

**The London Borough of Barnet Pension Fund**

**Draft Annual Report**

**For the year ended 31 March 2012**

# Barnett Waddingham

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## 1. Trustee's Report

### 1.1 History of the Local Government Pension Scheme

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 1<sup>st</sup> April 2008.

The main changes to the scheme were an improvement in the accrual rate (for future service) from 1/80<sup>th</sup> of salary for pension and 3/80<sup>th</sup> of lump sum to 1/60<sup>th</sup> for pension and a new tiered contribution rate for employees. The normal retirement age in the LGPS is 65 for everyone, but there are protections for staff who would have qualified for unreduced benefits at age 60 if they will be 60 by 31<sup>st</sup> March 2020. There were also improvements to death grant lump sums and the introduction of survivor's pensions for nominated partners. Ill-health retirement will also change with 3 different benefits tiers depending on the likelihood of the member gaining meaningful employment in the future.

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.

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The Government accepted the long term recommendations; 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. Individual consultations have taken place on the design of each public sector scheme with a view to implement reforms by September 2014.

## 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 Scheme;
- Appointing Investment Managers, advisors and custodians
- Reviewing the performance of the Investment Managers and the Investments held in the scheme, 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.

## 1.3 Management Structure

### Administrating Authority

London Borough of Barnet

### Pension Fund Committee Members

Chairman: Anthony Finn BSc(Econ), FCA  
Vice-Chairman: Mark Shooter  
Members: Jack Cohen  
Geoffrey Johnson  
Susette Palmer MA  
Jim Tierney

Substitutes: Geoff Cooke  
Andrew Harper  
Monroe Palmer OBE, BA, FCA  
Ansuya Sodha  
Rowan Turner

### Officers

Andrew Travers, Deputy Chief Executive  
John Hooton, Assistant Director of Strategic Finance  
Iain Millar, Head of Treasury

### Observers

John Burgess, Unison  
David Woodcock, Middlesex University

### Actuary

Barnett Waddingham

**Investment Advisors**

JLT Benefit Solutions (formally HSBC Actuaries and Consultants)

**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**

Hansha Patel

## 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 new investment strategy of 70% diversified growth portfolio and 30% bonds using the two incumbent managers Schroders Investment Management and Newton. The strategy aims to reduce the level of risk whilst maintaining the same level of return. The new strategy was fully implemented in December 2010.

## (2. Investment Policy continued)

### 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.

| 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 Grade Index | To outperform the benchmark by 1% p.a. over rolling 5 years   |
| 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   |

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|                      |                                    |   |   |
|----------------------|------------------------------------|---|---|
| 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 |
| Property Unit Trusts | Various                            | UK IPD Property Index                     | Outperform the Index  |

## Property

The fund does not own property directly but invested in managed property unit funds. The pension fund's unit trust portfolio was managed in-house by the Council's officers with investment advice in the selection of these holdings provided by the fund's independent advisor. The property unit trust portfolio represented 3.5% of the total market value of the fund. During 2011-12 the property unit trusts were sold and the proceeds re-invested in the diversified growth and bond funds held with Schroders and Newton.

## 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 –   | 10%            |
| A) Any local authority, or  |                |
| B) Any body with power to issue a precept or requisition to a local 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 |                |

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|   |     |
|---|-----|
| 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. 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 Director of Finance 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. The property unit trust portfolio
5. Corporate governance issues, including socially responsible investment and the Council's statement of investment principals
6. Pension fund related legislation
7. Investment management performance monitoring
8. Assistance in the selection of Investment Managers, custodians and actuaries
9. Review and advise on alternative benchmarks and setting of performance targets
10. 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 most recent valuation of the fund took place as at the 31<sup>st</sup> of March 2010. The next valuation is due on 31 March 2013.

## **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 Schrodgers Investment Managers and the Bank of New York act as an internal 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/pensions/pension-fund-investments/pensions-investment-corporate-governance.htm>

## **3 Management and Financial Performance of the fund for the Year 2011-2012**

### **3.1 Fund Performance**

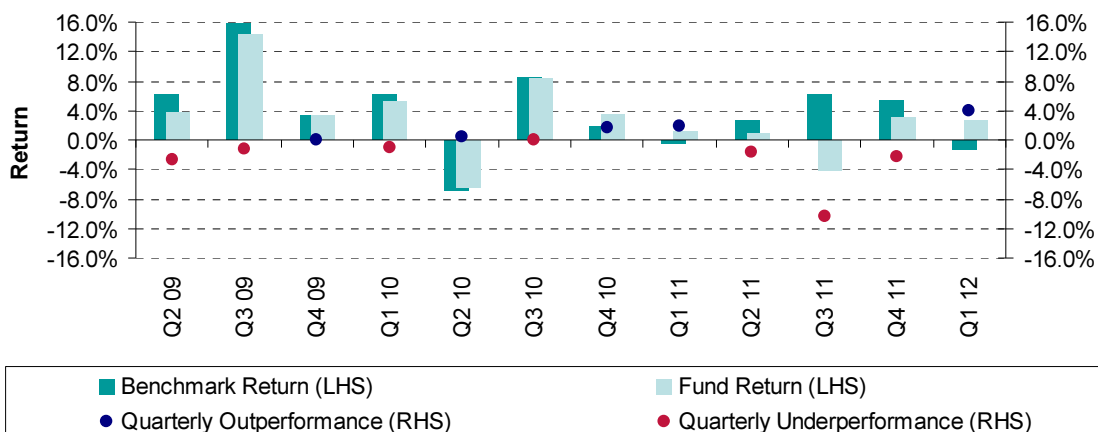
Until December 2010, the fund subscribed to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other Local Authority Pension Funds which operate under the same regulations. This service is provided by WM Company Limited.

Following implementation of the new investment strategy in December 2010, the total scheme return is measured against the liability benchmark return, and includes the internal property fund. 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.

