

The London Borough of Barnet Pension Fund

Draft Annual Report

For the year ended 31 March 2015

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1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

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

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

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

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

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

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

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

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

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

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

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

1.2 Administration of the London Borough of Barnet Pension Fund

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

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

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

1.3 Management Structure

Administering Authority

London Borough of Barnet

Pension Fund Committee Members

Chairman:	Councillor Mark Shooter
Vice-Chairman	Councillor John Marshall
Members:	Councillor Andreas Ioannidis
	Councillor Arjun Mittra
	Councillor Jim Tierney
	Councillor Peter Zinkin

Substitutes:	Councillors Dean Cohen; Anthony Finn; Ross Houston; Adam Langleben; Pauline Coakley Webb
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Officers

LB Barnet

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

Capita CSG (Customer and Support Group)

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

Observers

John Burgess, Unison
David Woodcock, Middlesex University

Actuary

Barnett Waddingham

Investment Advisors

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

Auditor

Grant Thornton UK LLP

Performance Monitoring

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

Custodians

JP Morgan
The Bank of New York

Pensions Administration Manager

Karen Scott
Service Delivery Manager (Pensions) Capita Employee Benefits
Employee Benefits
Capita, PO Box 215, Mowden Hall, Darlington, DL3 9GT

2. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the fund's

assets is delegated to investment managers who are regulated by the Financial Services Authority.

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

The Fund

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

Benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation.

Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

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

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

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

Investment Ranges

There are statutory restrictions and parameters for investments as per the Local Government Pensions (Management and Investment of Funds) 1998 and subsequent amendments. The restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits may be increased, to the up to the percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.

The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed below.

Investment		Limits Adopted
1.	Any single sub-underwriting contract	1%
2.	All contributions to any single partnership	2%
3.	All contributions to partnerships	5%
4.	The sum of all loans and any deposits with – <ul style="list-style-type: none"> Any local authority, or Any body with power to issue a precept or requisition to a local 	10%

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

Independent Advisor

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

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

Actuary

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

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

Custodian

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

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the fund's corporate governance and proxy voting policy. Details of this policy can be found by using the link below.

http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010 (updated July 2014)

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

3.1 Fund Performance

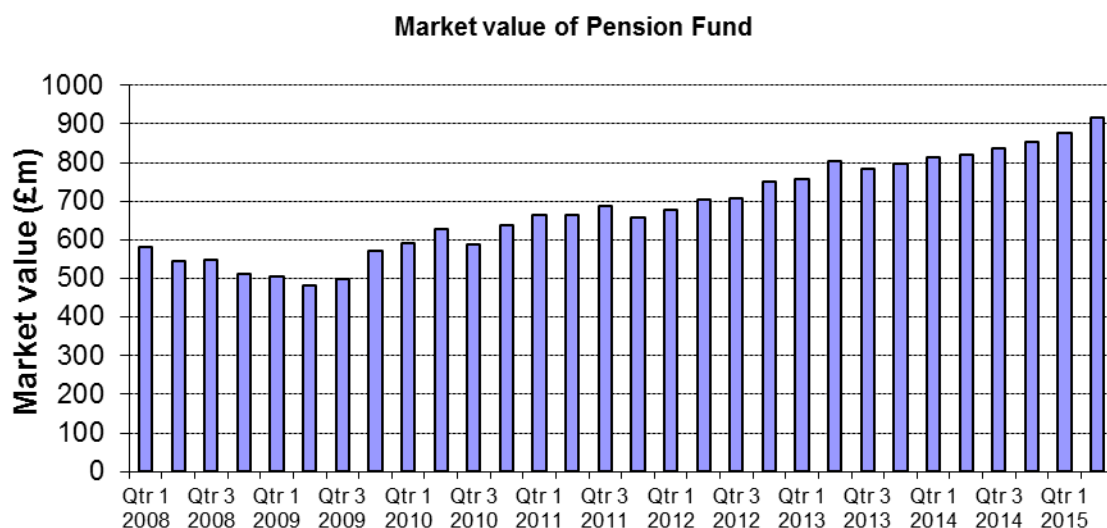
The current investment strategy has been in place since December 2010. The revised asset allocation was the result of the ongoing consultation the Fund has with its investment

advisor JLT. After a review of the available diversified growth market the Fund retained the services of its two investment managers, Schroder Investment Management and Newton Investment Management, for the efficient implementation of the revised asset allocation. It also retained pooled funds with Legal and General.

