MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 26TH MARCH, 2019   **AT 7.00 PM**
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

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

Anthony Finn	Anne Hutton	Danny Rich
Elliot Simberg	Alison Moore	

Substitute Members

Stephen Sowerby	Eva Greenspan	Peter Zinkin
Ross Houston	Reema Patel	Arjun Mittra

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 21 March 2019 at 10AM. Requests must be submitted to Paul Frost at 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 Services contact: Paul Frost

Media Relations Contact: Gareth Greene 020 8359 7039

ASSURANCE GROUP

Please consider the environment before printing. The average Print Cost for this Agenda is £14.54 per copy.

ORDER OF BUSINESS

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

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

This page is intentionally left blank

Decisions of the Pension Fund Committee

22 January 2019

AGENDA ITEM 1

Cllr Mark Shooter (Chairman)

* Anthony Finn	* Anne Hutton
* Simberg	* Alison Moore

1. MINUTES (Agenda Item 1):

Prior to the minutes being considered the Chief Finance Officer, Mr Kevin Bartle stated that at the last meeting the committee requested at item 8 in the minutes that a report would be submitted to the Pension Fund Committee. He apologised to Members as he stated that the report could not be presented. Mr Bartle said that Hymans had produced a report but the Council had not had the opportunity to review the information. The Committee noted that a full report will be presented at the next meeting of the Pensions Fund Committee.

The Chairman provided the Committee with an update on the CIV which was in relation to item 11 in the minutes. He said that he would continue to keep Members updated and therefore would do so again at the meeting following the CIV next shareholders meeting.

Councillor Alison Moore stated that at the last meeting the Pension Fund Committee it was agreed that a Work Programme item would feature on the agenda as a standing item, however it again was not presented. She said that in the interest of good governance and probity it was important to have a work programme for the Pension Fund Committee like all other Council Committees.

Resolved:

- That the Committee noted the verbal representations
- That the Committee request a standing work programme item and noted it's importance
- That the minutes of the meeting held on 16 October 2018 were approved as an accurate record

2. ABSENCE OF MEMBERS (Agenda Item 2):

An apology for absence was received from Councillor John Marshall and Councillor Danny Rich.

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

None.

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

7. MANAGING THE COST OF THE LGPS (Agenda Item 7):

The Head of Treasury and Pension introduced the report.

He stated that the Scheme Advisory Board had developed proposals to improve the LGPS benefits that will result in higher contribution rates for employers. He told the Committee that is was expected to have a consultation on the proposals during Q1, 2019. He added that there will be a consultation with employers and staff.

Having considered the report, the Committee:

1. The Pension Fund Committee noted the proposals from the Scheme Advisory Board and delegated approval to the Director of Finance to respond to the expected MHCLG consultation on the proposed changes to the LGPS.
2. The Pension Fund Committee requested that Members of the Committee be sent the communication as mentioned in resolution 1 above.

8. MOTION TO EXCLUDE PRESS AND PUBLIC (Agenda Item 8):

RESOLVED that under Section 10A (4) of the Local Government Act 1972 the public be excluded from meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragrpahs 2 and 7 of Part 1 of Schedule 12A of the Act (as amended).

9. PENSION FUND INVESTMENT PERFORMANCE - EXEMPT (Agenda Item 9):

Kinna Patel, Investment Analyst form Hymans Roberts gave an overview of the performance of the fund for the quarter.

Having considered the report, the Committee:
Resolved

- The Committee noted the performance of the Pension Fund for the quarter to 30 September 2018, and subsequently to 30 November 2018.
- The Committee noted the exempt information.

10. PRIVATE DEBT ALLOCATION REVIEW - EXEMPT (Agenda Item 10):

Nick Jellema, Investment Consultant form Hymans Roberts gave an overview of the report.

Having considered the report, the Committee:
Resolved

- That the Committee agreed

(a) an investment of £30 million to the LCIV Global Private Debt fund, and
(b) delegate authority to the Director of Finance to take any actions required to complete the investment.
- The Committee requested that Hymans Robertson organise a fund managers meeting.

11. INVESTMENT STRATEGY UPDATE (Agenda Item 11):

The Head of Treasury and Pension introduced the report.

Having considered the report, the Committee:
Resolved

- Agreed to request Hymans Robertson to identify suitable private equity and emerging market funds for presentation to outline investment opportunities at the next meeting on 26 March 2019 the next meeting.
- Requested that it be noted that a presentation was delivered by Janus Henderson prior to the meeting in respect to emerging markets.
- That the exempt information contained in appendix A be noted

12. PENSION FUND COSTS AND EXPENSES_EXEMPT (Agenda Item 12):

The Head of Treasury and Pension introduced the report.

The Chief Finance Officer noted that the detail in appendix 3 was under review. He stated that he will updated the Pension Fund Committee in respect to costs and chargers.

Having considered the report, the Committee:
Resolved

- Noted the scheme costs in the year to 31 March 2018 and the six months to 30 September 2018.
- Noted the update on the costs and charges and further noted that the Chief Finance Officer would continue to review the information.
- Requested that the Chief Finance Officer inform the Committee on the accuracy of the performance fee data.

13. TRANSFER VALUE IN RESPECT OF BARNET SOUTHGATE COLLEGE_EXEMPT (Agenda Item 13):

The Head of Treasury and Pension introduced the report and provided an update to the Committee.

Having considered the report, the Committee:

Resolved

- Noted the ongoing discussions with Barnet Southgate College and Enfield and that proposals to resolve the transfer will be submitted to the Committee for approval at a future meeting.

14. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 14):

None.

The meeting finished at 8.30 pm

	Pension Fund Committee **26 March 2019**
Title	**Planning for the 2019 Triennial Valuation**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Valuation timeline
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The funding position of the pension scheme and rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The next review date is 31 March 2019. The Actuary will attend the meeting and discuss the valuation timetable. The meeting will be preceded by training that focuses on the selection of the assumptions used in the valuation.

Recommendations

1. **That the Pension Fund Committee note the triennial valuation timetable and raise any questions to the Actuary.**

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.

1.2 Every three years the Actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer for the next three years. The next valuation will be as at 31 March 2019 and the new contribution schedule will be effective from 1st April 2020.

1.3 The Actuary attended the October 2018 meeting and discussed the actuarial process and a draft timetable for the triennial valuation. The timetable (appendix A) has been updated to reflect the points of interaction between the Committee, employers, administrator and the Actuary. The Actuary will discuss the updated timetable with the Committee.

1.4 The completion of the valuation requires that the Actuary receives timely and accurate data covering fund values, cash movements (contributions and benefits) and the service records for each employee. The Committee will be aware that the Administrator has a data improvement plan in place and that the Actuary, Auditor and Regulator have all raised concerns with the quality of the membership data. Data quality is being measured partly by submissions and validation by the Actuary's data portal. The Actuary is attending the meeting to discuss the latest data validation and there is a separate agenda item on data quality.

1.5 There will be training prior to the meeting that will focus on the assumptions used during the valuation and in particular the process to select each assumption.

2. REASONS FOR RECOMMENDATIONS

2.1 No action is required as a consequence of the update.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The actions set out in the timetable will be followed.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers will pay £48 million of contributions into the pension scheme in 2018/19. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

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

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary in advance of the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 Social Value

5.3.1 Contributing to the 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 (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"To consider actuarial valuations and their impact on the Pension Fund."

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare a funding strategy statement.

5.5 Risk Management

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

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

5.6 **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, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers’ contribution rates.