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The chart below shows the fund's historical returns against the WM Universe and the new portfolio against the liability benchmark effective from 1 January 2011.

**Total Scheme – performance relative to benchmark**

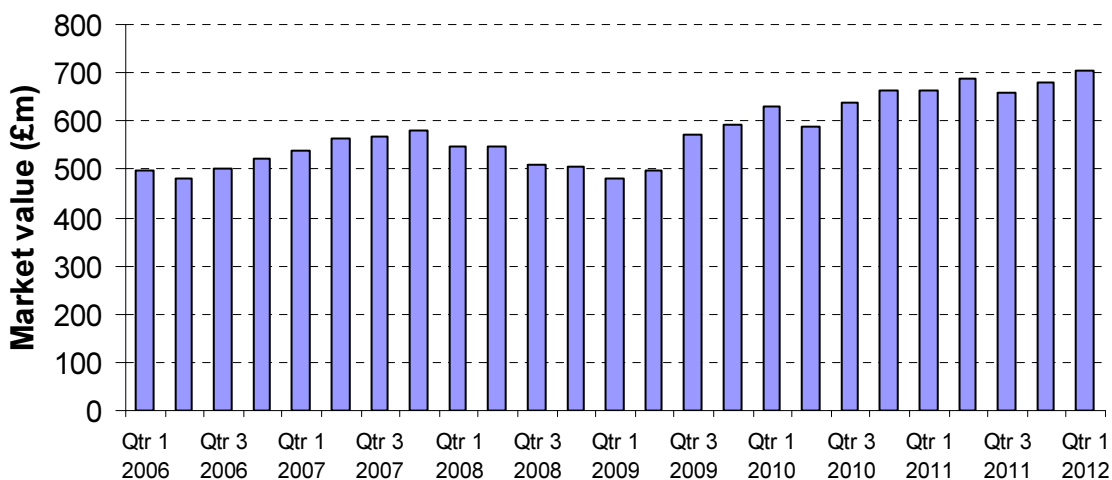


## 3.2 Market Value of the Fund

The following chart shows the movement in the market value of the fund from 1 January 2006 to 31 March 2012.

**Market Value of Fund**

**Market value of Pension Fund**



## 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.

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The Council believes that its recently revised investment strategy will 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 will protect the Fund from sharp movements in its liabilities due to interest rate changes.

The revised asset allocation was the result of the ongoing consultation the Fund has with its investment advisors. After a review of the available diversified growth market the Fund has 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 has also retained pooled funds with Legal and General.

Over the 12 months to 31 March 2012, the total Scheme return (ex property) was 2.4% versus the liability benchmark return of 14.0%. The Fund ranks 56<sup>th</sup> percentile when compared to the WM Local Authority Universe for 1 year performance.

## **4. Governance Compliance Statement**

The Governance compliance statement for the Barnet Pension Fund can be found on the Barnet website at: <http://www.barnet.gov.uk/council-constitution>

## **5. Funding Strategy Statement**

The funding strategy statement for the Barnet fund can be found on the Barnet website at <http://committeepapers.barnet.gov.uk/democracy/reports>

## **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 June 2011, 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 [www.barnetpensions.org](http://www.barnetpensions.org)

## 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 and visits between the hours of 9am and 5pm. The Pension Office operates an open door policy for visitors such that pre-booked appointments are not required.
- **Correspondence** the Fund utilises both surface mail and e-mail to receive and send correspondence.
- **Telephone** The Pensions Office operates a telephone help line for Scheme members and is widely published in Scheme literature.
- **Website** The Pensions Office has established an extensive website [www.barnet.gov.uk/pensions](http://www.barnet.gov.uk/pensions) containing Scheme details, Scheme literature etc. There are also links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.
- **Member Self-Service** the Pensions Office's website also allows Scheme members to log onto their own pensions record and automatically inform the Pensions Office electronically of any changes.
- **Scheme Booklet** A Scheme booklet, including forms, is produced by the Pensions Office and is supplied to scheme members and scheme employers directly. Copies of the Scheme booklet can also be viewed and downloaded on the Pensions Office website [www.barnet.gov.uk/pensions](http://www.barnet.gov.uk/pensions)
- **Annual Benefits** An Annual Benefits Statement is sent direct to the home addresses of all members who were contributing to the Fund during the financial year being reported.

Benefit Statements are sent direct to the home address of deferred members where a current address is known.

- **Payslips** The Pensions Office continues to issue monthly payslips to pensioners. This is utilised as a communication mechanism, since messages can be included.

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Pensions increase information is communicated using this medium on an annual basis.

- **Pensions Roadshows** The Pensions Office 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 Office 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.

**Pensions Office**  
**Building 4**  
**North London Business Park**  
**Oakleigh Road South**  
**London**  
**N11 1NP**

