

## Pension Fund Account

	Note	2013/14		2012/13	
		£000's	£000's	£000's	£000's
<b>Contributions and Benefits</b>					
Contributions Receivable	3	52,207		53,999	
Transfer in	4	2,591		2,670	
Other income		24			
		<u>54,822</u>	<u>54,822</u>	<u>56,669</u>	<u>56,669</u>
Benefits Payable Account	5	44,874		43,648	
Payments to and on behalf of Leavers	6	3,818		2,636	
Administrative Expenses	7	1,088		1,023	
		<u>49,780</u>	<u>49,780</u>	<u>47,307</u>	<u>47,307</u>
<b>Net additions from dealings with members</b>					
			5,042		9,362
<b>Return on investments</b>					
Investment income	8	58		68	
Change in market value of investments	9	27,963		78,273	
Investment management expenses	11	(1,620)		(1,851)	
<b>Net returns on investments</b>		<u>26,402</u>	<u>26,402</u>	<u>76,490</u>	<u>76,490</u>
<b>Net increase in the fund during the year</b>					
			<u>31,444</u>		<u>85,852</u>

## Net Assets of the Scheme

	2013/14	2012/13
	£000's	£000's
At 1 April	798,337	712,485
At 31 March	<u>829,782</u>	<u>798,337</u>

## Net Assets Statement

	Note	2013/14	2012/13
		£000's	£000's
Investment assets	9	819,561	791,598
Current assets	12	12,990	13,788
Current liabilities	13	(2,769)	(7,049)
		<u>829,782</u>	<u>798,337</u>

## Notes to the Pension Fund Accounts for the year ended 31 March 2014

### 1. Introduction

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

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

Further details of the management, operation and investment objectives of the fund are provided in the Fund's Annual Report for 2013/14, the Actuary's report (contained in Appendix 2 to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the underlying statutory powers underpinning the scheme.

#### General

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

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

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

#### Membership

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

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

BEAT (The Music Service)	Mears Group
Birkin Services	NSL Ltd
Birkin - St. James	
Blue 9 Security	Personnel and Care Bank
Fremantle Trust (2)	Viridian Housing
Friends Moat Mount	
Capita CSG (Customer & Support Group)	
Capita RE (Regional Enterprise)	
Go Plant Hire	
Housing 21 (2)	
London Care	

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

Barnet Voluntary Service Council  
Enterprise Cleaning

Barnet MENCAP  
KGB Cleaning Services Ltd.

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

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

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

The number of employees contributing to the fund increased during the year from 6,660 to 7,802 at 31 March 2014\*. During the same period the number of pensioners decreased from 6,772 to 6,727 and the number of deferred pensioners increased from 7,977 to 8,427.

\*The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2014; including the comparative figures. An analysis of membership movement in the year is provided in note 19 of these accounts.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

## **2. Accounting Policies**

### **Accounting Standards**

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

## **Basis of Preparation**

### **Accruals Concept**

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

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 16 and these financial statements should be read in conjunction with them.

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

- a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2013.
- b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2013.
- c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2013.
- d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

## **Sale and Purchase of Investments**

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

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

## **Administration Expenses**

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

## **Benefits Payable**

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

### Contribution Income

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

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

### Investment Income

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

### Cash and cash equivalents accounting policy

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### Related party disclosure

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

### Taxation

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

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

## Investment Management Expenses

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

## Assumptions made about the future and other major sources of uncertainty

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

## Actuarial present value of promised retirement benefits

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

### 3. Contributions Receivable

	2013/14 £000's	2012/13 £000's
<b>Employers</b>		
Council	22,759	22,654
Scheduled bodies	16,493	16,968
Admitted bodies	2,930	4,729
	<b>42,182</b>	<b>44,351</b>
<b>Members</b>		
Council	5,110	5,581
Scheduled bodies	3,988	3,713
Admitted bodies	927	354
	<b>10,025</b>	<b>9,648</b>
<b>Total Contributions</b>	<b>52,207</b>	<b>53,999</b>

