking to employer payroll records, where relevant. | We will check a sample of contributions receivable from the Council to the Council’s payroll records to ensure that the correct amounts have been paid by the employee and employer.<br><br>For other significant admitted and scheduled bodies, we will select a sample of bodies each year and request confirmation from that organisation that the correct amounts have been paid to the pension fund for selected employees. |

# KEY AUDIT RISKS AND OTHER MATTERS
## Continued

| AUDIT RISK AREAS - FINANCIAL STATEMENTS | | | |
|---|---|---|---|
| **RISK** | **DESCRIPTION** | **PLANNED AUDIT RESPONSE** | **EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE** |
| Investment management expenses | Local Government Pension Fund Accounts are required to disclose investment management expenses.<br><br>Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on any ‘hidden’ fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.<br><br>The Financial Conduct Authority criticised the investment management industry for not reporting charges to investors sufficiently clearly. In particular, it criticised the annual management charge as failing ‘to provide investors with a clear, combined figure for charges’.<br><br>Last year, CIPFA issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance. CIPFA intends to publish revised guidance in April.<br><br>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these ‘hidden’ fees are not identified and separately reported. | We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts. | Not applicable. |

# KEY AUDIT RISKS AND OTHER MATTERS
## Continued

| AUDIT RISK AREAS - FINANCIAL STATEMENTS | | | |
|---|---|---|---|
| **RISK** | **DESCRIPTION** | **PLANNED AUDIT RESPONSE** | **EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE** |
| **Fair value of investments** | The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodians (JP Morgan and BNY Mellon), and reported on a quarterly basis. These funds are quoted on active markets.<br><br>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements. | We will obtain direct confirmation of investment valuations from the fund managers and agree valuations, where available, to readily available observable data (such as Bloomberg).<br><br>We will ensure that investments have been correctly valued in accordance with the relevant accounting policies.<br><br>We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds. | Direct confirmation of investment valuations from fund managers.<br><br>Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian. |
| **Membership disclosure** | Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed.<br><br>There is a risk that the membership database may not be accurate and up to date to support this disclosure. | We will obtain membership records and review the controls over the maintenance of these records. We will undertake sample testing of movements of members to transactions recorded in the fund account.<br><br>We will review action taken in response to findings of the National Fraud Initiative (NFI) data matching exercise of paid amounts to pensioners with the UK register of deaths, and any 'life certification' exercise undertaken. | Review of NFI data matching. |
| **Consideration of related party transactions** | We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. | We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.<br><br>We will discuss with management and review members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us. | Companies House searches for undisclosed interests. |

# KEY AUDIT RISKS AND OTHER MATTERS
## Continued

| AUDIT RISK AREAS - FINANCIAL STATEMENTS | | | |
|---|---|---|---|
| **RISK** | **DESCRIPTION** | **PLANNED AUDIT RESPONSE** | **EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE** |
| **Pension liability assumptions** | An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.<br><br>There is a risk the valuation uses inappropriate assumptions to value the liability. | We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.<br><br>We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.<br><br>We will agree the disclosure to the information provided by the actuary. | We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions. |
| **Fraud and error** | We are required to discuss with you the possibility of material misstatement, due to fraud or error.<br><br>We are informed by management that there have not been any cases of material fraud or error, to their knowledge. | We will continue to consider throughout the audit process and discuss with management. | Not applicable. |

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Pension Fund Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the Council and pension fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors.

We have confirmed that we have not provided any non audit services.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

| | £ |
|---|---|
| Code audit fee (pension fund) | 21,000 |
| **TOTAL FEES** | 21,000 |

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1: £10,500 in July 2015
- Instalment 2: £10,500 in January 2016.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit.  All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY
## Continued

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Pension Fund Committee all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Pension Fund Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

# APPENDIX II: INDEPENDENCE

| INDEPENDENCE - ENGAGEMENT TEAM ROTATION | | |
|---|---|---|
| **SENIOR TEAM MEMBERS** | **NUMBER OF YEARS INVOLVED** | **ROTATION TO TAKE PLACE IN YEAR ENDED** |
| Leigh Lloyd-Thomas - Engagement lead | 1st year | 31 March 2021 |
| Jody Etherington - Project manager | 1st year | 31 March 2026 |
| Engagement quality control reviewer | 1st year | 31 March 2021 |