**Telephone:** 020 8359 7886

**Fax:** 0870 889 6817

**Email:** [pensions@barnet.gov.uk](mailto:pensions@barnet.gov.uk)

**Website:** [www.barnet.gov.uk/pensions](http://www.barnet.gov.uk/pensions)

On behalf of the Pension Fund Committee

Councillor Anthony Finn BSc(Econ), FCA  
Chairman of the Pension Fund Committee

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## Pension Fund Account

| Contributions and Benefits                      | Note | 2011/12         |                | 2010/11         |                | 2009/10         |                |
|---|------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
|   |      | £000            | £000           | £000            | £000           | £000            | £000           |
| Contributions Receivable                        | 3    | 47,421          |                | 50,195          |                | 48,676          |                |
| Transfers in                                    | 4    | 5,294           |                | 4,249           |                | 4,660           |                |
| Other income                                    |      | 2,639           |                | 10              |                | 7               |                |
|   |      | <u>55,353</u>   |                | <u>54,454</u>   |                | <u>53,343</u>   |                |
| Benefits Payable Account                        | 5    | (38,280)        |                | (37,228)        |                | (35,696)        |                |
| Payments to and on behalf of Leavers            | 6    | (4,810)         |                | (5,452)         |                | (6,431)         |                |
| Administrative Expenses                         | 7    | (1,106)         |                | (3,432)         |                | (1,030)         |                |
|   |      | <u>(44,196)</u> |                | <u>(46,112)</u> |                | <u>(43,157)</u> |                |
| <b>Net additions from dealings with members</b> |      |                 | 11,156         |                 | 8,342          |                 | 10,186         |
| <b>Return on investments</b>                    |      |                 |                |                 |                |                 |                |
| Investment income                               | 8    | 1,273           |                | 8,743           |                | 14,799          |                |
| Change in market value of investments           | 9    | 17,717          |                | 39,652          |                | 126,404         |                |
| Investment management expenses                  | 10   | (1,660)         |                | (2,945)         |                | (2,127)         |                |
| <b>Net returns on investments</b>               |      | <u>17,330</u>   |                | <u>45,450</u>   |                | <u>139,076</u>  |                |
| <b>Net increase in the fund during the year</b> |      |                 | <u>28,487</u>  |                 | <u>53,792</u>  |                 | <u>149,262</u> |
| <b>Net assets of the scheme</b>                 |      |                 |                |                 |                |                 |                |
| At 1 April                                      |      |                 | 685,193        |                 | 631,401        |                 | 482,139        |
| At 31 March                                     |      |                 | <u>713,680</u> |                 | <u>685,193</u> |                 | <u>631,401</u> |

## Net Assets Statement

|                     | Note | 2010/11        |      | 2010/11        |      | 2009/10        |      |
|---------------------|------|----------------|------|----------------|------|----------------|------|
|                     |      | £000           | £000 | £000           | £000 | £000           | £000 |
| Investment assets   | 9    | 703,630        |      | 662,278        |      | 627,342        |      |
| Current assets      | 11   | 12,766         |      | 27,967         |      | 5,177          |      |
| Current liabilities | 12   | (2,716)        |      | (5,052)        |      | (1,118)        |      |
|                     |      | <u>713,680</u> |      | <u>685,193</u> |      | <u>631,401</u> |      |

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## NOTES TO THE DRAFT PENSION FUND ACCOUNTS 2011-2012

### 1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered by the London Borough of Barnet. The scheme provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to the following admitted and scheduled bodies:

#### Admitted Bodies

Birkin Services  
Fremantle Trust  
Go Plant Hire  
Housing 21  
Viridian Housing  
Y-Gen  
Amonet Ltd  
Mears Group  
NSL Ltd  
RR Donnelley

Friends Moat Mount  
Greenwich Leisure  
Open Learning Partnership  
Turners Cleaning  
Allied Healthcare  
Goldsborough Homecare

**Admitted Bodies** (employers with deferred members and pensioners but no active members)

Barnet MENCAP  
Barnet Voluntary Service Council  
Enterprise Cleaning  
KGB

#### Scheduled Bodies

##### LB Barnet

##### Barnet Homes

##### Your Choice Barnet

Ashmole Academy  
Bishop Douglas  
Compton Academy  
East Barnet Academy  
Finchley Catholic  
Hendon School (Academy)  
Independent Jewish Day School (Academy)  
Menorah Foundation  
Mill Hill GM High (Academy)  
Queen Elizabeth Boys (Academy)  
St James RC School  
St Michael's Grammar  
Whitefield Trust School (Academy)  
Wren Academy

Barnet & Southgate College  
Christ College (Academy)  
Dollis Junior  
ETZ Chaim Jewish Primary  
Hasmonean High (Academy)  
Henrietta Barnet School (Academy)  
London Academy  
Middlesex University  
Osidge School  
Queen Elizabeth Girls (Academy)  
St Mary's CE High  
The Totteridge Academy  
Woodhouse College

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The Fund is financed by member and employer contributions, interest, dividends and realised profits from investments. The Fund provides retirement grants, death grants, member pensions and widows' pensions. 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.

Connaught Partnership, previously an Admitted Body, went into administration with effect from 31/08/2010. A pension fund deficit of £1,492,000 has been calculated by the fund actuaries. The Council's legal team are currently liaising with Connaught's Administrators (KPMG) for the recovery of these monies. KPMG have confirmed the pension deficit is classed as unsecured, non-preferential debt.

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 decreased during the year from 7005 at 31 March 2011 to 6793 at 31 March 2012. During the same period the number of pensioners increased from 6,329 to 6,583 and the number of deferred pensioners increased from 6,571 to 6,739. A government scheme supplies teachers' pensions; 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).

### Transition to International Financial Reporting Standards

The Pension Fund Accounts for 2011/12 are prepared on an IFRS basis. As a result of the adoption of the IFRS Code, there are no material differences between the amounts presented in the 2009/10 statements and the equivalent amounts presented in 2010/11.

### Basis of Preparation

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 15 and these financial statements should be read in conjunction with them.



## Investments

Investments are shown in the Net Asset Statement at Market Value. Market 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 2012.
- b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2012.
- 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 2012.
- 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 (7%) 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. Approximately

During the year all property units trusts were sold and the £23.9 million realised was re-invested equally with the Schroder Investment Management and Newton.

## 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

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. Full details of all benefits payable are available on the Borough's internet at [www.barnet.gov.uk/pensions](http://www.barnet.gov.uk/pensions)

## Cash Balances and Interest on Cash

A cash balance of £5.2 million ( nil in 10/11) was held by the Authority at 31 March 2012. Interest on cash held by the Borough on behalf of the Pension Fund was calculated on a rate equivalent to the Borough's average rate of return until March 2011 when the cash was completely separated from the London Borough of Barnet. Amounts exceeding £500 are invested in a call account yielding 0.56% as at 31 March 2012.

