



## **PENSION FUND ANNUAL REPORT 2013/14**

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## **1. Executive Summary**

- 1.1 Welcome to the London Borough of Barking and Dagenham Pension Fund (“the Fund”) Annual Report for 2013/14. This report provides information for employers and members of the Fund and other interested parties on how the Fund has performed and has been managed during the year ended 31 March 2014.

The Fund is overseen by a Pension Panel, which is a Committee of the London Borough of Barking and Dagenham (“the Council”), who are the sponsoring employer for the Fund. The Pension Panel consists of seven Councillors, with three nonvoting observers representing the Unions, members of the Fund and employers.

### **1.2 Local Government Pension scheme (LGPS) 2014**

From 1 April 2014 a new LGPS was implemented, which resulted in a number of changes to the scheme. The key changes and how the new scheme differs from the old scheme are outlined in the main body of this report.

### **1.3 Performance**

During the year the market value of the Fund’s assets increased by £30.8m to £667.2m. The overall investment return for the year was 4.5% and taking net pension contributions into account, the Fund increased in size by 4.8%.

### **1.4 Strategy Changes**

During the year the Fund completed the implementation of its revised investment strategy. This resulted in a reduction of the Fund’s actively managed UK government debt holdings, managed by Aberdeen Asset Management. The assets were reallocated as follows:

- 10% allocation to global credit managed by BNY Standish;
- 6% allocation to the Fund’s two absolute return managers, Pyrford and Newton; and
- 4% allocation to passively invested government bonds, managed by UBS.

### **1.5 Fund Employers**

In September 2013 Riverside School, became the Fund’s second Academy, which resulted in it being recorded separately from the Council as a scheduled body. The total number of active and closed employers within the Fund was 19 as at year end.

### **1.6 Triennial Valuation**

The triennial review of the Fund took place as at 31 March 2013. Despite strong investment growth in 2013, historically low bond yields resulted in the funding level decreasing from 75.4% in 2010 to 70.6% as at 31 March 2013. A subsequent update of the funding level as at 31 December 2013 did show a significant improvement in the Fund’s funding level to 78%. The Council, as the largest employer in the Fund, has built in an increase in its contribution rate to its medium term financial plan as part of its strategy to reduce the deficit.

## **2. Fund Governance and Administration**

### **2.1 Statutory Background and Legal Framework**

The Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. Membership of the LGPS is open to all employees of local authorities except teachers, fire-fighters and police, who have their own separate schemes.

The Scheme is open to all employees aged 16 or over, whether they work full-time or part-time. The Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration.

All members of the scheme can choose to leave at any time. During 2013/14 employees contributed according to a scale ranging from 5.5% to 7.5% based on their full time equivalent rate of pensionable pay, which included basic pay, contractual overtime and regular bonuses. Employers contribute at a rate set by the actuary. Employees in the Scheme are entitled to a pension of one sixtieth of their final pensionable pay for each year of service.

Further information regarding the various benefits offered can be found on the Fund's website address: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)

### **2.2 Scheme Funding and Administration**

At 31 March 2014 the Fund was funded and administered as set out below:

#### **i. Funding**

The Scheme is a funded scheme, financed by contributions from the Council, other employers, by employees and by investment income and capital growth of the Fund's assets. Staff and employers both contribute to the assets within the Fund, in the form of employees and employers contributions.

#### **ii. Administering Authority**

The Council, as Administering Authority, has legal responsibility for the Fund as set out in the LGPS Regulations. The Council delegates its responsibility for administering the Fund to the Pensions Panel, which is the formal decision making body for the Fund.

#### **iii. Myners principles**

In 2000, the UK Government commissioned Lord Myners to review institutional investment in the UK as there were concerns that the behaviour of institutional investors, including pension funds, was distorting the economic decision making to the detriment of small and medium sized companies. Ten principles were outlined representing a model of best practice, which were incorporated into regulations applicable to the LGPS, with administering authorities required to publish the extent to which they comply with these principles.

In 2008 a Treasury Report was published: “Updating the Myners Principles: A Response to Consultation”. This revised the previous set of ten down to six higher level principles which have now been adopted by Communities and Local Government (CLG).