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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|---|---|
| | AGENDA ITEM 9<br>**Pension Fund Committee**<br>**15 March 2016** |
| **Title** | **Update Report London Collective Investment Vehicle** |
| **Report of** | Chief Operating Officer |
| **Wards** | n/a |
| **Status** | Public |
| **Urgent** | No |
| **Key** | No |
| **Enclosures** | None |
| **Officer Contact Details** | Iain Millar, Head of Treasury Services<br>0208 359 7126 |

## Summary

This report summarises progress made in setting up the London Local Government Pension Scheme Collective Investment Vehicle (London CIV).

The London CIV has now received Financial Conduct Authority (FCA) authorisation. In due course the Committee may transfer assets or invest directly into funds held in the CIV, where this is deemed as beneficial for the Fund to do so.

## Recommendations

1. **That the Pension Fund Committee note the progress update on starting up the CIV.**

### 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

To ensure that the Pension Fund has access to a wider range of asset classes through the CIV to reduce costs and to improve fund performance.

## 3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The Pension Fund may retain independent mandates. The Pension Fund may delegate any investment decisions to the CIV at a future date and will benefit from negotiated fee reductions which will be achievable by investing through the CIV

## 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. Participating in collective working and cost sharing will provide support towards the Council's corporate priorities and compliance with the proposed Local Government Pension Scheme pooling arrangements

### 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 On 22nd October 2015 Pension Fund Committee delegated the following authority to the Chief Operating Officer, in consultation with the Chair of Pensions Committee:

1. to settle any contracts concerned with the CIV on behalf of the Council and Pension Fund,

2. to sign the CIV Articles of Association, the Shareholders Agreement and subsequent deeds of agreement.

3. to invest sums required for regulatory capital to the London CIV to meet the requirements for FCA (Financial Conduct Authority) authorisation. The anticipated level of investment £150,000.

5.2.3 The London CIV was fully authorised by the FCA on the 15th November 2015 with permission to operate a UK based Authorised Contractual Scheme Fund. (the ACS Fund). The ACS Fund will operate as an umbrella fund with a range of funds providing access over time to the full range of asset classes that the participating boroughs require implementing their investment strategies.

5.2.4 The first sub-fund has been opened, an active global equities fund, and three authorities transferred a total of £500 million of assets on 2 December 2015. A further eight sub-funds will be opened over the coming months and these will be a mix of active and passive asset classes.

5.2.5 The London CIV has now reached a stage where managers with multiple mandates across London have provided their best and final offers on fees for inclusion in the CIV. Each borough which currently invests with that manager will be asked in the near future whether they wish to transfer existing funds with that manager to the CIV under the CIV fee schedule. One of the passive equity sub-funds currently being set up is with Legal and General Investment Management and will be offered to the Barnet Pension Fund

5.2.3 The London CIV is being developed through a three stage approach .The first stage is a commonality approach to deliver scale benefits for the boroughs and fee income for the CIV to cover operating costs . The second phase from 2017-18 will involve developing the fund with new managers selections in new asset classes, to conclude by March 2018 and to move into phase 3 ,business as usual.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

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

5.4.2 Part 15 – Annex A – the terms of reference of the Pension Fund Committee include:

To appoint Pension Fund Investment Managers.

To determine the appropriate course of action on any matter not specifically listed above that pertains to the leadership and/or strategic management of the Pension Fund, in particular any matter which could materially affect its financial performance or long-term standing.

5.5 **Risk Management**

5.5.1 The Pension Fund's asset allocation may not maximise potential investment return. This can be addressed by restructuring the fund portfolio to reflect changes in market conditions and expectations of future returns through asset classes and fund managers accessible through the London CIV.

.

5.6 **Equalities and Diversity**

5.6.1 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.