### 4. Transfers In

	2013/14 £000's	2012/13 £000's
Individual transfers in from other schemes	2,591	2,670

### 5. Benefits Payable

	2013/14 £000's	2012/13 £000's
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Pensions	<b>38,106</b>	36,364
Commutations and lump sum payments	<b>5,783</b>	6,361
Lump sum death benefits	<b>985</b>	923
	<b>44,874</b>	43,648

## 6. Payments to and on Account of Leavers

	2013/14 £000's	2012/13 £000's
Refunds to members leaving service	<b>8</b>	13
Group transfers to other schemes	-	-
Individual transfers to other schemes	<b>3,810</b>	2,623
	<b>3,818</b>	2,636

## 7. Administrative Expenses

	2013/14 £000's	2012/13 £000's
Administration and processing	<b>957</b>	923
Actuarial fees	<b>100</b>	66
Audit fees	<b>31</b>	20
	<b>1,088</b>	1,009

All other costs of administration are borne by the London Borough of Barnet.

## 8. Investment Income

	2013/14 £000's	2012/13 £000's
Income from property unit trusts	-	-
Interest on cash deposits	<b>25</b>	26
Other income	<b>33</b>	42
	<b>58</b>	68
Irrecoverable withholding tax	-	-
Total investment income	<b>58</b>	68

## 9. Investments

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

2012/13	Value at 1/4/2012	Purchases at Cost	Sales Proceeds	Unrealised losses	Change in Market Value	Value at 31/3/2013
	£000's	£000's	£000's	£000's	£000's	£000's
Pooled investment vehicles	702,409	23,033	(13,136)	(473)	78,273	790,106
	702,409	23,033	(13,136)	(473)	78,273	790,106
Cash Deposits	1,221					1,492
	<b>703,630</b>					<b>791,598</b>

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

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

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund's investment managers at year end including cash deposits totalled £819.561 million. This was split as follows:

Investment Portfolio	2013/14	
	£000's	%
Schroder Investment Management	<b>375,269</b>	<b>45.8</b>
Newton Investment Management	<b>383,452</b>	<b>46.8</b>
Legal & General	<b>60,840</b>	<b>7.4</b>
	<b>819,561</b>	<b>100.0</b>

## Major Investments



The fund investments are all held in pooled funds. The following investments represent more than 5% of the net assets of the scheme:

Value £000's	2012/13 as % of investment assets	
252,864	31.94	Newton Real Return Fund
118,908	15.02	Newton Long Corporate Bond Fund
243,716	30.79	Schroder Life Diversified Growth Fund
113,904	14.39	Schroder All Maturities Corporate Bond Fund
40,214	5.08	Legal and General Index Linked Tracker Fund
<b>769,606</b>		

Value £000's	2013/14 as % of investment assets
257,787	31.45
120,499	14.7
256,539	31.3
118,081	14.41
43,305	5.28
<b>796,211</b>	<b>97.14</b>

#### Pooled investment Vehicles

UK Managed funds  
UK Unit Trusts

#### Cash Deposits

Sterling

2013/14 £000's	2012/13 £000's
757,747	732,734
60,840	57,372
<b>818,587</b>	<b>790,106</b>
974	1,492
<b>819,561</b>	<b>791,598</b>