6. BACKGROUND PAPERS

6.1 Pension Fund Committee 16th October 2018, agenda item 8.

This page is intentionally left blank

London Borough of Barnet Pension Fund
2019 valuation timetable and route map

		Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Preparation and communications	Pre-valuation reports & correspondence (including Hymans' Briefing Notes)		Initial correspondence and timetable provided	Briefing Note on assumptions											
	Meetings with officers								Initial whole fund results	Initial employer results					
	Employer risk management					Discuss risk buckets for funding strategy. Consider where further covenant analysis may be required		Finalise employer covenant work and risk categories, if required			Provide employer results			Bulk employer bond review	
	Funding Strategy Statement							FSS - first draft for discussion with Officers			Finalise FSS ahead of employer consultation	Employer consultation			Sign off
	Meetings with employers				Employer forum - setting expectations						Employer forum - employer results - possibly split into groups				
	Committee / LPB meetings (dependent on meeting dates)		Committee (26th) - valuation assumptions background and timetable		Committee (30th) - agreement of key valuation assumptions		Committee (29th) - further valuation training		Committee (9th) - present initial whole Fund results		Committee (21st) - proposed contribution rates and FSS			Committee (26th) - final sign off of results and investment structure	
Administration	Membership data	Checking extract matches UDE specification Data cleanse using Data Portal as at 31 March 2018		Data provision for any outstanding new employers since 2016 valuation	Data validation at 31 March 2019 Submission to Hymans by 30 June 2019		Reconciliation of data by Hymans in conjunction with Capita Final sign off of valuation data by 31 July 2019								
	Cashflow data	Matching employer codes in membership to employer codes in cashflows Ensure all employers (incl those with no actives) have cashflows available		Compile cashflow data for years 2016/17 and 2017/18 Submission to Hymans by 30 April 2019		Compile cashflow data for year 2018/19 Submission to Hymans by 30 June 2019									
	Employer information		Compile up to date employer database		Provide final employer database										
Funding and investment process	Valuation results							Valuation calculations	Draft whole fund results	Calculation of employer results	Agree employer results				
	Investment		AOA proposed versus strategy Risk and return			Feed strategy into comPASS modelling			Review of investment strategies in line with changes to funding strategies Risk and return analysis Diversification						
	comPASS modelling			Agree scope and scenarios	Calculations		comPASS results								
	Cashflow projections												Cashflow projections (if required)	Sensitivity of projections (if required)	
	Final valuation results								Issue 'like-for-like' results to SAB				Draft final results	R&A discussions	Sign-off final report and R&A

Data sign off to results	Timeline from clean data provision		Who?
	Membership and cashflow data received (validation through Data Portal complete)	-	Capita to submit to HR
	Reconciliation of membership and cashflow data - queries issued	+ 3 days	HR
	Response to data queries	+ 1 week	Capita
	Final reconciliation, queries and sign off of valuation data	+ 2 weeks	HR with further follow up questions if need be
	Provision of draft whole fund results	+ 3 weeks	HR
	Provision of draft employer results	+ 4 weeks	HR

Please note:

- The timetable includes actions which are good practice in the valuation process. These were not done at 2016 due to delays previously disc used but we would recommend they are considered for 2019.
- We would expect valuation data work to be carried out on the Data Portal during May and June 2019 for submission by the end of June. This will ensure sufficient time for any reconciliation queries to be resolved and calculations carried out before results are required to be reported to Committee in early Septemeber as well as submitted to the Scheme Advisory Board on 30 September 2019.
- The dates shown are provisional and can be discussed with Capita EB to ensure that they are realistic in terms of data provision. I have included a table showing the turnaround times for results from the initial submission of cleansed membership data and cashflow data. I would suggest that if changes to the above proposed schedule are made, these turnaround times are factored in to ensure results are received in time for Committee meeting dates as required.

This page is intentionally left blank

	Pension Fund Committee **26 March 2019**
Title	**Regulatory Update**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A - MHCLG Statutory guidance on asset pooling Appendix B - Fair Deal Consultation
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The Government continue to issue consultation documents on changes to the LGPS regulations. The paper discussed two new consultations (pooling criteria and fair deal) with an update on the cost cap proposals discussed at the January meeting.

Recommendations

The Pension Fund Committee note the ongoing consultations that may impact on the LGPS regulations.

1. WHY THIS REPORT IS NEEDED

1.1 The report provides a commentary on recent changes / proposed changes to LGPS regulations.

Cost Cap

1.2 It was reported at the last meeting that the Scheme Advisory Board had proposed changes to the LGPS benefit and contribution structure aimed at increasing the cost of future service for employers to revert to the Government's cost target. Following an adverse judicial review concerning age discrimination the Government and SAB have suspended their cost cap proposals and there is currently uncertainty as to the benefits that will be earned by members from 1st April 2019. It will be no surprise if the previously announced changes are introduced late and backdated resulting in additional workload for the administrator.

Pooling Criteria

1.3 The Government has issued a consultation on revising the pooling criteria and guidance. The deadline for responses is 28th March 2019. A summary of the revised criteria including a comparison with the current guidance is attached (appendix A). There are only a few aspects that are new and of interest, discussed below.

1.4 The requirements to pool and the scope to retain assets outside the pool (and to appoint new managers outside the LCIV for a limited period) remain unchanged. The emphasis on exceptional and temporary exceptions is somewhat weakened with a green light to new appointments until 2020 and the relaxed requirement to review assets outside the pool at least every three years.

1.5 The main point of interest (point 8 in appendix A) is that the boundary between asset allocation and implementation is to be decided at pool level i.e. LBs collectively. We know that LBs currently will want to retain a wide definition of strategy but overtime that might narrow as decisions on asset classes move to the LCIV.

1.6 There is also a provision (point 11) on sharing of transition costs. The example given is that if a fund already holds a manager that is selected by the pool and other funds incur costs in moving to that manager, all funds might be asked to share the transition costs. I suspect this might be aimed at funds sharing an existing internal management capacity and would not apply to the LCIV.

1.7 Finally, there is a vague comment (point 6) on taking a long term and collective approach to the benefit of pooling. This appears designed to encourage pooling even if it comes at a cost as other funds may benefit from the greater pooling of assets. While clarification would be helpful, vague statements can be used to argue contrary positions and may offer a partial opt-out at some point in the future.

1.8 In summary, the new guidance is more a reminder that the Government is committed to pooling and lacks any timescales that will require urgent consideration of assets held outside of the pools.

1.9 A related issue is the requirement to obtain advice before appointing a fund manager as set out in the LGPS Investment Regulations which contain the following requirements.

> "The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.
>
> The authority must take <u>proper advice</u> in relation to the appointment and the terms on which the appointment is made."

1.10 On the one hand we are required to pool our assets with the London CIV yet the regulations require that we must obtain advice before doing so. The revised pooling criteria does not address this issue. The consensus emerging is that from a regulatory requirement, the London CIV is the fund manager and the advice required by the regulations concerns the LCIV. However, from a practical perspective the Committee may still wish to seek advice on the underlying manager appointed by the LCIV and for each new appointment we will discuss whether new advice is required.

<u>Fair Deal</u>

1.11 A further consultation has commenced concerned ensuring that staff with LGPS membership rights whose employment is transferred continue to have access to the LGPS. The main aspects of the consultation are detailed in appendix B and summarised below.

1.12 The first aspect is that for the Council, its subsidiaries and academies, that when staff are transferred the option of a broadly comparable scheme will no longer be available. These members must (unless they opt out) join the LGPS. Offering a broadly comparable scheme is rare with the only known examples being when another public-sector scheme is available to transferred staff.

1.13 The second element is the terms ‘deemed employer’. To avoid contractors who take on staff assuming the risks of becoming an admitted body, they can agree with the previous employer (usually the Council or an academy) that for pension purposes only the previous employer remains the employer and retains all the risks of being a participating employer. The contractor and the previous employer will then agree the appropriate contribution rate (or range) to be paid by the contractor and any balance of costs falls on the previous employer. These types of arrangement are currently available via pass-through arrangements that are outside the admission agreement.

1.14 Finally, the consultation proposes that should a scheme employer be taken over or merged that the new owner automatically joins the pension scheme without triggering a cessation. This is designed to avoid costly cessation bills.