## Taxation

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

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

### 3. Contributions Receivable

|                  | 2011/12       | 2010/11       | 2009/10       |
|------------------|---------------|---------------|---------------|
| <b>Employers</b> | £000          | £000          | £000          |
| LB Barnet        | 23,343        | 25,373        | 24,988        |
| Scheduled bodies | 11,318        | 11,204        | 10,321        |
| Admitted bodies  | 2,816         | 3,026         | 2,907         |
| <b>Members</b>   |               |               |               |
| LB Barnet        | 6,321         | 6,929         | 6,929         |
| Scheduled bodies | 2,892         | 2,883         | 2,732         |
| Admitted bodies  | 731           | 780           | 799           |
|                  | <b>47,421</b> | <b>50,195</b> | <b>48,676</b> |

### 4. Transfers In

|  | 2011/12 | 2010/11 | 2009/10 |
|--|---------|---------|---------|
|  | £000    | £000    | £000    |
| Individual transfers in from other schemes | 5,294   | 4,249   | 4,660   |

### 5. Benefits Payable

|                                    | 2011/12       | 2010/11       | 2009/10       |
|------------------------------------|---------------|---------------|---------------|
|                                    | £000          | £000          | £000          |
| Pensions                           | 30,391        | 28,224        | 27,234        |
| Commutations and lump sum payments | 1,160         | 8,296         | 7,939         |
| Lump sum death benefits            | 6,729         | 708           | 523           |
|                                    | <b>38,280</b> | <b>37,228</b> | <b>35,696</b> |

### 6. Payments to and on Account of Leavers

|                                       | 2011/12      | 2010/11      | 2009/10      |
|---------------------------------------|--------------|--------------|--------------|
|                                       | £000         | £000         | £000         |
| Refunds to members leaving service    | 6            | 6            | 5            |
| Group transfers to other schemes      | 1            | -            | -            |
| Individual transfers to other schemes | 4,803        | 5,446        | 6,426        |
|                                       | <b>4,810</b> | <b>5,452</b> | <b>6,431</b> |

# Barnett Waddingham

## 7. Administrative Expenses

|                                   | 2011/12<br>£000 | 2010/11<br>£000 | 2009/10<br>£000 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Administration and processing     | 960             | 3,331           | 979             |
| Actuarial fees                    | 109             | 60              | 14              |
| Audit fees                        | 36              | 41              | 37              |
| Legal and other professional fees | 0               | -               | -               |
|                                   | <b>1,106</b>    | <b>3,432</b>    | <b>1,030</b>    |

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

## 8. Investment Income

|                                       | 2011/12<br>£000 | 2010/11<br>£000 | 2009/10<br>£000 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Income from fixed interest securities | 788             | 964             | 2,576           |
| Dividends from equities               |                 | 6,557           | 10,280          |
| Income from index linked securities   |                 | 208             | 375             |
| Income from pooled investments        |                 | 100             | 142             |
| Income from property unit trusts      |                 | 1,246           | 1,295           |
| Interest on cash deposits             | 86              | 248             | 448             |
| Other income                          | 399             | 102             | 489             |
|                                       | <b>1,273</b>    | <b>9,425</b>    | <b>15,605</b>   |
| Irrecoverable withholding tax         | 0               | (682)           | (806)           |
| Total investment income               | <b>1,273</b>    | <b>8,743</b>    | <b>14,799</b>   |

## 9. Investments

### 2011/12

|                            | Value at 1<br>April 2011<br>£000 | Purchases<br>at Cost<br>£000 | Sales<br>Proceeds<br>£000 | Change in<br>Market Value<br>£000 | Value at<br>31 March<br>2012<br>£000 |
|----------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|--------------------------------------|
| Fixed interest securities  |                                  |                              |                           |                                   | -                                    |
| Equities                   |                                  |                              |                           |                                   | -                                    |
| Index-linked securities    |                                  |                              |                           |                                   | -                                    |
| Pooled investment vehicles | 638,391                          | 57,102                       | (9,350)                   | 16,266                            | 702,409                              |
| Properties                 | 23,160                           | 0                            | (23,972)                  | 812                               | 0                                    |
|                            | <b>661,551</b>                   | <b>57,102</b>                | <b>(33,322)</b>           | <b>17,078</b>                     | <b>702,409</b>                       |
| Cash Deposits              | <u>727</u>                       |                              |                           |                                   | <u>1,221</u>                         |
|                            | <b>662,278</b>                   |                              |                           |                                   | <b>703,630</b>                       |

During the year £48 million cash in contributions, dividend income and the proceeds of the sale of property unit trusts were transferred to the fund managers, Schroder Investment Management and Newton. 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. Any income attributed to the unitised funds are reinvested and accounted for as a change in market value as opposed to income. Thus the investment income for 2011/12 has dropped significantly and 2010/11 is lower than the 2009/10 financial year.

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2010/11

|                            | Value at 1<br>April 2010<br>£000 | Purchases at<br>Cost<br>£000 | Sales Proceeds<br>£000 | Change in<br>Market Value<br>£000 | Value at<br>31<br>March<br>2011<br>£000 |
|----------------------------|----------------------------------|------------------------------|------------------------|-----------------------------------|---|
| Fixed interest securities  | 39,875                           | 115,637                      | (157,989)              | 2,477                             | -                                       |
| Equities                   | 336,525                          | 121,399                      | (469,209)              | 11,284                            | -                                       |
| Index-linked securities    | 23,808                           | 10,953                       | (35,852)               | 1,091                             | -                                       |
| Pooled investment vehicles | 133,053                          | 565,339                      | (83,905)               | 23,904                            | 638,391                                 |
| Properties                 | 22,264                           | -                            | -                      | 896                               | 23,160                                  |
|                            | <u>555,525</u>                   | <u>813,328</u>               | <u>(746,955)</u>       | <u>39,652</u>                     | <u>661,551</u>                          |
| Cash Deposits              | <u>71,817</u>                    |                              |                        |                                   | <u>727</u>                              |
|                            | <u>627,342</u>                   |                              |                        |                                   | <u>662,278</u>                          |

In November and December 2010 Newton and Schrodgers undertook a transition from their balanced segregated portfolios to unitised diversified growth and bond portfolios. Any income attributed to the unitised funds are reinvested and accounted for as a change in market value as apposed to income.