In response, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a guide to assist authorities in the production of their compliance statements. The Council’s compliance with these principles was approved as part of the Statement of Investment Principles in May 2011.

In July 2010, the Financial Reporting Council published the UK Stewardship Code which is designed to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how those responsibilities may be met. The Code encourages better communication between shareholders and companies with the objective of raising standards of corporate governance.

#### **iv. The Pensions Panel**

The Pensions Panel meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments that may affect the Fund, and to review the performance of the fund managers. At all times, the Panel must discharge its responsibility in the best interests of the Fund.

All Panel Members have voting rights. Co-opted members do not have voting rights. The Panel is responsible for:

- determining the investment policy objectives;
- ensuring appropriate investment management arrangements are in place;
- appointment of investment managers, advisers and custodians;
- reviewing investment managers’ performance;
- considering requests from organisations wishing to join the Fund as admitted bodies;
- commissioning the actuarial valuations in accordance with LGPS Regulations; and
- approving statutory reports.

In addition, as recommended by the Myners’ Principles 2008, the Council has adopted the recommendations of the Knowledge and Skills Framework. The Pension Panel undertake various training throughout the year to equip them in their responsibility as Trustees of the Fund. During 2013/14 the Pension Panel consisted of the following Members (the number of Panel Meetings and training days attended by each is in brackets):

#### **Pension Panel:**

Councillor Rocky Gill (Chair) (4)  
Councillor Evelyn Carpenter (Deputy Chair) from December 2013 (2)  
Councillor Robert Douglas (Deputy Chair) to December 2013 (2)  
Councillor James Ogungbose (6)  
Councillor Jeff Wade (5)  
Councillor Gerald Vincent (4)  
Councillor Emmanuel Obasohan (4)

**Panel Observers**

Union Representative: Miles Dowdell (GMB)  
Member Representative: Bernie Hanreck  
Employer Representative: Dusty Amroliwala (University of East London)

In May 2014, following local elections, five new elected Members were appointed to the Pension Panel, including a new Chair and Deputy Chair of the Fund. As at 13 June 2014 the Pension Panel was made up of the following Members:

Councillor Dominic Twomey (Chair)  
Councillor Faraaz Shaukat (Deputy Chair)  
Councillor Sade Bright  
Councillor Mick McCarthy  
Councillor James Ogungbose  
Councillor Moin Quadri  
Councillor Jeff Wade

**v. Conflicts of Interest**

Conflicts of interest are managed as follows:

- a) When new Members join the Panel they are given training on their duties. It is emphasised that Members are required to act in the interests of the Fund members and should put aside personal interests and considerations.
- b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Panel meeting.
- c) An adviser is available to the Panel to provide strategy advice. The actuary advises on the Fund's solvency and employer contribution rates, with officers available to give independent advice. Employee groups are represented on the Panel, with quarterly Pensions Panel meetings open to the public and with minutes and reports published.

**2.3 Scheme Governance Policy Statement**

It is important that appropriate governance arrangements are put in place representing the needs of all stakeholders in the Scheme. In accordance with LGPS Regulations 2007, the scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement should set out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government and Myners Principles 2001 as Amended 2008. The scheme's governance compliance statement is included as appendix 3 of this report.

**2.4 Fund Fraud / National Fraud Initiative**

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent and detect fraud.

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively. The use of data for NFI purposes is

controlled to ensure compliance with data protection and human rights legislation. In 2006 the Audit Commission published a Code of Data Matching Practise, which, for the 2008/09 NFI exercise, has been updated to take account of new legislation as a result of the Serious Crime Act 2007.

The NFI currently matches all public sector pension scheme data to the Department for Work and Pensions (DWP) database of deceased persons. This acts as an automated life certification process for the Fund.

The Council is committed to the NFI process and undertook the data matching exercise in early 2013. Any cases where fraud is suspected will be pursued and where necessary, legal action taken. In addition the Fund has employed a tracing agency, who provides quarterly reports on scheme membership to prevent overpayment of pensions.