1.15 These measures are designed to enhance the scheme member experience and make the LGPS easier to navigate for new employers. The provisions appear reasonable but as always there will be a degree of administration challenge to implement.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendation is for noting. No significant issues have been noted in the two new consultations.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None – if available, alternatives will be considered when the proposals are finalised.

4. POST DECISION IMPLEMENTATION

4.1 Implementation is a matter for employers and the administrator. Should the proposals be implemented the ability of the administrator to implement will be monitored.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 The proposed changes will have a neutral impact on employers' contribution rates.

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

5.2.1 As notes above higher employer's contributions may have budget implications for the Council.

5.3 **Social Value**

5.3.1 Contributing to the 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 (Article 7) – includes Committee responsibilities for actuarial and funding matters, which are relevant to this issue

5.4.2 The Council is required to operate the pension scheme in accordance with the Local Government Pension Scheme Regulations 2013 and 2016, which will be altered if the Government proceeds with the recommendations in each consultation.

5.5 **Risk Management**

5.5.1 There are no risk management issues.

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, marriage and civil partnership.

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 Local Government Pension Scheme: Fair Deal – Strengthening pension protection

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/770060/Fair_Deal_in_the_LGPS_consultation.pdf

Statutory guidance on asset pooling in the Local Government Pension Scheme

6.2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

Appendix A

Local Government Pension Scheme

MHCLG Statutory guidance on asset pooling

Consultation closing 28 March 2019

Extract of Key Points from Consultation

1. In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. [No change.]

2. It is for the pool companies to decide which investment managers to use for pool vehicles. [No change.]

3. Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. [Presumably this is a current function of the LCIV Shareholders Committee.]

4. Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. [Another piece of compliance work. Not an onerous obligation.]

5. Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. [Already in place for the LCIV.]

6. Pension Committees should take a long-term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term. [Somewhat vague in the context of pooling decisions. Does this mean we should pool even if costs more in the short-term?]

7. Strategic asset allocation remains the responsibility of pool members. Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets. [No change.]

8. Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale. [New. This is designed to initiate a debate on the boundaries of strategy / asset allocation that are individual borough responsibility and implementation (pool responsibility) i.e. is strategy concerned with the split between growth and

hedging assets or traditional asset classes? Currently this decision is with each borough. The consultation envisages being decided at pool level. At present we can be fairly sure that London Boroughs will seek the widest possible definition of strategy.]

9. Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand, maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review. [Linked to the previous 'what is strategy' comment. Obligation is merely to report on how the collective London view was formed.]

10. Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. [No change. The pooling timetable remains vague.]

11. Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. [New. By agreement. Cost of transitioning into a pool may be shared across boroughs if incurred unevenly i.e. If a borough is already invested with a manager selected by the pool it may be asked to share costs of others transitioning to that manager. As its by agreement, its likely to be a fractious discussion.]

12. In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle. Direct property is carved out of the obligation to pool. [Greater emphasis on 'exceptions' and 'temporary' but no definitions.]

13. Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. [Surprisingly infrequent review given the exemption is both exceptional and temporary.]

14. Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

15. During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their

investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place. [Again, appears to cut across the earlier comments on non-pooling. Suggests we can do as we like until 2020 and even after that some exceptions to appointing through the pool are possible especially when the asset class is not presented by the LCIV.

16. A small proportion of a pool member's assets [max 5%] may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. [Another small exception that could prove useful.]

17. Pool members may invest through pool vehicles in a pool other than their own. [Opportunity for the LCIV to offer access to other pool's products. How do we keep track on what other pools have to offer?]

18. There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. However, the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size. [No change.]

Fair Deal Consultation

1. The Government has issued a consultation on changes to scheme regulations that deal with pension protection for public sector employees whose employment is compulsorily transferred to a private sector provider. The consultation has three aspects,

   - Removal of the broadly comparable scheme option for staff transferring from scheduled bodies as a result of an outsourcing.
   - The introduction of the option of a ‘deemed employer’ for staff whose employment changes as a result of a contract award.
   - The automatic transfer of assets and liabilities when a scheme employer merges to avoid a cessation.

2. The consultation closes on 4 April 2019.

   Restricting the option of a Broadly Comparable Scheme

3. Currently, when a service is outsourced by a scheme employer that involves the compulsory transfer of staff with right of access to the LGPS, the new contractor has a choice of offering LGPS membership through an admission agreement or offering an actuarily approved alternative pension arrangement that meets the definition of a broadly comparable scheme. The financial criteria for a scheme to be considered ‘broadly comparable” are set by the Government Actuary’s Dept, and were updated February 2019.

4. The consultation proposes the ending of the option to offer a broadly comparable scheme for specified current employers. These are the Council, its affiliates and academies, who are defined as ‘fair deal employers’. Contracts involving transferred staff from admitted bodies and colleges may retain the broadly comparable scheme option, although these employers when awarding contracts involving the transfer of staff have the option of requiring continued LGPS access rights. So long as the protected employees remain wholly or mainly employed on the delivery of the service or function they retain the right to LGPS membership. By agreement, the current and new employer can also agree to offer LGPS membership to other employees of the service provider involved in the service who did not transfer from a current scheme employer.

5. These provisions are designed to enhance the protection for existing scheme members and extend that access for others who provide services that were previously performed by staff with LGPS membership rights. The Government has commented on the opt out for admitted bodies by stating “whilst we are committed to ensuring that public sector workers who are eligible for the LGPS are protected after being outsourced, we do not wish to limit the freedom that non-public sector organisations can reasonably expect in the total package they offer to their staff, including pay and pension.” These new employers retain the admitted body route into the LGPS.

Deemed Employer Status

6. The Government has raised concerns with the complexity and risk for employers who participated in the LGPS as admitted bodies. There is a risk that the future service contribution rate can change and that when the last active member leaves a significant cessation debt is incurred. They also suggest that contractors increase their bid prices to cover these risks resulting in higher charges to the Council. They have therefore proposed the introduction of a 'deemed employer'.

7. The aim of the deemed employer is to enable pass-through under which the new employer pays a fixed or capped contribution rate and is protected against changes in contribution rates not due to their actions. The deemed employer is the former employer who retains the risks not passed to the new employer. Thus, if the Council outsources a service with transferred staff, the future service liabilities and assets will be linked to the Council and not the new employer. The contract between the Council and new employer will determine the new employer's contribution rate. The Council in this situation may retain the responsibility for any shortfall in contributions, as well as the benefit of any surplus.

8. It is hoped that this will enable smaller contractors to bid for contracts. Pass through is already available for admitted bodies and the purpose of the proposals is to ensure that these are fully explored before an outsourcing contract is agreed. The deemed employer status is an option available for the Council, its subsidiaries and academies. The Government also claim that this arrangement will reduce the number of admitted bodies therefore reducing the administration burden.

9. One of the administration challenges is late notification of a contract that gives rise to a transfer of employment. The draft regulations require that the service contract between a Fair Deal employer and the service provider state whether continued access to the LGPS will be provided via the deemed employer route or via the admission body route. This is intended to ensure consideration is given to pensions issues at an early stage, and the substantive differences between the two options are fully appreciated.

Automatic transfers of assets and liabilities in merger or takeover

10. The Government are proposing to amend the regulations to provide that when an LGPS scheme employer is merged into or taken over by another organisation, the responsibility for that pensions liability automatically transfers to the successor body. In addition, where the successor body is also an LGPS employer with active members in another fund, the assets and liabilities must be automatically transferred to that fund and combined with the successor body's assets and liabilities.

11. The aim of the above is to avoid unintended cessations when an employer has no active members

Pension Fund Committee

26 March 2019

Title	**Pension Fund External Audit Plan for the year ended 31 March 2019**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A - BDO External Audit Plan Work Plan 2018/19
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

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 2018/19 financial year.

Appendix A to this report sets outs the audit plan for 2018/19 which will be presented to Pension Fund Committee by BDO.