2009/10

|                            | Value at 01<br>April 2009<br>£000 | Purchases<br>at Cost<br>£000 | Sales Proceeds<br>£000 | Change in<br>Market Value<br>£000 | Value at<br>31<br>March<br>2010<br>£000 |
|----------------------------|-----------------------------------|------------------------------|------------------------|-----------------------------------|---|
| Fixed interest securities  | 81,292                            | 41,272                       | (73,296)               | (9,393)                           | 39,875                                  |
| Equities                   | 227,854                           | 116,263                      | (104,440)              | 96,848                            | 336,525                                 |
| Index-linked securities    | 24,216                            | 8,843                        | (10,996)               | 1,745                             | 23,808                                  |
| Pooled investment vehicles | 72,758                            | 29,173                       | (5,324)                | 36,446                            | 133,053                                 |
| Properties                 | 21,506                            | -                            | -                      | 758                               | 22,264                                  |
|                            | <u>427,626</u>                    | <u>195,551</u>               | <u>(194,056)</u>       | <u>126,404</u>                    | <u>555,525</u>                          |
| Cash Deposits              | <u>52,963</u>                     |                              |                        |                                   | <u>71,817</u>                           |
|                            | <u>480,589</u>                    |                              |                        |                                   | <u>627,342</u>                          |

## 9. Investments (continued)

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.

The market value of investments held under management by the Fund's investment managers at year end including cash deposits totalled £703,630,000. This was split as follows:

|                                | £000    | %     |
|--------------------------------|---------|-------|
| Schroder Investment Management | 321,516 | 45.7  |
| Newton Investment Management   | 332,715 | 47.3  |
| Legal & General                | 49,399  | 7.0   |
| Total                          | 703,630 | 100.0 |

|                                   | 2011/12<br>£000 | 2010/11<br>£000 | 2009/10<br>£000 |
|-----------------------------------|-----------------|-----------------|-----------------|
| <b>Fixed interest securities</b>  |                 |                 |                 |
| UK – Government                   | -               | -               | 28,245          |
| UK - Corporate Bonds              | -               | -               | 3,829           |
| Overseas Corporate                | -               | -               | 4,130           |
| Overseas Government               | -               | -               | 3,671           |
|                                   | -               | -               | 39,875          |
| <b>Equities</b>                   |                 |                 |                 |
| UK quoted                         | -               | -               | 188,408         |
| Overseas quoted                   | -               | -               | 148,117         |
|                                   | -               | -               | 336,525         |
| <b>Index-linked securities</b>    |                 |                 |                 |
| UK public sector quoted           | -               | -               | 20,523          |
| Overseas public sector quoted     | -               | -               | 3,285           |
|                                   | -               | -               | 23,808          |
| <b>Pooled investment Vehicles</b> |                 |                 |                 |
| UK Managed funds                  | 653,010         | 593,755         | 35,881          |
| UK Unit Trusts                    | 49,399          | 44,636          | 97,172          |
|                                   | 702,409         | 638,391         | 133,053         |
| <b>Property</b>                   |                 |                 |                 |
| UK property unit trusts           | 0               | 23,160          | 22,264          |
| <b>Cash Deposits</b>              |                 |                 |                 |
| Sterling                          | 1,221           | 727             | 71,817          |

## 9. Investments (continued)

### 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:

#### Newton's Portfolio

|  | Long<br>Corporate<br>Bonds<br>% | Global<br>High<br>Yield<br>Bonds<br>% | Long<br>Gilt<br>% | Newton's<br>Real<br>Return<br>% |
|--|---------------------------------|---------------------------------------|-------------------|---------------------------------|
| <b>Equities</b>                          |                                 |                                       |                   |                                 |
| UK                                       | -                               |                                       |                   | 13.05                           |
| North America                            | -                               | 0.14                                  |                   | 11.41                           |
| Europe Ex UK                             | -                               |                                       |                   | 18.82                           |
| Japan                                    | -                               |                                       |                   | 2.89                            |
| Pacific Ex Japan                         | -                               |                                       |                   | 2.44                            |
| Other                                    | -                               |                                       |                   | 2.54                            |
| <b>Fixed Interest</b>                    |                                 |                                       |                   |                                 |
| UK Gilts                                 |                                 |                                       | 93.02             | 9.51                            |
| UK Index Linked Gilts                    |                                 |                                       | 1.68              |                                 |
| UK Corporate Bonds                       | 97.18                           | 18.44                                 | 5.14              | 2.40                            |
| Overseas Government Bonds                |                                 | 1.06                                  |                   | 13.16                           |
| Overseas Corporate Bonds                 |                                 | 71.76                                 |                   | 8.61                            |
| Overseas Index Linked<br>Corporate Bonds |                                 |                                       |                   | 2.37                            |
| <b>Other Assets</b>                      |                                 |                                       |                   |                                 |
| Commodities                              |                                 |                                       |                   | 3.93                            |
| Derivatives                              |                                 |                                       |                   | -0.34                           |
| Other Assets                             |                                 |                                       |                   |                                 |
| Cash                                     | 2.82                            | 8.60                                  | 0.16              | 9.21                            |
| <b>Total</b>                             | <b>100.00</b>                   | <b>100.00</b>                         | <b>100.00</b>     | <b>100.00</b>                   |