## 2.5 Scheme Features

The LGPS offers a defined benefit scheme to all eligible employees and their dependants. Eligible employees are mainly local authority staff and a number of other bodies as permitted by LGPS regulations (1997 and 2007 and amendments thereto). The key LGPS features are summarised below:

**Table 1: Key LGPS Features**

<b>Benefit Type</b>	<b>Details of Benefit</b>
<b>Member Contributions</b>	Ranging from 5.5% to 7.5% depending on salary
<b>Normal retirement Age</b>	Age 65 but benefits can be taken at 60 subject to possible reductions
<b>Early Retirement</b>	Immediate payment of benefits on efficiency/ redundancy grounds from the age of 55. Voluntary retirement with employer consent and flexible retirement from the age of 55.
<b>Ill Health Retirement</b>	A three-tier ill health arrangement has been introduced that pays benefits to members based on the member's prospect of returning to gainful employment.
<b>Pension</b>	1/60th of salary for each year of membership from 01/04/08. Service prior to this date will be calculated at 1/80th plus lump sum.
<b>Tax Free Lump Sum</b>	Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.
<b>Death in Service</b>	Lump sum of three times salary at date of death.
<b>Death Benefits after Retirement</b>	Death on pension lump sum of ten times pension less pension paid.

<b>Dependents Benefits</b>	Long-term pension benefits payable to the member's spouse, civil partner or nominated cohabiting partner. Long-term children's pension.
<b>Benefits on Leaving Service</b>	Members who leave service are entitled to either a refund of contributions, if service is less than three months, or preserved pension payable from normal retirement date, or a transfer payment to another scheme or insurance company.

## 2.6 Administrative Management Performance

Key administration performance indicators are used to monitor performance. The total number for each target processed, the target date for completing the process and the percentage of the target achieved is outlined below:

**Table 2: Administrative Management Performance**

	<b>Total Processed</b>	<b>Target Days</b>	<b>Target Achieved</b>
Number of Starters	1,262	10	83%
Number of Transfer Value quotes	89	10	90%
Number of Transfer Value actuals	71	10	90%
Number of Transfer Value outs quotes	64	15	90%
Number of Transfer Value outs actuals	51	13	95%
Number of Refunds	28	10	90%
Number of Deferred benefits	508	15	92%
Number of Estimates	487	10	98%
Number of Retirements	210	5	96%
Number of Death in service	5	5	100%
Death in Retirement	164	5	100%



### 3. Changes Affecting the LGPS

#### 3.1 LGPS 2014

From 1 April 2014 the current LGPS ended and a new scheme was implemented. In the new scheme all members have contribution rates based on actual, not full time equivalent, pay. This will mean that some part-time workers will pay lower contributions than in LGPS 2008. The average member contribution to LGPS 2014 will remain 6.5% and most members will pay the same or lower contributions than at present. All pensions already being paid, or built up before April 2014, will be fully protected. The changes will not affect those in receipt of a pension or have left with a deferred pension. Current contributing scheme members pre-April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age. The key elements of are:

**Table 3: LGPS 2014 for membership from 1st April 2014**

Provision	LGPS 2014
Basis of the Pension	Career Average Revalued Earnings (CARE) (previously Final Salary)
Accrual Rate (the percentage of salary accumulated p.a. of LGPS membership)	1/49 <sup>th</sup> (previously Final Salary)
Revaluation Rate (the rate of increase for accumulated pension)	Consumer Price Index
Normal Pension Age	Equal to the individual member's State Pension Age - minimum 65 (previously 65)
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit (previously no option)
Death in Service Lump Sum	3 x pensionable pay (no change)
Definition of Pensionable Pay	Actual pensionable pay to include non contractual overtime and additional hours for part time staff
Vesting Period (minimum period to qualify for benefits)	2 years (previously 3 months)

The contribution bandings have also changed to take tax relief into account and to be more progressive. As a result the bandings after tax relief range from 4.4% for those earning less than £13,500, to 6.88% for those earning over £150,000, as summarised in table 7 below:

**Table 4: Contribution Bands and Rates for April 2014**

Actual Pensionable Pay	Gross Contribution	Contribution After Tax Relief
Up to £13,500	5.50%	4.40%
£13,501 - £21,000	5.80%	4.64%
£21,001 - £34,000	6.50%	5.20%
£34,001 - £43,000	6.80%	5.44%
£43,001 - £60,000	8.50%	5.10%
£60,001 - £85,000	9.90%	5.94%
£85,001 - £100,000	10.50%	6.30%
£100,001 - £150,000	11.40%	6.84%
More than £150,000	12.50%	6.88%

## 4. Fund Management

### 4.1 Investment Managers:

The Fund is invested in equity, fixed income, infrastructure, credit and property, both in the United Kingdom and overseas. As at 31 March 2014 these funds were managed by eleven external fund managers including:

<u>Baillie Gifford &amp; Co</u> Calton Square, 1 Greenside Row, Edinburgh EH1 3AN	<u>Prudential/M&amp;G</u> Governor House, Laurence Pountney Hill London, EC4R 0HH
<u>BlackRock</u> 12 Throgmorton Avenue London EC2N 2DL	<u>Pyrford International</u> 79 Grosvenor Street, London W1K 3JU
<u>BNY Standish</u> 160 Queen Victoria Street London, EC4V 4LA	<u>RREEF</u> 1 Appold Street, London, EC2A 2UU
<u>Hermes GPE</u> 1 Portsoken Street, London E1 8HZ, United Kingdom	<u>Schroders</u> 31 Gresham Street, London, EC2V 7QA
<u>Kempfen International</u> Beethovenstraat 300, 1077 WZ Amsterdam PO Box 75666, 1070 AR Amsterdam	<u>UBS</u> 21 Lombard Street, London, EC3V 9AH, United Kingdom
<u>Newton Investment Management Ltd</u> 160 Queen Victoria Street London, EC4V 4LA	

4.2 The work of the Pension Panel is supported by a number of officers, advisors and external managers as set out below:

#### **Additional Voluntary Contribution (AVC) Provider**

Prudential PLC (Governor's House, Laurence Pountney Hill, London, EC4R 0HH)

#### **Custodian**

The Fund's custodian is State Street Bank and Trust Company who provide safekeeping, settlement of trades, income collection, corporate actions data and stock lending services for all of the Fund's assets.

State Street Global Services (20 Churchill Place, Canary Wharf, London, E14 5HJ)

#### **Investment Advisor**

Aon Hewitt (10 Devonshire Square, London, EC2M 4YP)

**Actuary**

Hymans Robertson LLP (20 Waterloo Street, Glasgow, G2 6DB)

**Auditor**

KPMG (12th Floor, 15 Canada Square, London, E14 5GL)

**Performance Measurement**

WM Markets (525 Ferry Road, Edinburgh, EH5 2AW)

**Legal Advisors:**

The Fund generally seeks to use the Council's legal team. Where required an external legal team for specific projects is used. In 2012/13 the following legal firm was used:

Eversheds (1 Wood St, London, Greater London EC2V 7WS)

**Subscription bodies**

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and participates in the London Pension Fund Forum (LPFF).

**Officers:**

The Following officers are responsible for the management of the Fund:

Jonathan Bunt	Chief Finance Officer
Tel: 020 8224 8427	Email: jonathan.bunt@lbbd.gov.uk

David Dickinson	Group Manager – Treasury and Pensions
Tel: 020 8227 2722	Email: david.dickinson@lbbd.gov.uk

Justine Spring	Pensions Manager
Tel: 020 8227 2607	Email: justine.spring@lbbd.gov.uk

Pauline Dean	Pensions Officer (Dealing with surnames beginning A - F)
Tel: 020 8227 2073	Email: pauline.dean@lbbd.gov.uk

Kinny Phillips	Pensions Officer (Dealing with surnames beginning G - R)
Tel: 020 8227 2296	Email: kinny.phillips@lbbd.gov.uk

Madhvi Dodia	Senior Pensions Officer (Dealing with surnames beginning S - Z)
Tel: 020 8227 2039	Email: madhvi.dodia@lbbd.gov.uk

David Edwards	Pensions Officer (dealing with Teachers' Pensions)
Tel: 020 8227 2095	Email: dave.edwards@lbbd.gov.uk

## 5. Investment Policy, Performance and Developments

### 5.1 Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) and require an Administering Authority to invest any Fund money that is not needed immediately to make payments from the Fund.