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

3.2 Market Value of the Fund

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



3.3 Investment Report

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

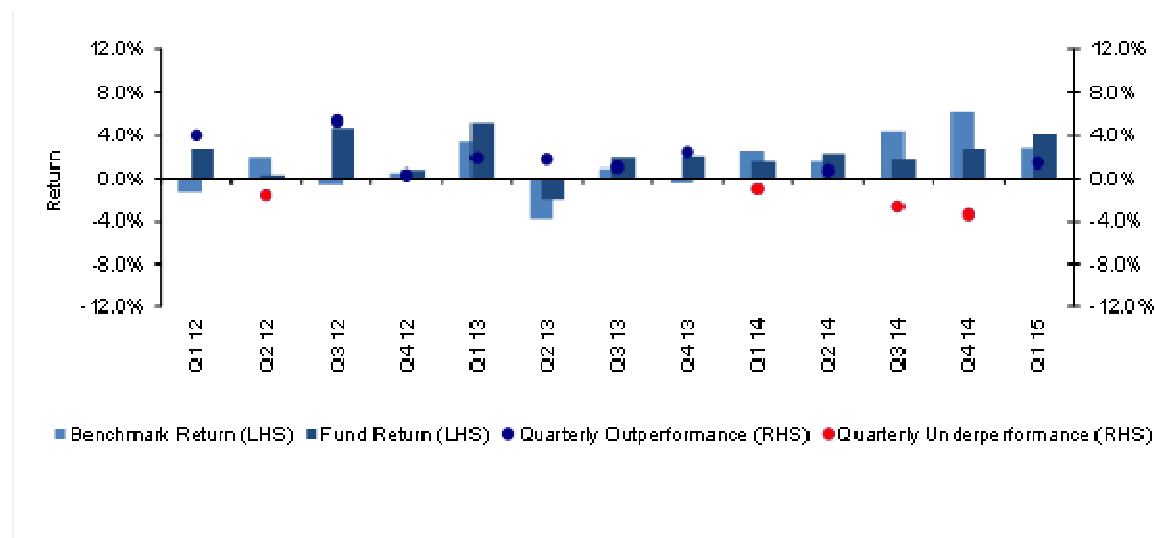
The Council seeks to achieve its investment objectives through investing in a suitable mix of real (e.g. equities) and fixed interest assets (e.g. bonds and cash). The returns from growth assets are likely to be volatile; however, over the long term, this volatility is compensated by higher returns than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

The Council expected that the revised investment strategy would provide the most efficient diversification of assets with no loss in expected return. The Fund's revised investment strategy utilises 'diversified growth' investments that aim to provide equity-like return with

reduced volatility. These growth investments are complemented by an allocation to corporate bonds, in order to provide interest rate sensitivity between the Fund's assets and liabilities. This allocation would protect the Fund from sharp movements in its liabilities due to interest rate changes. In practice while the Fund has benefited from low volatility, it has also resulted in lower returns when compared to other LGPS funds. A strategic review of the current investment strategy will take place in 2015-16.