## 9. Investments (continued)

|   | Diversified Growth Fund | Schroder All Maturities Corporate Bond |
|---|-------------------------|--|
|   | %                       | %                                      |
| <b>Equities</b>                                     |                         |  |
| Schroder QEP Global Dynamic Blend Portfolio         | 17.00                   | -                                      |
| Schroder UK Alpha Plus Fund                         | 5.00                    | -                                      |
| Schroder European Alpha Plus Fund                   | 3.00                    | -                                      |
| Schroder ISF Asian Equity Yield                     | 3.00                    | -                                      |
| Schroder ISF US Small & Mid Cap                     | 2.00                    | -                                      |
| Schroder US Mid Cap Fund                            | 2.00                    | -                                      |
| Schroder Income Fund                                | 1.00                    | -                                      |
| Schroder Global Emerging Markets Fund               | 1.00                    | -                                      |
| Passive Equities                                    | 10.00                   | -                                      |
|   |                         |  |
| <b>Commodities</b>                                  |                         |  |
| UBS Bloomberg CMCI Composite                        | 7.00                    | -                                      |
| UBS Bloomberg CMCI Energy                           | 4.00                    | -                                      |
| ETF Gold  | 3.00                    | -                                      |
| Schroder ISF Global Energy                          | 3.00                    | -                                      |
|   |                         | -                                      |
| <b>High Yield Debt</b>                              |                         |  |
| Schroder ISF Global High Yield                      | 6.00                    | -                                      |
| Neuberger Berman High Yield Bond Fund               | 6.00                    | -                                      |
| T Rowe Price Global High Yield Bond Fund            | 3.00                    | -                                      |
|   |                         |  |
| <b>Emerging Market Bonds</b>                        |                         |  |
| Schroder ISF Emerging Market Debt Absolute Return   | 5.00                    | -                                      |
| Mellon Emerging Market Debt Local Currency Fund     | 3.00                    | -                                      |
| PIMCO Emerging Local Bond Fund                      | 1.00                    | -                                      |
|   |                         |  |
| <b>Property</b>                                     |                         |  |
| Passive Property                                    | 2.00                    | -                                      |
| Schroder ISF Asia Pacific Property Securities       | 1.00                    | -                                      |
|   |                         |  |
| <b>Absolute Return</b>                              |                         |  |
| JPMorgan Highbridge Statistical Market Neutral Fund | 1.00                    | -                                      |
| Opus Multi-Strategy Fund Note                       | 1.00                    | -                                      |
| Opus Macro Fund Note                                | 1.00                    | -                                      |
|   |                         |  |
| <b>Infrastructure</b>                               |                         |  |
| International Public Partnerships Limited           | 1.00                    | -                                      |
| HSBC Infrastructure Company Limited                 | 1.00                    | -                                      |

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|                                   |               |               |
|-----------------------------------|---------------|---------------|
| John Laing Infrastructure Limited | 1.00          | -             |
| <b>Other Assets</b>               |               |               |
| Private Equity                    | 1.00          | -             |
| Asset Backed Securities Portfolio | 2.00          | -             |
| Cash                              | 3.00          | -             |
| <b>Corporate Bonds</b>            |               |               |
| Sovereign                         | -             | 6.20          |
| Securitised                       | -             | 11.50         |
| Government Related                | -             | 79.30         |
| Corporate                         | -             | 3.00          |
| <b>Total</b>                      | <b>100.00</b> | <b>100.00</b> |

## 9. Investments (continued)

### 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.

*(The aggregate amounts of AVC investments are incomplete pending receipt of 2011 -12 reports from all the AVC providers)*

|                              | 2011/12<br>£000 | Contributions<br>£000 | Income<br>£000 | Expenditure<br>£000 | 2010/11<br>£000 |
|------------------------------|-----------------|-----------------------|----------------|---------------------|-----------------|
| AVC Investments              |                 |                       |                |                     |                 |
| Norwich Union                | 719             |                       |                |                     | 719             |
| Prudential<br>With Profits   | 444             |                       |                |                     | 444             |
| Deposit                      | 359             |                       |                |                     | 359             |
| Unit Linked                  | 319             |                       |                |                     | 319             |
| <b>Total Prudential AVCs</b> | <b>1,122</b>    |                       |                |                     | <b>1,122</b>    |

|                              | 2010/11<br>£000 | Contributions<br>£000 | Income<br>£000 | Expenditure<br>£000 | 2009/10<br>£000 |
|------------------------------|-----------------|-----------------------|----------------|---------------------|-----------------|
| AVC Investments              |                 |                       |                |                     |                 |
| Norwich Union                | 719             | 23                    | -              | (57)                | 753             |
| Prudential<br>With Profits   | 444             | 53                    | 35             | (121)               | 477             |
| Deposit                      | 359             | 82                    | 2              | (16)                | 291             |
| Unit Linked                  | 319             | 100                   |                | (2)                 | 221             |
| <b>Total Prudential AVCs</b> | <b>1,122</b>    | <b>235</b>            | <b>37</b>      | <b>(139)</b>        | <b>989</b>      |



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|                              | 2009/10 | Contributions | Income | Expenditure | 2008/09 |
|------------------------------|---------|---------------|--------|-------------|---------|
|                              | £000    | £000          | £000   | £000        | £000    |
| AVC Investments              |         |               |        |             |         |
| <b>Norwich Union</b>         | 753     | 41            | 26     | (57)        | 743     |
| Prudential                   |         |               |        |             |         |
| With Profits                 | 477     | 45            | 27     | (54)        | 459     |
| Deposit                      | 291     | 36            | 1      | -           | 254     |
| Unit Linked                  | 221     | 31            | 36     | -           | 154     |
| <b>Total Prudential AVCs</b> | 989     | 112           | 64     | (54)        | 867     |

The fund does not participate in stock lending arrangements.