#### Pooled Investment Vehicles

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

<b>Newton as at 31 March 2014</b>	<b>Long Corporate Bond</b>	<b>Long Gilt</b>	<b>Index- Linked Gilt</b>	<b>Global Dynamic Bond</b>	<b>Real Return</b>
<b>EQUITIES</b>					
UK	-	-	-	-	14.7
North America	-	-	-	0.01	17.32
Europe ex UK	-	-	-	-	21.94
Japan	-	-	-	-	1.67
Asia ex Japan	-	-	-	0.11	2.59
Other	-	-	-	0.09	2.03
<b>Total Equities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.21</b>	<b>60.25</b>
<b>FIXED INTEREST</b>					
UK Gilts		91.66	93.21	3.89	0.95
UK Index Linked Gilts	-	-	-	4.05	1.23
UK Corporate Bonds	59.32	2.3	3.99	18.16	1.98
Overseas Government Bonds		1.87		26.6	14.79
Overseas Corporate Bonds	37.49	2.27	1.13	40.65	9.54
Overseas Index Linked Corporate Bonds		1.9	1.13		0.44
<b>Total Fixed Interest</b>	<b>96.81</b>	<b>100</b>	<b>99.46</b>	<b>93.35</b>	<b>28.93</b>
<b>OTHER ASSETS</b>					
Commodities	-	-	-	-	2.82
Derivatives	-	-	-	-9.49	0.05
Other assets	-	-	-	-	-
Cash	3.19	-	0.54	15.93	7.95
<b>Total Other Assets</b>	<b>3.19</b>	<b>0</b>	<b>0.54</b>	<b>6.44</b>	<b>10.82</b>
<b>Total Assets</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

	<b>Schroder Diversified Growth Fund</b>	<b>Schroder All Maturities Corporate Bond</b>
<b>Equities</b>		
Schroder QEP Global Dynamic Blend Portfolio	17.6	-
Quality Yield Equity Basket	3.2	-
Shareholder Focus Basket	2	-
Schroder European Alpha Plus Fund	3	-
Schroder ISF Asian Equity Yield	2.3	-
Passive Equities	23.2	-
	<b>51.3</b>	<b>-</b>
<b>Commodities</b>		
ETF Gold	1.9	-

Schroder ISF Global Energy	1.4	-
	<u>3.3</u>	-
High Yield Debt		
Schroder ISF Global High Yield	4.4	-
Schroder High Yield Portfolio	2.6	-
	7	-
Emerging Market Bonds		
Stone Harbor Emerging Debt Fund	1	-
Stone Harbor Emerging Local Debt Fund	0.8	-
	<u>1.8</u>	-
Property		-
Schroder UK Property Fund	<u>3</u>	-
Absolute Return		
Schroder ISF Emerging Market Debt	5	-
Schroder GAIA Sirios US Equity	2	-
Bespoke Hedge Fund Portfolio	1.9	-
Diversified Trend Strategy	1.8	-
Gam Star Global Rates	1	-
Henderson UK Absolute Return Fund	1	-
Brevan Howard Macro	0.7	-
	<u>13.4</u>	-
Infrastructure		
John Laing Infrastructure Limited International Public Partnerships Ltd	1.5	-
HICL Infrastructure Company Limited	1.2	-
Bilfinger Berger Global infrastructure	0.7	-
	<u>0.5</u>	-
	<u>3.9</u>	-
Other Assets		
Private Equity	0.9	-
Asset Backed Securities Portfolio	3.9	-
RWC Global Convertibles Fund	1.9	-
M & G European Loan Fund	0.4	-
Invesco US Senior Loan Fund	0.5	-
Insurance-Linked Securities	3	-
Cash	5.7	-
Securitized	-	14.77
Government Related	-	8.64

Corporate	-	57.38
Cash	-	19.21
		<hr/>
	100.00	100.00
<b>Total</b>		<hr/>

## 10. AVC Investments

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

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

<b>2013/14 AVC Investments</b>	<b>2012/13 £000's</b>	<b>Contributions £000's</b>	<b>Income £000's</b>	<b>Expenditure £000's</b>	<b>2013/14 £000's</b>
<b>Aviva /Norwich Union</b>	<b>681</b>	<b>15</b>	<b>21</b>	<b>-</b>	<b>717</b>
<b>Prudential</b>					
With Profits	532	79	25	(77)	559
Deposit	325	82	2	(19)	390
Unit Linked	665	120	26	(48)	763
<b>Total Prudential AVCs</b>	<b>1,522</b>	<b>281</b>	<b>53</b>	<b>(144)</b>	<b>1,712</b>
<b>Total AVC's</b>	<b>2,203</b>	<b>296</b>	<b>74</b>	<b>(144)</b>	<b>2,429</b>