### 5.2 Investment Strategy

The Council, as Administering Authority, is responsible for setting the overall investment strategy of the Fund and monitoring the performance of its investments. This task is carried out by the Pension Panel on behalf of the Fund.

The investment strategy is usually set for the long-term, but reviewed periodically by the Panel to ensure that it remains appropriate to the Fund's liability profile. The investment strategy of the Fund is known as the Statement of Investment Principles (SIP) and a copy of this document can be found in Appendix 3 of this report.

### 5.3 Asset Allocation and Structure

The investment portfolio is weighted towards equities together with holdings in property, bonds, infrastructure and absolute return mandates. The risk of holding substantial equity investments is mitigated by investing in different markets across the world in many different sectors and stocks. The Fund investments are allocated to eleven fund managers and within different investment types to further diversify risk.

Table 5 below shows the Fund's investment portfolio by type, weighting and benchmark:

**Table 5: Fund Asset Allocation and Benchmarks as at 31 March 2014**

<b>Fund Manager</b>	<b>Asset (%)</b>	<b>Benchmark</b>
UBS Equities	19.7	FTSE All World Developed
Baillie Gifford	17.5	MSCI AC World Index
Kempfen	15.5	MSCI World NDR Index
Pyrford	10.6	RPI plus 5%
BNY Standish	9.2	6% Target Return
Newton Real Return	7.7	One month LIBOR plus 4%
Hermes GPE	6.5	Target 5.9% per annum
BlackRock / RREEF	4.8	IPD PPF All Balanced Property Funds
UBS Bonds	4.4	FTSE All Stock Gilt Index
Schroders	2.3	IPD PPF All Balanced Property Funds
M&G / Prudential	1.3	Libor + 4-6% (net of fees)
RREEF	0.3	IPD PPF All Balanced Property Funds
Cash	0.2	One month LIBOR
<b>Total Fund</b>	<b>100.0</b>	

## 5.4 Monitoring the Investment Managers

Investment manager performance is measured by the World Markets (WM) Company. A summary of their report is included within the quarterly performance report which is taken to each Pension Panel meeting. To assist the Fund in fulfilling its responsibility for monitoring the investment managers, Council officers and the Fund's advisers meet the investment managers regularly to review their actions and the reasons for their investment performance.

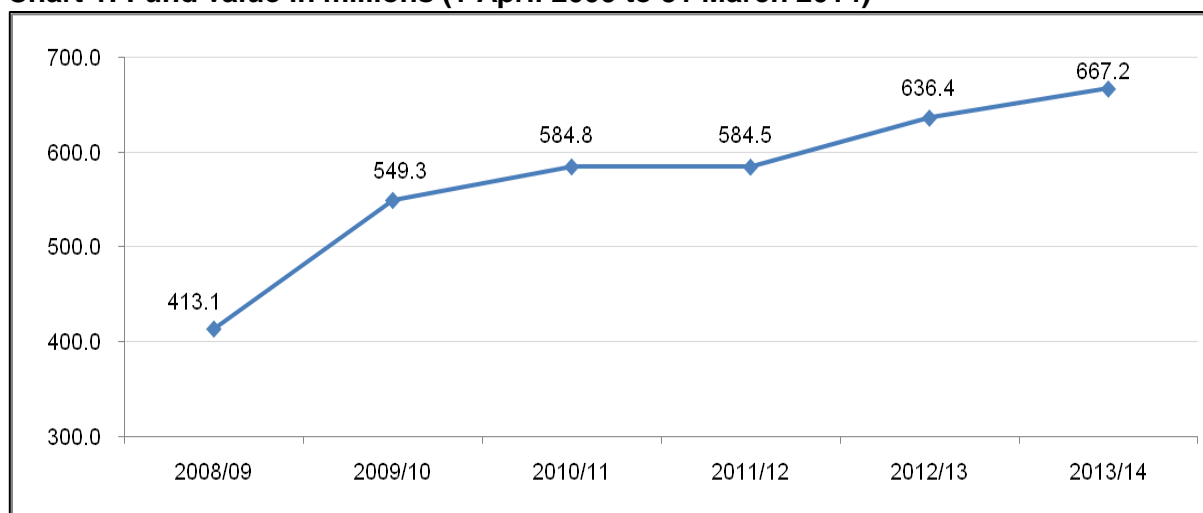
## 5.5 Fund Investment performance

For the twelve months to 31 March 2014 the Fund returned 4.5% against a benchmark return of 5.6%, representing an underperformance of 1.1%. The majority of benchmark set for the managers are based on a positive, fixed target that aligns the strategy with the steady return target set by the actuary.