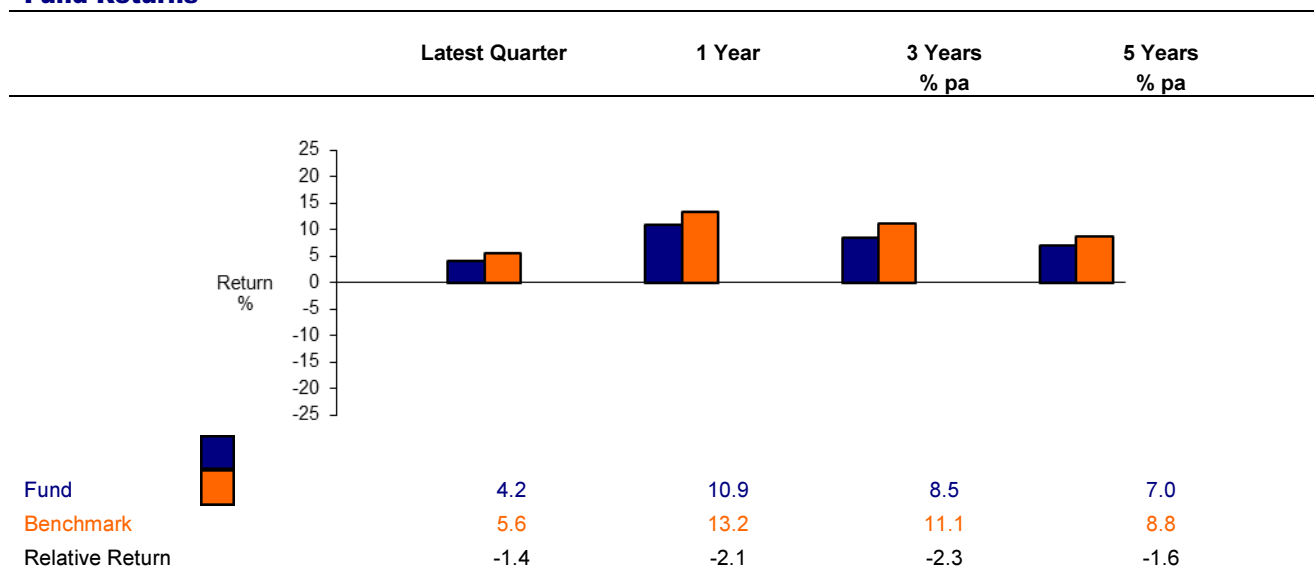
Total Fund – performance relative to benchmark

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



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

Fund Returns



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

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

3.4 Scheme Administration

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

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

Barnet Pension Fund Membership Movement Analysis 2014-15

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

4. Governance Compliance Statement

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

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

5. Funding Strategy Statement

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

6. Statement of Investment Principles

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

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

7. Communication Policy Statement

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

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

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

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

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

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

- **Pensions Office:** for day-to-day contact between the hours of 9am and 5pm.
- **Correspondence:** the Fund utilises both surface mail and e-mail to receive and send correspondence.
- **Telephone:** The Pensions team operates a telephone help line for Scheme members and is widely published in Scheme literature.
- **Website:** The members website will be available other information is available on the national websites at <http://www.lgps.org.uk/lge/core/page.do?pagelId=97977>
- **Member Self-Service** as above
- **Annual Benefits:** An Annual Benefits Statement is sent direct to the home addresses of deferred members where a current address is known and will be available online for active members.
- **Pensions Roadshows:** The Pensions team also stages ad hoc Roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.
- **Existence Validation – Pensioners Living Abroad:** The Pensions team undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.
- **All Employer Meetings:** Periodical meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation and triennial valuation matters.