5.6.2 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.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

## 6. BACKGROUND PAPERS

6.1 London Councils Pensions CIV Sectoral Joint Committee Item No 5 London CIV Progress update

http://www.londoncouncils.gov.uk/our-key-themes/local-government-finance/london-pension-collective-investment-vehicle/pensions-civ

6.2 Pension Fund Committee 22 October 2015 Agenda Item 10

http://barnet.moderngov.co.uk/documents/s26669/Update%20Report%20London%20Collective%20Investment%20Vehicle.pdf

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AGENDA ITEM 10

| | |
|---|---|
| | **Pension Fund Committee**<br>**15 March 2016** |
| **Title** | **Update on Admitted Bodies Organisations** |
| **Report of** | Chief Operating Officer |
| **Wards** | N/A |
| **Status** | Public |
| **Urgent** | No |
| **Key** | No |
| **Enclosures** | Appendix 1 – Admitted Bodies Monitoring Sheet |
| **Officer Contact Details** | Karen Scott, Service Delivery Manager, Capita<br>Karen.scott2@capita.co.uk 07785 454929 |


## Summary

This report updates the Committee on the Admitted Bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBOB)


## Recommendations

**That the Committee:**

1. **Notes the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1**

### 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 That the Committee notes the update to the issues detailed in Appendix 1

## 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 Appendix 1 notes the bond levels required for each admitted body which will act as guarantee for the Pension Fund liabilities.

5.2.2 All organisations that have been paying their contributions in a timely way in line with the terms of their admittance to the pension board have been rated green in Appendix 1.

### 5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

### 5.4 Legal and Constitutional References

5.4.1 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.

5.4.2 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.

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

5.4.4 Under the Council's constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

## 5.5 Risk Management

5.5.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund

5.5.2 There is a possibility of financial losses on the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. 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.

## 5.6 Equalities and Diversity

5.6.1 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

5.7 **Consultation and Engagement**

5.7.1 Not Applicable

5.8 **Insight**

5.8.1 Not applicable

**6. BACKGROUND PAPERS**

6.1 None

**Appendix 1 – Admitted Bodies Monitoring Sheet**

## 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 | NA | G | LBOB have confirmed that no Bond renewal is required as this contracted will be re-procured with effect from 1 June 2016, procurement well underway, in the interim this could be a risk to the pension fund in terms of liabilities |
| Viridian Housing | 11 | 22/04/2006 | Euler Hermes UK | 65K | 16/08/2016 | | G | Currently starting the renewal process |
| 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 | R | G | Actuary agreed to roll forward at same level as previous year and employer currently making the arrangements to renew the Bond, chased several times last 02/03/2016 via email and telephone, until confirmation of the Bond is received this could be a risk to the pension fund in terms of liabilities |
| 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, and the cessation report has been provided to |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Blue 9 Security, confirming a deficit payment of £16k is required |
| Music Service (BEAT) | 2 | 01/03/2013 | N/A | 24K | 28/02/2016 | R | G | The employer has confirmed that they are also finding it difficult to difficult to obtain a Bond and are concerned about having to hold so much cash as they are a small business. Await actuarial report in terms of alternatives |
| 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 | HSBC | 102K | 31/05/2017 | | G | |
| Ridgecrest Cleaning | 4 | 03/11/2014 | HCC International | 14K | 03/11/2017 | | G | |
| Green Sky (2)(Claremont School) | 4 | 19/01/2015 | TBC | 23K | | R | G | The insurance company has now said that Green Sky would have to hold |

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| | | | | | | | | the bond on a cash basis ie they would have to pay the full amount of cash to the insurer, which is not possible for this small provider. Following discussions with the Actuary and CEB, LBOB are to commission an actuarial report to consider alternatives to Bonds as they are becoming increasingly difficult to obtain for small employers, there will be no further action on this Bond until the report is provided, the employer is paying regular employee and employer contributions to the fund |
| Hartwig | 1 | 23/06/2014 | N/A | N/A | N/A | NA | G | Liabilities retained by LBOB no bond required |
| Allied Healthcare | 4 | 23/06/2014 | N/A | N/A | N/A | NA | G | Liabilities retained by LBOB no bond required |