Recommendations

1. **That the Pension Fund Committee note the audit strategy for the 2018/19 Report and Accounts and raise any issues with the Auditor.**

1. WHY THIS REPORT IS NEEDED

1.1 The audit plan contained at appendix A highlights the key elements of the external auditor's proposed audit strategy for the benefit of those charged with governance. The purpose of this report is to highlight and explain the key issues which the Auditor believes to be relevant to the audit of the annual accounts of the pension fund for the year ended 31 March 2019.

1.2 The report includes the following sections:

Materiality	page 4 & 29
Audit risks	page 6 & 11
Fees	page 7 & 23
Timeline	Page 9

1.3 The risk discussed are mostly generic, however there is mention of issues that are specific to Barnet e.g. pension liability valuation (p13), membership disclosure (p14), invoicing of strain costs (p18) and Barnet Southgate College (p19).

2. REASONS FOR RECOMMENDATIONS

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

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 July Pension Fund Committee to present their 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 and Statement of Accounts 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 2018/19 are £21,170 (2016/17: £43,810) including £5,000 for additional work with the administration team. Additional fees may be charged if the auditor is not provided with adequate working papers or if issues are identified during the audit. There was an additional charge in 2017-18 of £22,810 (included in the above cost).

5.3 **Social Value**

5.3.1 Contributing to the 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 (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts, and

To receive and consider approval of the Pension Fund Annual Report."

5.4.2 The Local Government Pension Scheme Regulations 2013 requires that each employer is sent a copy of the auditor's report.

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 Equality 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, marriage and civil partnership.

5.7 **Consultation and Engagement**

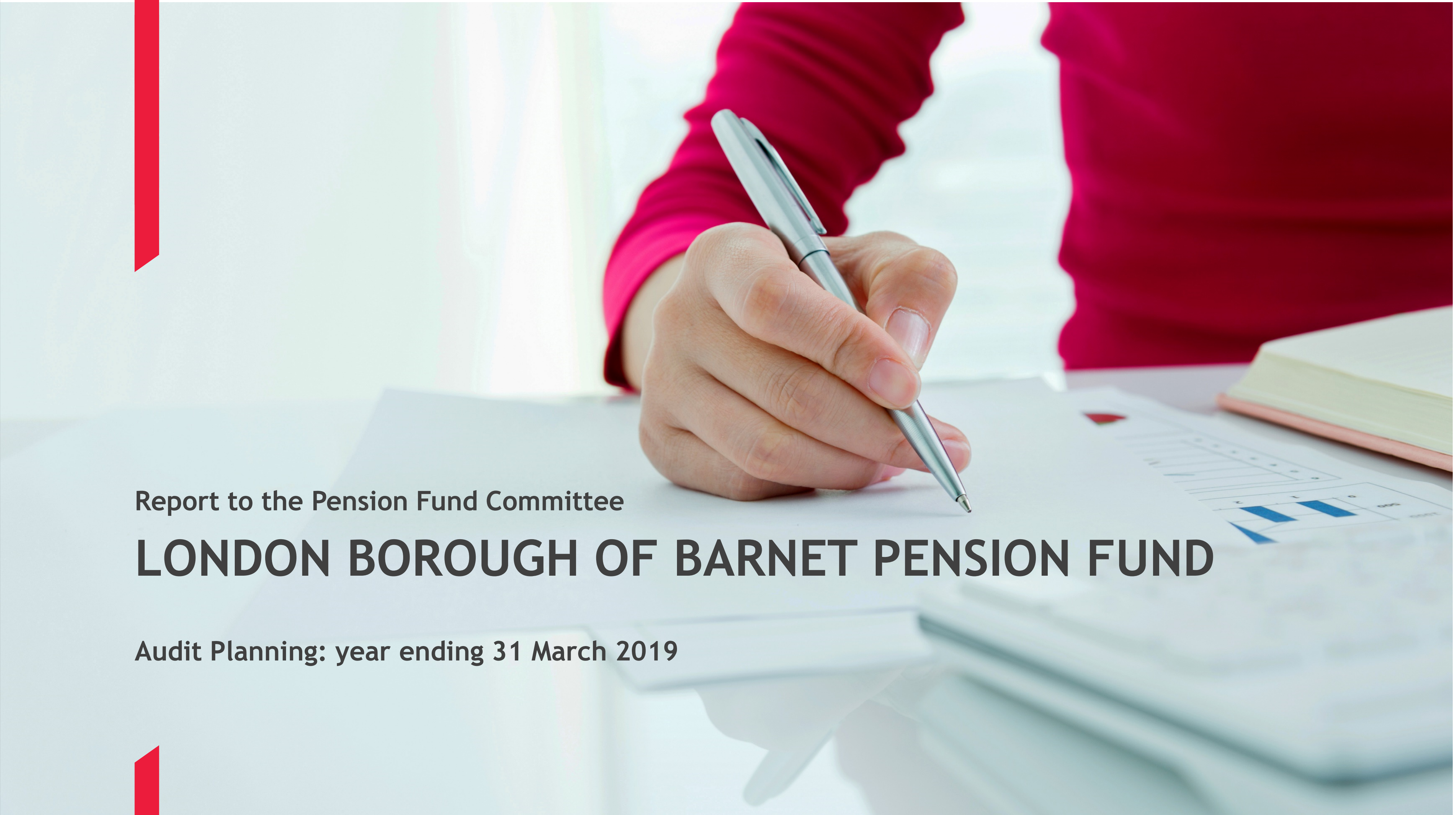
5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 Auditors report on the 2017-18 Report and Accounts. See Pension Fund Committee 16 October 2018, agenda item 7.

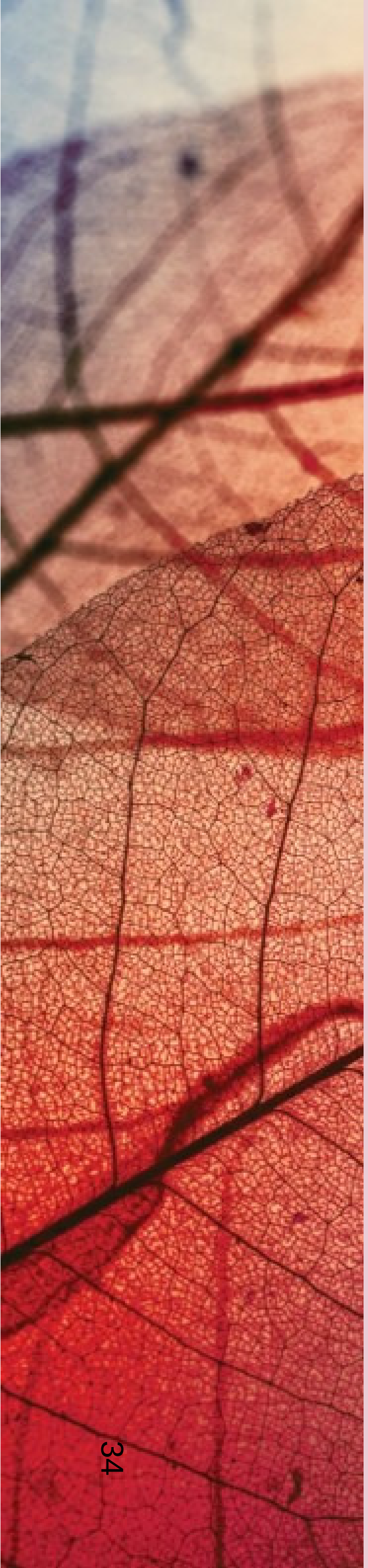


Report to the Pension Fund Committee

LONDON BOROUGH OF BARNET PENSION FUND

Audit Planning: year ending 31 March 2019

IDEAS | PEOPLE | TRUST



CONTENTS

WELCOME

CONTENTS

We have pleasure in presenting our Audit Planning Report to the Pension Fund Committee of London Borough of Barnet Council (the 'Council'). This report 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 with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Pension Fund comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Pension Fund Committee meeting on 26 March 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Leigh Lloyd-Thomas