Comments

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

barnetpensions@capita.co.uk

Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ

Telephone: 01325 746010/11/12/13/14

On behalf of the Pension Fund Committee

Councillor Mark Shooter

Chairman of the Pension Fund Committee

[London Borough of Barnet Pension Fund](#)

London Borough of Barnet Pension Fund

Actuary's Statement as at 31 March 2015

Barnett Waddingham
Public Sector Consulting

Introduction

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

2013 Valuation

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

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

Contribution rates

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

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

Pension Fund Account

Assumptions

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

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

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

Assets

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

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

Pension Fund Account

Updated position since the 2013 valuation

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

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

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

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

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



Draft
Pension Fund
Statement of Accounts

for the year ended

31 March 2015

Pension Fund Account

Pension Fund Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

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

The Chief Finance Officer's Responsibilities

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

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

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

Certification of Accounts

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

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

Approval of Accounts

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

Chair of Pension Fund Committee

Pension Fund Account

Pension Fund Account

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

Net Assets of the Scheme

	2014/15 £'000	2013/14 £'000
At 1 April	829,782	798,337
At 31 March	924,374	829,782

Net Assets Statement

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

Pension Fund Account

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

1. Introduction

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

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

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

General

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

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

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

Membership

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

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

BEAT (Barnet
Education Arts Trust)
Birkins - St James Sch
Blue 9 Security Ltd
Capita CSG
Capita RE
Fremantle Trust (2)
Greenwich Leisure
Housing 21 (2)

Mears Group
NSL Ltd
OCS Group UK Ltd
Viridian Housing
Ridge Crest Cleaning
Hartwig

Pension Fund Account

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

Barnet Voluntary Service Council
Enterprise Cleaning

Barnet MENCAP
KGB Cleaning Services Ltd

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

Alma Primary
Archer Academy
Barnet & Southgate College
Barnet Homes
Barnfield School
Bishop Douglass School
Broadfields Academy
Broadfields Academy
Christ Church
Christ College
Compton School (Academy)
Cophall School (Academy)
Danegrove School
Deansbrook Junior (Academy)
Dollis Junior
East Barnet Academy
Etz Chaim Jewish Primary
Fairway School
Finchley Catholic School
Friern Barnet School
Gravesnor Avenue Primary
(Academy)
Hasmonean High
Hendon School
Henrietta Barnett School (Academy)
Independent Jewish Day School
LB Barnet

London Academy
Mapledown School
Mathilda Marks
Menorah Foundation School
Middlesex University
Mill Hill County High School
Monkfrith School
Osidge Primary School
Parkfield Primary School
Queen Elizabeth Boys
Queen Elizabeth Girls
Rimon Jewish Primary
Rosh Pinah
St James' Catholic High School
St John's & St Mary's Primary
St Michael's Grammar School
St. Andrew the Apostle Secondary
The Hyde
Totteridge Academy, The
Trust School Academy
Underhill Infant
Whitefield School
Woodhouse College
Woodhouse College Academy
Wren Academy
Your Choice Barnet Ltd

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

Pension Fund Account

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

*The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2015; including the comparative figures. An analysis of membership movement in the year is provided in note 20 of these accounts.

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

2. Accounting Policies

Accounting Standards

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

Basis of Preparation

Accruals Concept

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

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

Financial Assets

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

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

Sale and Purchase of Investments

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

Pension Fund Account

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

Administration Expenses

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

Benefits Payable

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

Contribution Income

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

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

Investment Income

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

Cash and cash equivalents accounting policy

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

Related party disclosure

Pension Fund Account

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.

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

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

Actuarial present value of promised retirement benefits

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

4. Contributions Receivable

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

Pension Fund Account

		10,414	10,025
Total Contributions		54,489	52,207
5.	Transfers In	2014/15	2013/14
		£'000	£'000
	Individual transfers in from other schemes	1,391	2,591
6.	Benefits Payable	2014/15	2013/14
		£'000	£'000
	Pensions	40,016	38,106
	Commutations and lump sum payments	5,577	5,783
	Lump sum death benefits	792	985
		46,385	44,874
7.	Payments to and on Account of Leavers	2014/15	2013/14
		£'000	£'000
	Refunds to members leaving service	56	8
	Individual transfers to other schemes	2,537	3,810
		2,593	3,818
8.	Administrative Expenses	2014/15	2013/14
		£'000	£'000
	Administration and processing	917	957
	Actuarial fees	51	100
	Audit Fees	21	31
	Provision for Bad Debt	900	-
		1,889	1,088
9.	Investment Income	2014/15	2013/14
		£'000	£'000
	Interest on cash deposits	29	25
	Other income	0	33
	Total investment income	29	58

Pension Fund Account

10. Investments

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

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

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

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

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

Investment Portfolio

Schroder Investment Management

2014/15

£'000

416,520

%

45.7

Pension Fund Account

Newton Investment Management
Legal & General

423,456	46.4
71,748	7.9
911,724	100.0

Major Investment

The fund investments are all held in pooled funds.