<b>2012/13 AVC Investments</b>	<b>2011/12 £000's</b>	<b>Contributions £000's</b>	<b>Income £000's</b>	<b>Expenditure £000's</b>	<b>2012/13 £000's</b>
<b>Aviva /Norwich Union</b>	<b>648</b>	<b>20</b>	<b>13</b>	<b>-</b>	<b>681</b>
<b>Prudential</b>					
With Profits	507	84	26	(85)	532
Deposit	289	63	2	(29)	325
Unit Linked	448	99	131	(13)	665
<b>Total Prudential AVCs</b>	<b>1,244</b>	<b>246</b>	<b>159</b>	<b>(127)</b>	<b>1,522</b>
<b>Total AVC's</b>	<b>1,892</b>	<b>266</b>	<b>172</b>	<b>(127)</b>	<b>2,203</b>

The Aviva Additional Voluntary contributions in respect of 2013/14 are partly estimates pending the provision of final valuations by the provider based on 2012/13 actual.

## 11. Investment Management Expenses

2013/14

2012/13

	£000's	£000's
Administration, management and custody	1,547	1,796
Performance Measurement Services	8	11
Other advisory fees	65	44
	<b>1,620</b>	<b>1,851</b>

## 12. Current Assets

	2013/14 £000's	2012/13 £000's
Contributions due from employers in respect of		
Employer contributions	1,292	1,121
Member contributions	354	225
Sundry Debtors	2,180	2,348
Cash Balances	9,164	10,095
	<b>12,990</b>	<b>13,789</b>

## 13. Current Liabilities

	2013/14 £000's	2012/13 £000's
Unpaid Benefits	369	794
Unsettled Purchases	-	27
Accrued Expenses	2,400	6,214
	<b>2,769</b>	<b>7,035</b>

## 14. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2010 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at:

[https://www.barnet.gov.uk/downloads/download/144/statement\\_of\\_investment\\_principles\\_oct\\_2010](https://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010)

## 15. Related Party Transactions

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

	2013/14 £000's	2012/13 £000's
Human Resources	580	451
Accountancy Administration	352	401
	<b>932</b>	<b>852</b>

The costs of payroll support are included in the Human Resources Recharge. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key

management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the London Borough of Barnet Pension Fund.

## 16. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit credit method".

The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

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

The 2013 valuation actuarially assessed the value of the Fund's assets as, being sufficient to meet 79% of the Fund's liabilities. This corresponded to a deficit of £211 million. The latest valuation as at 31<sup>st</sup> March 2014 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31<sup>st</sup> March 2013, and are given for comparison;

<b>Assumption</b>	<b>Rate</b>
Assumed retail price inflation (RPI)	3.5%
Assumed customer price inflation (CPI)	2.7%
Salary increases	4.5%
Pension increases	2.7%
Discount rate	4.4%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 18 March 2014.

## 17. Classification of Financial Assets

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

<b>31 March 2014</b>	<b>Designated as fair value through profit and loss £'000</b>	<b>Loans and receivables £'000</b>	<b>Financial liabilities at amortised cost £'000</b>
<b>Financial Assets</b>			
Pooled Investments	818,517	-	-
Pooled Property	-	-	-
Cash Deposits	-	10,138	-
Investment income due	-	-	-
Debtors	-	2,180	-
<b>Financial Liabilities</b>			
Creditors	-	-	(2,349)
	<b>818,517</b>	<b>12,318</b>	<b>(2,349)</b>
<b>31 March 2013</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial Assets</b>			
Pooled Investments	790,106	-	-
Pooled Property	-	-	-
Cash Deposits	-	11,589	-
Investment income due	-	-	-
Debtors	-	2,348	-
<b>Financial Liabilities</b>			
Creditors	-	-	(7,049)
	<b>790,106</b>	<b>13,937</b>	<b>(7,049)</b>

## 18. Nature and Extent of Risks Arising from Financial Instruments

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

### Overall procedures for managing risk

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

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

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

Pension Fund investments managed by external Investment Managers is compared to benchmark returns.

### Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2014 working capital was held in the Pension Fund Bank account with the Co-operative Bank and, in a call account with the Bank of Scotland, in accordance with the Council's Treasury management strategy credit rating criteria.

	Long Term Credit Rating	Source	Holding 31/3/2014 £'000	Holding 31/3/2013 £'000
Schroder Group JP Morgan (Schroder Custodian)	AA3 AA-	Moody's Standard and Poors	<b>375,269</b>	<b>358,204</b>
Newton –Bank of New York Mellon (Parent)	A+	Standard and Poors	<b>383,452</b>	<b>376,022</b>
Bank of Scotland	A1	Moody's	<b>8,779</b>	-
Co-operative Bank	BBB+	Fitch	<b>155</b>	<b>10,097</b>

### Liquidity Risk

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

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

### Market risk

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

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

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



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

#### 2013/14

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

#### 2012/13

Asset Type	Market Value 31.3.2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Pooled Investments	<b>791,598</b>	<b>10.0</b>	<b>870,758</b>	<b>712,438</b>
Cash Deposits	<b>10,095</b>	<b>1.0</b>	<b>10,196</b>	<b>9,994</b>

#### Exchange rate risk

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

#### Refinancing risk

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

## 19. Membership of the Pension Fund

	2013/14
<b>Employees</b>	
Number of Employees at 31/03/2013	6,660
Employees joining during the year	1,916
	<u>8,576</u>
Members leaving during the year:	
Normal retirements	113
Ill-health retirements	8
Deaths in service	8
Refunds of Contributions	47
Deferred pensions	598
	<u>-774</u>
<b>Number of Employees at end of year</b>	<b><u>7,802</u></b>
<b>Pensioners</b>	
Number of Pensioners at start of year	3,772
New pensioners during the year:	
Normal retirements	154
Ill-health retirements	0
Dependants' pensions	64
Deferred pensions becoming payable	101
	<u>319</u>
Deaths/dependants ceasing to be eligible	<u>-709</u>
<b>Number of Pensioners at end of year</b>	<b><u>6,727</u></b>
<b>Deferred Pensioners</b>	
Number of Deferred Pensioners at start of year	7,977
New deferred pensioners during the year:	637
	<u>8,614</u>
Deferred Pensioners leaving the fund during the year:	
Normal retirements	95
Ill-health retirements	0
Transferred	78
Back to active status	0
Deaths	14
	<u>-187</u>
<b>Number of Deferred Pensioners at end of year</b>	<b><u>8,427</u></b>
<b>Total Membership at 31 March 2014</b>	<b><u>22,956</u></b>

## 20. Events after the Balance Sheet date

Since the Balance Sheet date of 31 March 2014, there have been no post balance sheet events to report. The only non-adjusting event that is reported is the latest market value of the total externally managed investments of the Fund which increased slightly from £819.561 million to £822.262 million (as valued at 31 May 2014). This represents an increase of £2.7 million.

Barnett Waddingham  
Public Sector Consulting

29 May 2014



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## Introduction

We have been instructed by the London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension Fund ("the Fund"), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to members of the Fund as at 31 March 2014.

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

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

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

## Valuation Data

### Data Sources

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

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2014.

Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013 and a Fund asset statement as at 31 March 2014.

- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal Employer service cost.

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

### Fund Membership Statistics

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

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	6,702	141,943	47
Deferred Pensioners	8,992	14,264	46
Pensioners	6,738	33,831	71

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 4%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Equities	563,734	68%	545,151	68%
Gilts	0	0%	0	0%
Other Bonds	256,996	31%	248,525	31%
Cash	8,290	1%	8,017	1%
<b>Total</b>	<b>829,020</b>	<b>100%</b>	<b>801,693</b>	<b>100%</b>

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

From the information we have received from the administering authority, we understand that of the total Fund at 31 March 2014;