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|---|---|---|---|---|---|---|---|---|
| Absolutely Catering (Queenswell School Catering Contract) | 1 | 01/09/2015 | TBC | 17K | 01/09/2018 | | G | Actuarial report has been provided to Absolutely Catering, awaiting Admission Agreement and Bond details |
| Green Sky (3) (St Michaels School cleaning contract) | 5 | 01/09/2014 | TBC | 16K | | R | G | The insurance company has now said that Green Sky would have to hold the bond on a cash basis ie they would have to pay the full amount of cash to the insurer, which is not possible for this small provider. Following discussions with the Actuary and CEB, LBOB are to commission an actuarial report to consider alternatives to Bonds as they are becoming increasingly difficult to obtain for small employers, there will be no further action on this Bond until the report is provided, the employer is paying regular employee and employer |

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| | | | | | | | | contributions to the fund |
| Brookwood (St James' Catholic School) | 8 | 01/01/2016 | TBC | 33K | 01/01/2019 | NA | Awaiting first contribution | The Actuarial report has been submitted to the provider and action is being taken to secure the Bond |
| Servest (Henrietta Barnet School) | 1 | 01/10/2015 | TBC | 7K | 01/10/2018 | | Contributio n rate not yet set by the Actuary | Awaiting confirmation of who will meet the actuarial costs between the contractor and the school |
| BBCS (Childs Hill School) | 3 | 01/03/2016 | TBC | TBC | TBC | | NA yet | Awaiting data |
| ISS (Education and Skills – LBOB Catering) | 233 | 01/04/2016 | NA | No Bond required LBOB guarantor | NA | NA | NA yet | Actuarial calculations completed and forwarded to providers, awaiting final member data at 31/03/2016 to re-calculate liabilities |
| Cambridge Education (Mott Macdonald) (Education and Skills LBOB | 113 | 01/04/2016 | NA | No Bond required LBOB guarantor | NA | NA | NA yet | Actuarial calculations completed and forwarded to providers, awaiting final member data at 31/03/2016 to re-calculate liabilities |

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|---|---|---|---|---|---|---|---|---|
| non-catering) | | | | | | | | |

**For information only (current activities)**

**Care Contract -** The 3 Care Contracts detailed above (Allied Healthcare, Hartwig and Housing 21) are being re-procured and we have provided actuarial reports to confirm the employer contribution rate and the Bond requirement (Only required for replacement for Housing 21 called Enablement procurement)

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AGENDA ITEM 11

| | |
|---|---|
| | **Pension Fund Committee**<br><br>**15 March 2016** |
| **Title** | **Pension Fund Committee Work Programme** |
| **Report of** | Chief Operating Officer |
| **Wards** | Not Applicable |
| **Status** | Public |
| **Enclosures** | Appendix A - Committee Work Programme March 2016 - March 2017 |
| **Officer Contact Details** | Paul Frost<br>Paul.frost@barnet.gov.uk<br>020 8359 2205 |

## Summary

This report outlines the business which the Pensions Fund Committee is to consider and determine 2015-16.

## Recommendations

1. **That the Committee consider and comment on the items included in Appendix A.**

## 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.

### 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.

### 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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# London Borough of Barnet

## Pension Fund Committee Work Programme

## March 2016 - March 2017

| **Title of Report** | **Overview of decision** | **Report Of** *(officer)* | **Issue Type (Non key/Key/Urgent)** |
|---|---|---|---|
| **19 July** | | | |
| Statement of Investment principles | Review the statement of Investment Principles | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |
| Pension Fund Statement of accounts and annual report | To approval the t Pension Fund Statement of accounts and annual report for the year ended 31 March 2016 | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |
| Actuarial Review Final Report and Funding Strategy Statement | To review that funding strategy statement | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |
| External Auditor Review of annual accounts | external auditors review of for the year ended 31 March 2016 of Pension Fund Statement of accounts and annual report | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |
| Update on Collective Investment Vehicle | For information / investment management decisions | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |
| Review of the investment strategy | Hymans Report | Chief Operating Officer (Director of Finance / Section 151 Officer) | Non – Key |

| Subject | Decision requested | Report Of | Contributing Officer(s) |
|---|---|---|---|
| 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) | Non – Key |
| 31 October | | | |
| 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) | Non – Key |
| 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) | Non – Key |
| 18 January 2017 | | | |
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| | | | |
| 14 March 2017 | | | |
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 14

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of the Local Government Act 1972.

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