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

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

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

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

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

Pension Fund Account

UK Corporate Bonds	60.18	1.76	3.17	19.21	1.89
Overseas Government Bonds	-	2.94	5.58	24.99	15.49
Overseas Corporate Bonds	38.10	0.61	-	47.79	4.98
Overseas Index Linked Corporate Bonds	-	-	-	1.97	0.44
Total Fixed Interest	98.28	96.76	98.99	99.00	32.54

OTHER ASSETS

Ishares	-	-	-	2.01	-
Commodities	-	-	-	-	4.59
Derivatives	-	-	-	(12.22)	(14.96)
Total Other assets	-	-	-	(10.21)	(10.37)
Cash	1.72	3.24	1.01	11.1	23.13
Total Assets	100	100	100	100	100

Schroder as at 31 March 2015

Diversified Growth Fund

Schroder All Maturities Corporate Bond

Equities

Schroder QEP Global Dynamic Blend Portfolio	19.10
Shareholder Focus Basket	4.30
Passive Equities	35.00
	58.40

Commodities

Schroder ISF Global Energy	0.60
	0.60

High Yield Debt

Schroder High Yield Portfolio	3.10
	3.10

Emerging Market Bonds

Stone Harbor Emerging Debt Fund	0.10
	0.10

Property

Schroder UK Property Fund	3.30
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Absolute Return

Schroder ISF Emerging Market Debt	5.80
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Pension Fund Account

Schroder GAIA Sirios US Equity	2.20
Bespoke Hedge Fund Portfolio	0.80
Diversified Trend Strategy	2.90
Gam Star Global Rates	1.00
Henderson UK Absolute Return Fund	1.00
Brevan Howard Macro	0.80
	<hr/> 14.50

Infrastructure

John Laing Infrastructure Limited	1.40
International Public Partnerships Ltd	1.10
HICL Infrastructure Company Limited	0.70
Bilfinger Berger Global infrastructure	0.50
	<hr/> 3.70

Other Assets

Private Equity	0.70
Asset Backed Securities Portfolio	2.90
RWC Global Convertibles Fund	1.90
Oaktree Global Convertibles Fund	1.10
Insurance-Linked Securities	3.00
Cash	3.60

Securitised		25.10
Government Related	3.10	10.05
Corporate		58.21
Cash		6.64
Total	<hr/> 100.00	<hr/> 100.00

Pension Fund Account

11. AVC Investments

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

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

2014/15	2013/14 b/f £'000	Contributions £'000	Income £'000	Expenditure £'000	2014/15 c/f £'000
AVC Investments					
Aviva /Norwich Union (amended)	551	11	20	-	582
Prudential					
With Profits	559	74	28	(80)	581
Deposit	390	83	2	(56)	419
Unit Linked	763	141	123	(58)	968
Total Prudential AVCs	1,712	298	153	(194)	1,968
Total AVC's	2,429	296	74	(144)	2,655
2013/14 AVC Investments	2012/13 £'000	Contributions £'000	Income £'000	Expenditure £'000	2013/14 £'000
Aviva /Norwich Union (amended)	651	14	18		687
Prudential					
With Profits	532	79	25	(77)	559
Deposit	325	82	2	(19)	390
Unit Linked	665	120	26	(48)	763
Total Prudential AVCs	1,522	281	53	(144)	1,712
Total AVC's	2,203	295	71	(144)	2,399

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

12. Investment Management Expenses

2014/15
£'000

2013/14
£'000

Pension Fund Account

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

13. Current Assets

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

14. Current Liabilities

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

15. Statement of Investment Principles

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

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

16. Related Party Transactions

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

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

Pension Fund Account

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

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

17. Actuarial Valuation

Barnett Waddingham LLP undertook the last formal triennial actuarial valuation of the fund as at 31 March 2013, in accordance with the Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives.