11 February 2019

Leigh Lloyd-Thomas

Engagement Partner

t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

Michael Asare Bediako

Audit Manager

t: 020 7893 3643
e: michael.asarebediako@bdo.co.uk

This report has been prepared solely for the use of the Pension Fund Committee and Those Charged with Governance 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. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

Executive summary

CONTENTS

This summary provides an overview of the key audit matters that we believe are important to the Pension Fund Committee in reviewing the planned audit strategy for the Pension Fund for the year ending 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

Audit scope

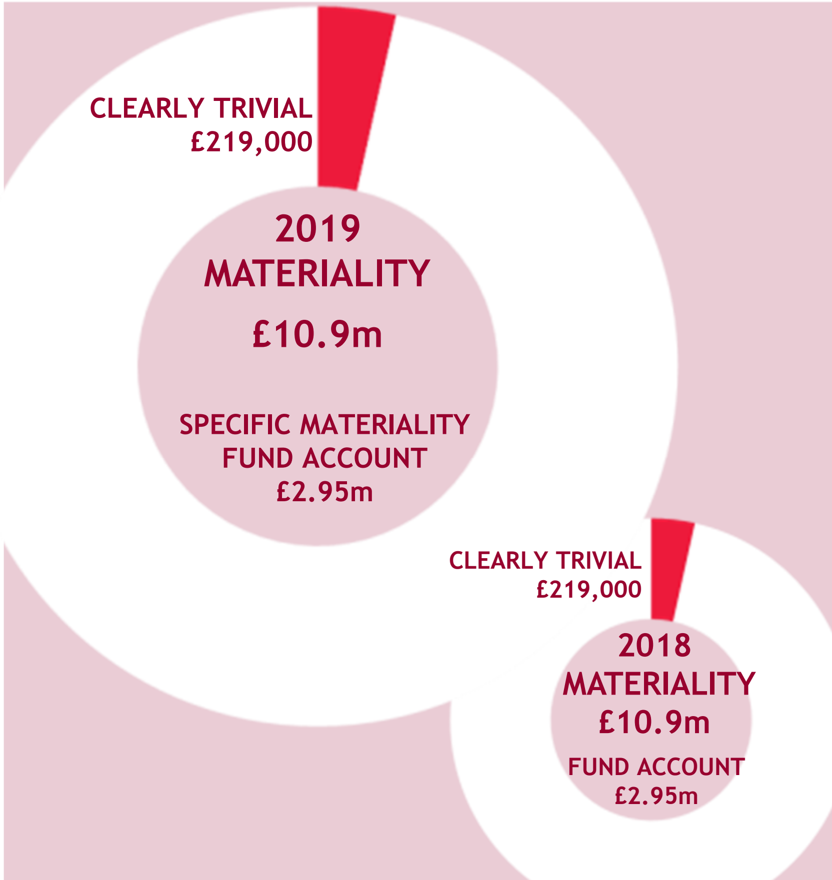
The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements, ensuring that other information published together with the audited financial statements is consistent with the financial statements and our knowledge obtained during the audit, and reviewing the pension fund to check the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

Materiality

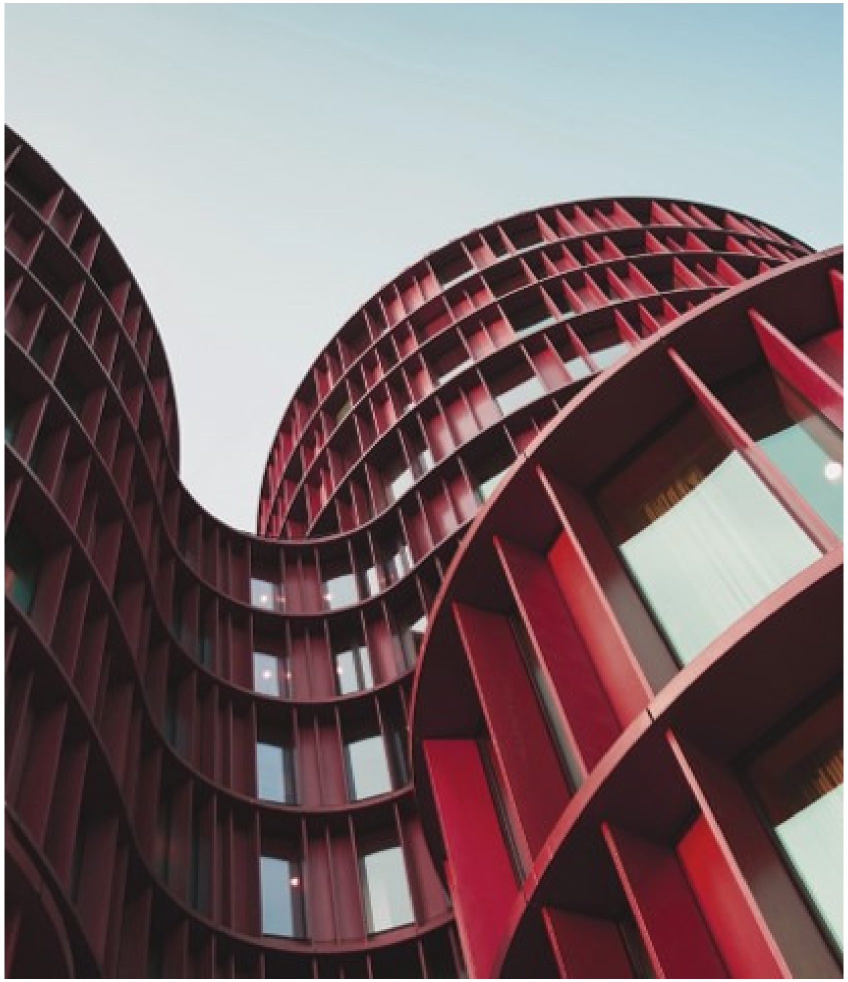
Planning materiality for the pension fund financial statements will set at 1% of the valuation of investment assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the fund account at 5% of contributions receivable. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Pension Fund Committee should consider whether the auditor's overall work plan, including planned levels of materiality and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement.



AUDIT STRATEGY
Executive summary

CONTENTS



Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

We have discussed the changes to the organisation, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the pension fund's activities and to determine which risks impact on the numbers and disclosures in the financial statements.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

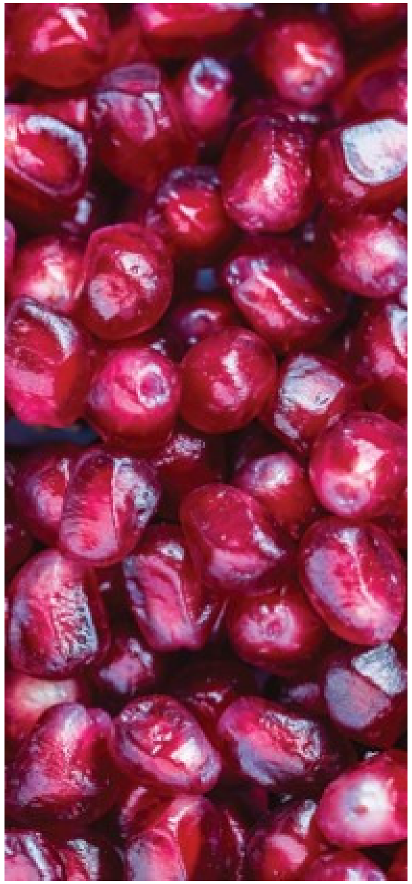
AUDIT RISK OVERVIEW

Executive summary

CONTENTS

Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Pension liability valuation	Significant	No	Substantive	High
Membership disclosure	Normal	No	Substantive	Low
Valuation of investment assets	Normal	No	Substantive	Medium
Benefits payable	Normal	No	Substantive	Low
Classification of financial instruments (IFRS 9)	Normal	No	Substantive	Medium
Contributions receivable	Normal	No	Substantive	Low
Funding of Barnet and Southgate College deficit	Normal	No	Substantive	Medium

CONTENTS



Independence

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

Fees

	2018/19 £	2017/18 £
PSAA scale fees	[1] 16,170	21,000
Proposed supplementary fee variation	[2] 5,000	[3] 22,810
Total audit fees	**21,170**	**43,810**

[1] PSAA has set the 2018/19 fee scale at £16,170 on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18 of £21,000. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

[2] Due to additional work planned in 2018/19 to address issues arising from 2017/18 and the request to undertake additional testing at Capita Employee Benefits at the Darlington site, we propose increasing the PSAA scale fee by £5,000 for 2018/19.