- Of the Equities allocation above, 46% is invested in the BNY MFM Ltd Newton Real Return 'X' Acc Fund, 46% in the Schroder Pension Management Ltd SIM Life Diversified Growth Fund, and 8% in the Legal & General Index Linked Tracker Fund - (World (Ex UK) Equity Index).
- The Other Bonds allocation consists of 47% in the BNY MFM Ltd Newton Long Corp Bond 'X' (Acc) GR Fund, 1% in the BNY MFM Ltd Newton Global Dynamic Bond 'X' (Acc), 45% in the Schroder All Maturities Corp Bond Fund, and 7% in the Legal & General Active Corporate Bond - All Stock – Fund.
- A small amount of the Fund, less than 0.5% is invested in BNY MFM Ltd Newton Long Gilt Fund 'X' (Acc) GR (43%) and BNY MFM Ltd Newton Index Linked Gilt 'X' (Acc) GR Fund (57%).

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the Administering Authority is contacted in the first instance.

## Unfunded Benefits

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

## Actuarial Methods and Assumptions

### Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

### Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are;

Life Expectancy from age 65 (years)	31 March 2014	31 March 2013
Retiring today		
Males	22.0	20.1
Females	24.3	24.1
Retiring in 20 years		
Males	24.1	22.1
Females	26.7	26.0

We have also made the following assumptions:



Members will exchange half of their commutable pension for cash at retirement;

Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;

10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

## Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.5%	-	3.4%	-	3.3%	-
CPI increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.5%	1.0%	4.8%	1.4%	4.7%	1.4%
Pension Increases	2.7%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount Rate	4.4%	0.9%	4.6%	1.2%	4.6%	1.3%

These assumptions are set with reference to market conditions at 31 March 2014.

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

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

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 17 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.5%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.7%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

### **Expected Return on Assets**

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

## Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £515,554,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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



**Anna Short FFA  
Associate**

## Appendix 1 Balance Sheet Disclosure as at 31 March 2014

Net Pension Asset as at	31 Mar 2014	31 Mar 2013	31 Mar 2012
	£000's	£000's	£000's
Present Value of Funded Obligation	1,344,574	1,305,450	1,212,469
Fair Value of Scheme Assets (bid value)	829,020	801,693	716,032
<b>Net Liability</b>	<b>515,554</b>	<b>503,757</b>	<b>496,437</b>

\*Present Value of Funded Obligation consists of £1,214,083,000 in respect of Vested Obligation and £130,491,000 in respect of Non-Vested Obligation.

## Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening Defined Benefit Obligation</b>	<b>1,305,450</b>	<b>1,212,469</b>	<b>1,212,469</b>
Current Service cost	40,544	37,366	37,366
Interest cost	59,331	55,136	55,136
Change in financial assumptions	49,856	28,011	combined below
Change in demographic assumptions	(21,008)	-	combined below
Experience loss/(gain) on defined benefit obligation	(56,965)	-	combined below
Total Actuarial losses (gains)	separated above	separated above	28,011
Losses (gains) on curtailments	combined below	combined below	1,565
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(44,332)	(38,759)	(38,759)
Past service cost	combined below	combined below	-
Past service costs, including curtailments	1,671	1,565	separated above
Contributions by Scheme participants	10,027	9,662	9,662
Unfunded pension payments	-	-	-
<b>Closing Defined Benefit Obligation</b>	<b>1,344,574</b>	<b>1,305,450</b>	<b>1,305,450</b>

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening fair value of Scheme assets</b>	<b>801,693</b>	<b>716,032</b>	<b>716,032</b>
Expected return on scheme assets	n/a	n/a	38,566
Interest on assets	36,959	33,098	n/a
Return on assets less interest	(8,831)	46,824	n/a
Other actuarial gains/(losses)	(3,475)	-	n/a
Total Actuarial gains/(losses)	n/a	n/a	40,020
Administration expenses	(914)	(1,336)	n/a
Contributions by employer including unfunded	37,893	36,172	36,172
Contributions by Scheme participants	10,027	9,662	9,662
Estimated benefits paid plus unfunded net of transfers in	(44,332)	(38,759)	(38,759)
Settlement prices received / (paid)	-	-	-
<b>Closing Fair value of Scheme assets</b>	<b>829,020</b>	<b>801,693</b>	<b>801,693</b>