The funding level at 31 March 2013 was 79%. The common contribution rate is 24% of pensionable pay. This is the average required employer contribution to restore the funding position to 100% over the next 15 years.

The actuarial method used by the Actuary is known as the "projected unit credit method".

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

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

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

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

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

The common rate of employer contribution set by the actuary was

18. Classification of Financial Assets

Pension Fund Account

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

31 March 2015

Financial Assets

Pooled Investments
Pooled Property
Cash Deposits
Investment income due
Debtors

Financial Liabilities

Creditors

Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
910,564	-	-
-	-	-
-	8,159	-
-	-	-
-	10,239	-
-	-	(5,748)
910,564	18,398	(5,748)

31 March 2014

Financial Assets

Pooled Investments
Pooled Property
Cash Deposits
Investment income due
Debtors

Financial Liabilities

Creditors

Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
818,517	-	-
-	10,138	-
-	-	-
-	2,180	-
-	-	(2,349)
818,517	12,318	(2,349)

19. Nature and Extent of Risks Arising from Financial Instruments

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

Overall procedures for managing risk

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

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

The Pension Funds has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of

Pension Fund Account

investments, investment restrictions and the way risk is managed. Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns.

Credit and counterparty risk

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

The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2015 working capital was held in the Pension Fund Bank account with Natwest bank and, in a call account with the Bank of Scotland, in accordance with the Council's Treasury management strategy credit rating criteria. Pension Administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

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

Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to 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,

Pension Fund Account

subject to investment limits, in accordance with local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

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

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

2014/15

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

2013/14

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

Exchange rate risk

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

Refinancing risk

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

20. Membership of the Pension Fund

Employees

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

Pension Fund Account

Pensioners

Number of Pensioners at start of year		6,727
New pensioners during the year:		
Normal retirements (508 Enhanced Teachers not included in previous data)	632	
Ill-health retirements	3	
Dependants' pensions	32	
Deferred pensions becoming payable	112	779
		7,506
Deaths/dependants ceasing to be eligible		(214)
Number of Pensioners at end of year		7,292

Deferred Pensioners

Number of Deferred Pensioners at start of year		8,427
New Deferred Pensioners at start of year		372
Backdated Deferred Pensioners		134
		8,933
Deferred Pensioners leaving the fund during the year		
Normal retirements	112	
Ill-health retirements	3	
Transferred out	76	
Back to active status	0	
Deaths	6	(197)
Number of Deferred Pensioners at end of year		8,736
 Total Membership at 31 March 2015		 23,908

21. Events after the Balance Sheet date

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

London Borough of Barnet Pension Fund

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

Barnett Waddingham
Public Sector Consulting

13 May 2015

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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 2015.

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

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

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

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

Valuation data

Data sources

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

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

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

Employer membership statistics

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

Member data summary	Number	Salaries/Pensions	Average age
		£000s	
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 2015 is estimated to be 11%. The actual return on Fund assets over the year may be different.

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

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

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

Unfunded benefits

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

Actuarial methods and assumptions

Valuation approach

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

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

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

Demographic/Statistical assumptions

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

The assumed life expectations from age 65 are:

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

We have also made the following assumptions:

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

Financial assumptions

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

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

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

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

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

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

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

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

Results and disclosures

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

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

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

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

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

A handwritten signature in black ink, appearing to read 'M. Stephenson'.

Melanie Stephenson FIA
Actuary

Appendix 1 Statement of financial position as at 31 March 2015

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

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

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

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