## 10. Investment Management Expenses

|  | 2011/12 | 2010/11 | 2009/10 |
|--|---------|---------|---------|
|  | £000    | £000    | £000    |
| Administration, management and custody | 1,575   | 2,017   | 2,805   |
| Performance Measurement Services       | 7       | 12      | 12      |
| Other advisory fees                    | 78      | 128     | 98      |
|  | 1,660   | 2,945   | 2,127   |

## 11. Current Assets

|  | 2011/12 | 2010/11 | 2009/10 |
|--|---------|---------|---------|
|  | £000    | £000    | £000    |
| Contributions due from employers in respect of |         |         |         |
| Employer contributions                         | 999     | 1,141   | 1,060   |
| Member contributions                           | 260     | 291     | 279     |
| Accrued income                                 |         | 344     | 3,814   |
| Overpayment of Benefits                        |         | -       | 4       |
| Sundry Debtors                                 | 4,310   | 906     | -       |
| Cash Balances                                  | 7,197   | 25,285  | 20      |
|  | 12,766  | 27,967  | 5,177   |

## 12. Current Liabilities

|                     | 2011/12 | 2010/11 | 2009/10 |
|---------------------|---------|---------|---------|
|                     | £000    | £000    | £000    |
| Unpaid Benefits     | 2,175   | 4,543   | 344     |
| Unsettled Purchases | 32      | 22      | 257     |
| Accrued Expenses    | 509     | 487     | 517     |
|                     | 2,716   | 5,052   | 1,118   |

## 13. 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 2000 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 [www.barnetpensions.org](http://www.barnetpensions.org).

## 14. Related Party Transactions

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

|                            | 2011/12 | 2010/11 | 2009/10 |
|----------------------------|---------|---------|---------|
|                            | £000    | £000    | £000    |
| Human Resources            | 417     | 462     | 581     |
| Accountancy Administration | 455     | 140     | 143     |
| Payroll Support            |         | 398     | 232     |
|                            | 872     | 1,000   | 956     |

The costs of payroll support are included in the Human Resources Recharge.

## 15. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2010, 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.

The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. The assumptions, which have the most significant effect on the result so the valuation, are:

| Assumption                     | Rate |
|--------------------------------|------|
| Future pension increases       | 3.0% |
| Future pay increases           | 5.0% |
| Price inflation                | 3.5% |
| Equities/absolute refund funds | 7.4% |
| Gilts                          | 4.5% |
| Bonds & Property               | 5.6% |
| Risk adjusted discount rate    | 6.7% |

The 2010 valuation actuarially assessed the value of the Fund's assets as £609.68 million, being sufficient to meet 76% of the Fund's liabilities.

The latest valuation as at 31<sup>st</sup> March 2012 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31<sup>st</sup> March 2010, and are given for comparison;

| Assumption                             | Rate |
|--|------|
| Assumed retail price inflation (RPI)   | 3.9% |
| Assumed customer price inflation (CPI) | n/a  |
| Salary increases                       | 5.4% |
| Pension increases                      | 3.9% |
| Discount rate                          | 5.5% |

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 21 December 2010 and is available to view at [www.barnet.gov.uk/pensions](http://www.barnet.gov.uk/pensions).

## **16. 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.

### **a) 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.

### **b) 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 it's 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.

### **c) 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 cashflow 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.

## 16. Nature and Extent of Risks Arising from Financial Instruments (continued)

### d) Market risk

Market risk is the risk that the fair value or future cashflows 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.

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### e) Exchange rate risk

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss from exchange rate movements of foreign currencies.

External Investment managers manage the risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency.

# London Borough of Barnet Pension Fund

IAS26 Disclosures as at 31 March 2012

## 1. Introduction

We have been instructed by London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension fund (“the Fund”), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of London Borough of Barnet Pension Fund (“the Fund”) as at 31 March 2012.

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 have been prepared in accordance with 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 2007/08, as amended. It is contracted out of the State Second Pension.

## 2. Valuation Data

### Data Sources

In completing our calculations for IAS26 purposes we have used the following items of data, which we received from London Borough of Barnet:

- The results of the Triennial Actuarial Valuation as at 31 March 2010 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2012;
- Estimated whole fund returns for the period to 31 March 2012 based on assets used for the purpose of the Triennial valuation as at 31 March 2011, actual fund returns for the period to 31 January 2012 and then market returns (estimated where necessary) for the period to 31 March 2012;
- Details of any new early retirements for the period to 31 March 2012 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, especially in the context of the roll-forward approach we have taken (as described in the next section). 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 2010.

| Member Data Summary | Number | Salaries/Pensions<br>£000's | Average Age |
|---------------------|--------|-----------------------------|-------------|
| Actives             | 7,048  | 153,939                     | 46          |
| Deferred Pensioners | 7,371  | 10,045                      | 45          |
| Pensioners          | 6,261  | 28,171                      | 70          |

## Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2012 is estimated to be 5%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. 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 2012 is as follows:

| Employer Asset Share - Bid Value | 31 March 2012  |             | 31 March 2011  |             |
|----------------------------------|----------------|-------------|----------------|-------------|
|                                  | £000's         | %           | £000's         | %           |
| Equities                         | 372,337        | 52%         | 376,043        | 56%         |
| Gilts                            | 71,603         | 10%         | 13,430         | 2%          |
| Other Bonds                      | 236,291        | 33%         | 221,597        | 33%         |
| Property                         | -              | -           | 26,860         | 4%          |
| Cash                             | 28,641         | 4%          | 33,575         | 5%          |
| Alternative Assets               | 7,160          | 1%          | -              | -           |
| <b>Total</b>                     | <b>716,032</b> | <b>100%</b> | <b>671,505</b> | <b>100%</b> |

The final asset allocation of the Fund assets as at 31 March 2012 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 Pension Fund.



### 3. Actuarial Methods and Assumptions

#### Roll-Forward Approach

To assess the value of the Employer's liabilities as at 31 March 2012, we have rolled forward the value of the Employer's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under 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 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 2012 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2012 should not introduce any material distortions in the results provided that the actual experience of the Employer and 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 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 formal funding valuation as at 31 March 2010. The post retirement mortality tables adopted were the S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement and a 90% scaling factor.