[3] The planned Code audit fee for 2017/18 was £21,000. Due to additional work in response to additional audit risks we have informed management that we intend to raise a supplementary invoice for £22,810 for a final audit fee of £43,810.

CONTENTS

OVERVIEW
Audit scope and objectives

Key components of our audit objectives and strategy for the pension fund are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

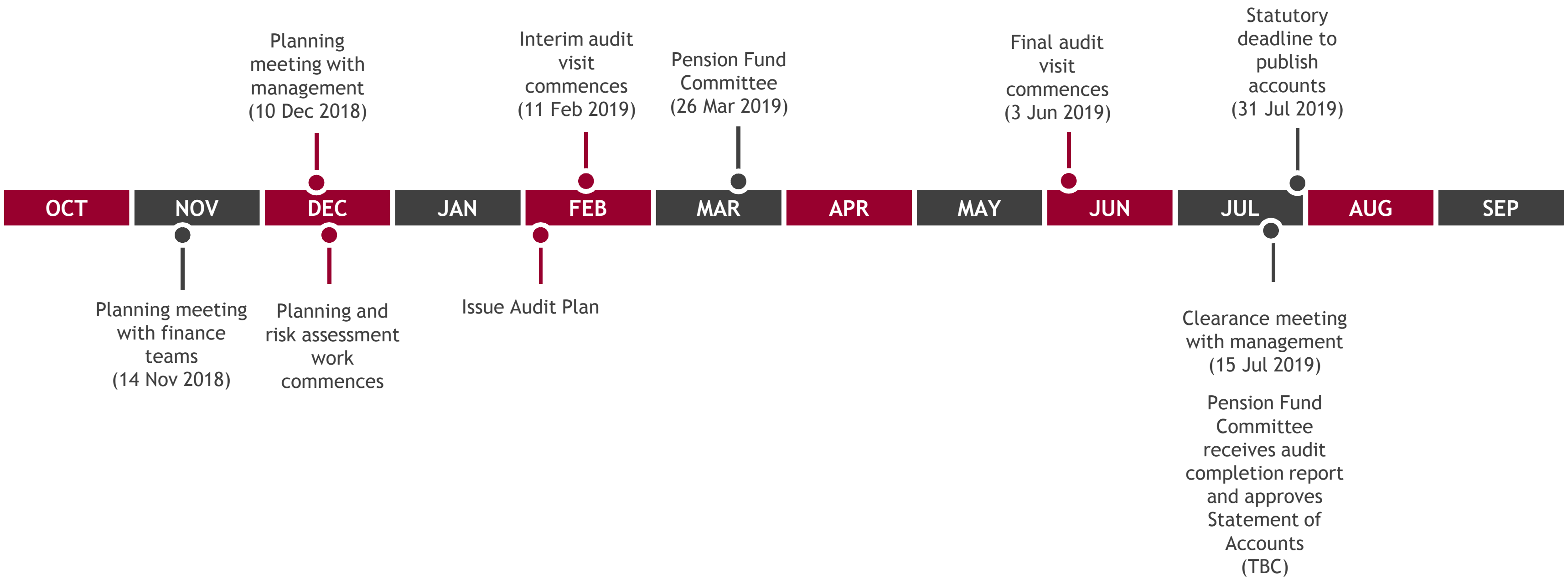
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the pension fund's financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Pension fund report	We will 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.
Report to the Pension Fund Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Pension Fund Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

CONTENTS

AUDIT TIMELINE

An overview of the key dates



BDO TEAM

Team responsibilities

CONTENTS

Leigh Lloyd-Thomas
Engagement Lead

t: 020 7893 2616
e: leigh.lloyd-thomas@bdo.co.uk

As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

In meeting this responsibility I 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, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.

Michael Asare Bediako
Audit Manager

t: 020 7893 3643
e: Michael.asarebediako@bdo.co.uk

I will lead on the audit of the pension fund.

I work closely with Leigh to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Pension Fund and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Pension Fund Committee are highlighted on a timely basis.

Vusal Asgarov
Audit senior

t: 01473 320878
e: vusal.asgarov@bdo.co.uk

I will be the audit senior on the audit of the pension fund.

I work closely with Michael to execute the audit strategy. I will provide management support for audit.

OVERVIEW

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls	■		ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Pension liability valuation	■		There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
3. Membership disclosure		■	There is a risk that the membership database may not be accurate to support the disclosure in the accounts.
4. Valuation of investment assets		■	There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.
5. Benefits payable		■	There is a risk that benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.
6. Classification of financial instruments (IFRS 9)		■	There is a risk that financial instruments are not classified and measured in accordance with new financial reporting standard.
7. Contributions receivable		■	There is a risk that employers may not be calculating contributions correctly and paying over the full amount dues (on normal and deficit rates) or that the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.
8. Funding Barnet and Southgate College deficit		■	There is a risk that a potential liability may exist arising from the allocation of members in these merged colleges where all retired and deferred benefits were allocated to the LB Enfield pension fund and all current employees at the date of the merger were allocated to the LB Barnet pension fund.

CONTENTS

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that Management is in a unique position to perpetrate fraud.

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by the pension fund

Risk detail

- ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of large and unusual journal entries made in the year and agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

PENSION LIABILITY VALUATION

CONTENTS

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by pension fund

Risk detail

- 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 a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.
- There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls for providing accurate membership data to the actuary; and
- Check whether any significant changes in membership data have been communicated to the actuary.

MEMBERSHIP DISCLOSURE

CONTENTS

There is a risk that the membership database may not be accurate and up to date to support the disclosure in the accounts.

Significant risk	■
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by pension fund	

Risk detail

- Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements.
- We reported our concerns regarding significant control deficiencies over the completeness and accuracy of membership data in prior years.
- There is a risk that the membership database may not be accurate and up to date to support the disclosure in the accounts.

Planned audit approach

Our audit procedures will include the following:

- Obtain membership records and review the controls over the maintenance of these records; and
- Test a sample of movements of members to transactions recorded in the fund account and other underlying supporting documentation

VALUATION OF INVESTMENT ASSETS

CONTENTS

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by pension fund

Risk detail

- The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Hymans Robertson Investment Advisory team. These valuation are reported on a quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts; and
- Obtain independent assurance reports over the controls operated by the fund managers for valuations and existence of underlying investments in the funds.

BENEFITS PAYABLE

CONTENTS

There is a risk that benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by pension fund

Risk detail

- Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.
- Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.

Planned audit approach

Our audit procedures will include the following:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, substantively test a sample of calculations of pension entitlement;
- Check the correct application of annual pension uplift for members in receipt of benefits; and
- Review the results of the latest National Fraud Initiative (NFI) data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches;
- Review any life certification exercises undertaken for members that are excluded from the National Fraud Initiative; and
- Agree amounts recorded in the ledger for benefits paid to the pensioner payroll reports.

CLASSIFICATION OF FINANCIAL INSTRUMENTS (IFRS 9)

CONTENTS

There is a risk that financial instruments are not classified and measured in accordance with new financial reporting standard.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by pension fund

Risk detail

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and receivables) and liabilities (principally payables) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.
- The pension fund has financial assets designated as available-for-sale financial instrument which would have to be reclassified and re-measured based on the classification and measurement requirements of IFRS 9.
- The pension fund also has short term receivables (contributions due from employers and employees) and will be required to calculate an expected credit loss on the receivables, rather than the previous model based on incurred losses.
- There is a risk that financial instruments are not classified and measured in accordance with IFRS9 and the new disclosures required by these new standards are omitted.

Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the pension fund, once undertake, to assess the impact of IFRS 9 on the financial statements; and
- Review the disclosures required relating to the adoption of the new accounting standard.

CONTRIBUTIONS RECEIVABLE

There is a risk that employers may not be calculating contributions correctly or the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by pension fund

Risk detail

- Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary. In the previous year we noted that controls required improvements to confirm that (a) employers have paid the minimum required amounts where the deficit contribution amount was included in a higher employer payroll rate or (b) separate deficit amounts were paid over on a timely basis.
- Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions. In the previous year we found that the capital cost of pension strain due to early retirement was not always identified and charged to employers.
- There is a risk that employers may not be calculating contributions correctly, paying over the full amount due to the pension fund or charging employers the capital cost of pension strain due to early retirement.

Planned audit approach

Our audit procedures will include the following:

- Test a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Perform tests over capital cost due from employers for pension strain due to early retirement; and
- Carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

FUNDING BARNET AND SOUTHGATE COLLEGE DEFICIT

There is a risk that a potential liability may exist arising from the allocation of members in these merged colleges across the LB Enfield and LB Barnet pension funds.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by pension fund

Risk detail

- Barnet College and Southgate College merged in 2011. As part of the merger the active employees of Southgate College transferred to the LB Barnet pension fund whereas deferred and pensioner members remained with LB Enfield pension fund.LB Barnet pension fund assumed responsibility for past service accrued benefits and on-going benefits for the transferred employees from the LB Enfield pension fund. LB Enfield pension fund has requested a transfer value buy-out from LB Barnet pension fund of £4.2m to fund the liability shortfall for the deferred and pensioner members based on a cessation funding formula.
- There is a risk that a potential liability may exist arising from the allocation of members in these merged colleges across the LB Enfield and LB Barnet pension funds.

Planned audit approach

Our audit procedures will include the following:

- Review advice provided by the actuary and any other legal advice sought by the pension fund to assess the potential liability for the LB Barnet pension fund.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS

Fraud

Whilst the Pension Fund Committee as those charged with governance have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We request confirmation from the Pension Fund Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

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 review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Laws and regulations

We will consider compliance with Laws and regulations. The most significant of these for the Pension Fund includes the Local Government Pension Scheme Regulation 2013. We will make enquiries of Management and review correspondence with the relevant authorities.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Pension Fund Committee.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

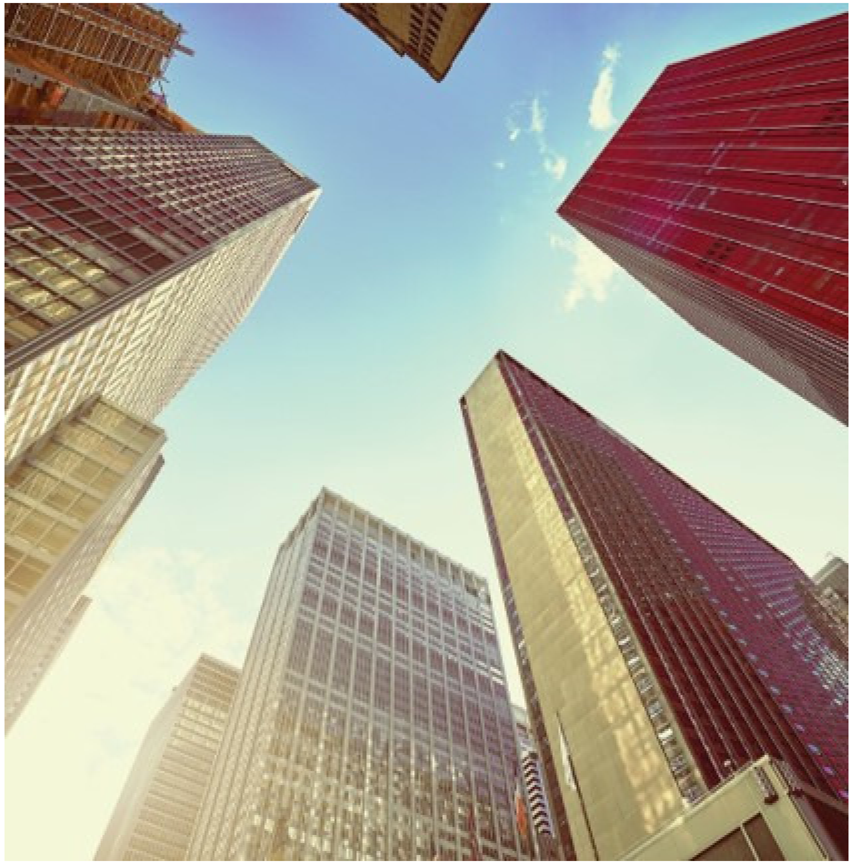
IT GENERAL CONTROLS

CONTENTS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.



INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019. Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Details of other threats and safeguards applied are given in the appendices.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Pension Fund.

We also confirm that we have obtained confirmation of independence external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the pension fund.

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

SUMMARY

Fees summary for year ending 31 March 2019

	2018/19 £	2017/18 £
PSAA scale fees	(1) 16,170	21,000
Proposed supplementary fee variation	(2) 5,000	(3) 22,810
Total audit fees	**21,170**	**43,810**

(1) PSAA has set the 2018/19 fee scale at £16,170 on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18 of £21,000. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) Due to additional work planned in 2018/19 to address issues arising from 2017/18 and the request to undertake additional testing at Capita Employee Benefits at the Darlington site, we propose increasing the PSAA scale fee by £5,000 for 2018/19.

(3) The planned Code audit fee for 2017/18 was £21,000. Due to additional work in response to additional audit risks we have informed management that we intend to raise a supplementary invoice for £22,810 for a final audit fee of £43,810.

APPENDICES CONTENTS

PENSION FUND'S RESPONSIBILITIES

The pension fund's responsibilities and reporting

CONTENTS

Financial reporting

The Pension Fund is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the pension fund accounts for its stewardship.

The form and content of the financial statements should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and publishing the Statement of Accounts (including the financial statements) and Pension Fund Annual Report which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on the pension fund's financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts and Pension Fund Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the pension fund and the Pension Fund Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

COMMUNICATION WITH YOU

CONTENTS

Those charged with governance

References in this report to Those Charged With Governance are to the Council (as the administrating authority of the pension fund) as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Pension Fund Committee.

Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

TEAM MEMBER ROTATION

CONTENTS

These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Leigh Lloyd-Thomas Engagement Lead	4	5 years (last year will be 2019/20)
Michael Asare Bediako Audit Manager	1	10 years

Independence - audit quality control

Role	Number of years involved	Rotation to take place before
Engagement Quality Control Reviewer	1	7 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

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).

International Standards on Auditing (UK) 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 industry 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.

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.

MATERIALITY: DEFINITION AND APPLICATION

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

We will communicate to you 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.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AUDIT QUALITY

CONTENTS

BDO's audit quality cornerstones underpin the firm's definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

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.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 12

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Pension Fund Committee

26 March 2019

Title	**Strategy Update**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Hymans Robertson review of the LCIV emerging markets fund [EXEMPT]. **[to follow]** Appendix B – Hymans Robertson private equity proposal [EXEMPT. **[to follow]** Appendix C – Investment Strategy Statement Table Exempt reports - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

This note follows on from the investment strategy discussions at recent meetings and provides an update on implementation of decisions made by the Committee and contains proposals on property, emerging market equities and private equity. Also included is a proposed update to the investment strategy statement.