The assumed life expectations from age 65 are:

| Life Expectancy from age 65 (years) | 31 March 2012 |
|-------------------------------------|---------------|
| Retiring Today                      |               |
| Males                               | 20.0          |
| Females                             | 24.0          |
| Retiring in 20 years                |               |
| Males                               | 22.0          |
| Females                             | 25.9          |

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

## Financial Assumptions

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

| Assumptions as at | 31 March 2012 |       | 31 March 2011 |       | 31 March 2010 |      |
|-------------------|---------------|-------|---------------|-------|---------------|------|
|                   | % p.a.        | Real  | % p.a.        | Real  | % p.a.        | Real |
| RPI Increases     | 3.3%          | -     | 3.5%          | -     | 3.9%          | -    |
| CPI increases     | 2.5%          | -0.8% | 2.7%          | -0.8% | n/a           |      |
| Salary Increases  | 4.7%          | 1.4%  | 5.0%          | 1.5%  | 5.4%          | 1.5% |
| Pension Increases | 2.5%          | -0.8% | 2.7%          | -0.8% | 3.9%          | -    |
| Discount Rate     | 4.6%          | 1.3%  | 5.5%          | 1.9%  | 5.5%          | 1.5% |

These assumptions are set with reference to market conditions at 31 March 2012. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. 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. This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.3%. 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. 2.5%.

Salary increases are then assumed to be 1.4% above RPI in addition to a promotional scale. This is a slightly lower long-term assumption than last year to reflect the continuing climate of low salary increases.

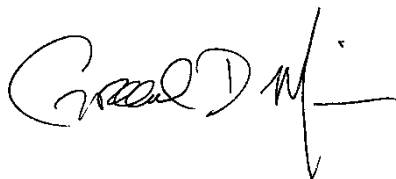
## 4. Results and Disclosures

The results of our calculations for the year ended 31 March 2012 are set out in Appendix 1. We estimate that the net liability as at 31 March 2012 is a liability of £496,437,000.

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

The figures in this report are presented only for the purposes of IAS 19. 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.



**Graeme Muir FFA  
Partner**



**Alison Hamilton FFA  
Partner**

## Appendix 1. Balance Sheet Disclosure as at 31 March 2012

| Net Pension Asset as at                 | 31 Mar 2012<br>£000's | 31 Mar 2011<br>£000's | 31 Mar 2010<br>£000's |
|---|-----------------------|-----------------------|-----------------------|
| Present Value of Funded Obligation      | 1,212,469             | 989,896               | 1,115,978             |
| Fair Value of Scheme Assets (bid value) | 716,032               | 671,505               | 631,401               |
| <b>Net Liability</b>                    | <b>496,437</b>        | <b>318,391</b>        | <b>484,577</b>        |

\*Present Value of Funded Obligation consists of £1,004,212,000 in respect of Vested Obligation and £208,257,000 in respect of Non-Vested Obligation.

## Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2012

| Reconciliation of opening & closing balances of<br>the present value of the defined benefit<br>obligation | Year to<br>31 March 2012<br>£000's | Year to<br>31 March 2011<br>£000's |
|---|------------------------------------|------------------------------------|
| <b>Opening Defined Benefit Obligation</b>   | <b>989,896</b>                     | <b>1,115,978</b>                   |
| Service cost  | 35,286                             | 37,356                             |
| Interest cost   | 54,528                             | 61,703                             |
| Actuarial losses (gains)  | 163,238                            | (102,208)                          |
| Losses (gains) on curtailments  | 1,730                              | 1,021                              |
| Liabilities extinguished on settlements   | -                                  | -                                  |
| Liabilities assumed in a business combination   | -                                  | -                                  |
| Estimated benefits paid net of transfers in   | (44,242)                           | (35,669)                           |
| Past service cost   | -                                  | (98,564)                           |
| Contributions by Scheme participants  | 12,033                             | 10,279                             |
| Unfunded pension payments   | -                                  | -                                  |
| <b>Closing Defined Benefit Obligation</b>   | <b>1,212,469</b>                   | <b>989,896</b>                     |

| Reconciliation of opening & closing balances of the fair value of Scheme assets | Year to        | Year to        |
|---|----------------|----------------|
|   | 31 March 2012  | 31 March 2011  |
|   | £000's         | £000's         |
| <b>Opening fair value of Scheme assets</b>                                      | <b>671,505</b> | <b>631,401</b> |
| Expected return on Scheme assets  | 43,845         | 40,891         |
| Actuarial gains (losses)  | (12,064)       | (13,653)       |
| Contributions by employer including unfunded                                    | 44,955         | 38,256         |
| Contributions by Scheme participants  | 12,033         | 10,279         |
| Assets acquired in a business combination                                       | -              | -              |
| Estimated benefits paid net of transfers in and including unfunded              | (44,242)       | (35,669)       |
| Receipt / (Payment) of bulk transfer value                                      | -              | -              |
| <b>Fair value of Scheme assets at end of period</b>                             | <b>716,032</b> | <b>671,505</b> |

| Reconciliation of opening & closing surplus       | Year to          | Year to          |
|---|------------------|------------------|
|   | 31 March 2012    | 31 March 2011    |
|   | £000's           | £000's           |
| <b>Surplus (Deficit) at beginning of the year</b> | <b>(318,391)</b> | <b>(484,577)</b> |
| Current Service Cost                              | (35,286)         | (37,356)         |
| Employer Contributions                            | 44,955           | 38,256           |
| Unfunded pension payments                         | -                | -                |
| Past Service Costs                                | -                | 98,564           |
| Other Finance Income                              | (10,683)         | (20,812)         |
| Settlements and Curtailments                      | (1,730)          | (1,021)          |
| Actuarial gains (losses)                          | (175,302)        | 88,555           |
| <b>Surplus (Deficit) at end of the year</b>       | <b>(496,437)</b> | <b>(318,391)</b> |