Recommendations

1. To delegate approval to the Chairman in consultation with Hymans Robertson to select a suitable fund for a 2.5% investment in long-lease property from the choices identified in paragraph 1.6.
2. To invest £54 million in the LCIV Emerging Markets Equity Fund.

3. To delegate approval to Hymans to identify suitable private equity managers for presentation at the next meeting or on a separate date.
4. To approve the revised table 1 to be included in the investment strategy statement (appendix C).
5. To delegate authority to the Finance Director to take actions to implement recommendations 1&2.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 At recent meetings the Committee has made decisions relating to the funding of new asset classes and the appointment of new investment managers. Progress is discussed for each below. Decisions are proposed in connection with long lease property, emerging market equities, private equity and an update to the investment strategy statement. The issues discussed below are:

- Property
  - Overseas
  - Long lease
  - UK
- Private debt
- Emerging market equities
- Private equity
- Realisations from Diversified Growth Funds
- Investment Strategy Statement
- Manager Monitoring Day (6th March 2019)

<u>Overseas Property</u>

1.3 A commitment of \$32 million (approximately £25 million) has been made to the CBRE Global Alpha fund as part of the proposal to invest 10% of the fund in property. CBRE have advised that they expect to drawdown the funds around June – July 2019, although this depends on suitable investment opportunities being available.

<u>Long-Lease Property</u>

1.4 Within the 10% allocation to property the Committee agreed (July 2018 – exempt minute 10) to invest in the Aberdeen Standard Long Lease Property Fund. Considering our pooling obligations, the decision to invest has been delayed pending a review of the London CIV's inflation plus fund, which was expected to have a significant allocation to long-lease property.

1.5 The LCIV provided an outline of their inflation plus fund in late January. On review this fund is targeting an exposure of 40% to long-lease property. However, the other components of the fund have a lower expected return and include a number of asset classes unrelated to property. In discussion with Hymans Robertson, the consensus is that this fund is not as currently proposed a substitute for an allocation to UK commercial property. It is possible that the LCIV may refine this offering to bring it closer to a long-lease mandate.

1.6 The suggested choices available to the Committee are (1) invest with the LCIV inflation plus fund, (2) revert to the Committees original decision and invest with Aberdeen Standard, and (3) dispense with a long lease mandate and increase the allocation to core commercial property by 2.5% to 7.5% To avoid continued delay it is suggested that delegation is given to the Chairman to act in accordance with these parameters in consultation with Hymans Robertson when the final outline of the LCIV's inflation plus mandate is known. Hymans Robertson will discuss this proposal at the meeting.

UK Core Commercial Property

1.7 The final element of the property proposition was an investment in UK Core commercial property. Investing this element has been delayed partly due to pricing concerns with UK property and partly awaiting details of the LCIV property proposal. The outline of the LCIV fund was circulated during February and at this stage appears suitable for investment. While concerns remain that property prices may face a correction in 2019 it is considered appropriate to allow the LCIV time to identify a manager for their UK commercial property fund and we have notified the LCIV of our interest in investing in this fund.

LCIV Private Debt Fund

1.8 The Committee agreed at its meeting held on 22 January 2019 to invest £30 million in the LCIV Private Debt Fund. The LCIV are aiming to submit the fund to the Financial Conduct Authority for approval in March/April and to be taking subscriptions in April/May. So far, Barnet is the only London Borough to have indicated an intent to invest in this fund, although the LCIV is continuing to engage with other London Boroughs. It is not unusual for LCIV mandates to gradually accumulate assets. The manager of this fund, Ares presented to the manager monitoring day held on 6th March 2019.

Emerging Market Equities

1.9 Hymans Robertson strategy proposal to the 22 January 2019 meeting (agenda item 11) proposed a 5% allocation to emerging market equities. Prior to the meeting the Committee received training from Janus Henderson who manage the LCIV emerging market equity fund. The decision made at the last Committee meeting was to request Hymans Robertson to identify suitable funds. In view of the Committee's favourable reaction to the Janus Henderson presentation and to comply with our pooling obligation, the review has been limited to Janus Henderson. Hymans report on the LCIV fund and its manager is attached (appendix A). Hymans will outline their conclusions at the meeting and the recommendation is that a £54 million (5%) investment is made in the LCIV Emerging Markets Equity Fund.

Private Equity

1.10 Hymans Robertson strategy proposals to the January meeting (agenda item 11) included a 5% allocation to private equity. The Committee requested that Hymans identify suitable managers for this allocation. Hymans will provide insight into the private equity universe (see appendix B) and discuss their preferred route into this market. It is suggested that they are then delegated to identify suitable managers to present to the Committee in accordance with the outcome of the discussion on alternative approaches to private equity.

Realisation to fund the new mandates

1.11 Currently funds are being realised from the Newton mandate when required to fund any of the new funds. This will continue and when the Newton fund is fully realised, the Schroders diversified growth fund will be realised to meet cash requirements.

Investment Strategy Statement

1.12 The Committee is required to maintain an investment strategy statement (ISS) and invest in accordance with the ISS. The recent changes in strategy require the ISS to be updated, in particular the table stating the strategic allocations and maximum exposures to each asset class. The current and revised allocations are shown at appendix C and the Committee is requested to approve the revised table.

Investment Manager Monitoring Day

1.13 A debt focused manager monitoring day was held on 6th March 2019 attended by Cllrs Finn, Hutton, Marshall, Moore, Simberg and Shooter. The managers who presented were:

IFM
Schroders (corporate bonds)
M&G
Alcentra Multi-credit
Partners
Ares

1.14 A copy of Hymans presentation explaining the debt universe and the roles of the managers appointed by Barnet is available from the report author.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016 and 2017. Modelling presented to the Committee at the June 2018 meeting indicated that the current strategy, while expected to achieve the funding objective, can be enhanced.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The various alternatives are discussed in the paper and within the Hymans Robertson reports. The recommendations are based on modelling results.

4. POST DECISION IMPLEMENTATION

4.1 Delegation is requested to the S151 officer to implement the agreed actions.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

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

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority’s accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however 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 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy.

5.4.2 The Council’s Constitution – Article 7 – includes within the responsibilities of the

Pension Fund Committee, (1) the approval of the Investment Strategy Statement and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality 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, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's 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 See agenda item 11, 22 January 2019.

Investment Strategy Statement – Table 1

Current Table

Table 1 - Fund asset allocation

Asset class	Benchmark	Benchmark Proportion	Maximum Allocation
Equity		**40%**	**44%**
Global equity	FTSE All World Index	**20%**	
	FTSE RAFI All World Equity GBP Hedged Index	**20%**	
Diversified growth funds	libor or inflation plus margin	**20%**	**28%**
Liquid Multi-asset credit	3 month libor plus margin 4-5%	**11%**	**14%**
Corporate bonds	Merrill Lynch Sterling Non-Gilts All Stocks Index	**10%**	**13%**
Strategic bonds	3 month Libor	**0**	**5%**
Illiquid alternatives	percentage annual return or 3 month libor plus a margin	**19%**	**23%**
		100%	

Revised Table

Asset class	Benchmark	Benchmark Proportion	Maximum Allocation
Equity		**50%**	**50%**
Listed equity	FTSE All World Index	20%	
	FTSE RAFI All World Equity GBP Hedged Index	20%	
	MSCI Emerging Market Index (TR) Net	5%	
Private equity	FTSE All World Index +3% (tbc)	5%	
Diversified growth funds	libor or inflation plus margin	**0%**	**25%**
Property	IPD UK All Property Funds	**10%**	**12%**
Infrastructure	8-12% p.a. return (tbc)	**5%**	**7%**
Corporate bonds	Merrill Lynch Sterling Non-Gilts All Stocks Index	**10%**	**13%**
Illiqid credit	3 month libor plus 5%	**11%**	**23%**
Multi-credit	3 month libor plus 4%	**7%**	**10%**
Alternative credit	3 month libor plus 2%	**7%**	**10%**
		100%	

This page is intentionally left blank