Negative returns compared to their benchmark came from one of the Fund's equity managers, Kempen, from the Fund's property manager BlackRock and from the Fund's two absolute return managers Pyrford and Newton. An additional underperformance occurred during the transition a portfolio of predominantly UK government debt to a mix of absolute return, passive bonds and global credit.

During the year the market value of the Fund's assets increased by £30.8m to £667.2m. The Fund's value since 1 April 2009 is shown in Chart 1 below:

**Chart 1: Fund value in millions (1 April 2009 to 31 March 2014)**



## 5.6 Investment Manager Performance

Professional fund managers undertake the day-to-day management of the Fund's investments. Each fund manager works to a specific investment target in both the value of the funds invested and the returns required within the total value of the Fund. The Pension Panel closely monitors how each manager performs and reviews the actual performance of the investment managers each quarter to ensure the Fund is performing in line with its own targets and against other local authorities.

The table below shows the performance of the Fund and Benchmark over the last 5 years. The relative return is the degree by which the Fund has over or (underperformed) its benchmark over these periods. All manager returns are reported net of investment and actuarial costs, with each manager providing a positive return during the year.

**Table 6: Fund's Performance over 1, 3 and 5 years**

	<b>12 Months to 31 March 2014</b>	<b>3 Years to 31 March 2014</b>	<b>5 Years to 31 March 2014</b>
	<b>% per annum</b>	<b>% per annum</b>	<b>% per annum</b>
<b>Fund</b>	4.5	4.9	10.5
<b>Benchmark</b>	5.6	6.8	12.2
<b>Relative Return</b>	<b>(1.1)</b>	<b>(1.9)</b>	<b>(1.7)</b>

*Source: WM Company Performance Report*

## 5.7 Fund Assets and Income

An analysis of fund assets (table 7) as at 31 March 2014 and investment income (table 8) during 2013/14 is outlined below. The reporting of this data is to assist with the production of the LGPS annual report and therefore the categories reported on below may differ from the accounts, which have a different reporting requirement.

**Table 7: Fund Assets as at 31 March 2014**

	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
<b>Equities</b>	-	-	344.9	344.9
<b>Bonds</b>	28.6	-	60.4	88.9
<b>Property (direct holdings)</b>	-	-	-	-
<b>Alternatives</b>	56.8	-	162.2	219.0
<b>Cash</b>	1.3	-	-	1.3
<b>Total</b>	<b>86.7</b>	<b>-</b>	<b>567.5</b>	<b>654.1</b>

**Table 8: Investment Income Received in 2013/14\***

	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
<b>Equities</b>	-	-	1.4	1.4
<b>Bonds</b>	-	-	0.2	0.2
<b>Property (direct holdings)</b>	-	-	-	-
<b>Alternatives</b>	2.3	-	2.2	4.5
<b>Cash</b>	0.1	-	-	0.1
<b>Total</b>	<b>2.4</b>	<b>-</b>	<b>3.8</b>	<b>6.2</b>

*\* Investment income includes dividends and investment income that has been used to pay fund manager fees. As the majority of investments held by the Fund are invested in pooled funds some investment income has not been reported as Income from pooled investment vehicles accumulation units is not paid but is reinvested automatically within the Fund.*

## **6. Member Training and Development**

6.1 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills, with the aim of facilitating sound governance in the decision making of the public bodies responsible for administering pension funds.

6.2 The framework provides a framework for the training and development of officers and members involved in the management and administration of public pension funds. CIPFA now requires a commitment for LGP schemes to adopt the key principles of the Knowledge and Skills Framework (KSF) and report on how they have implemented the requirement of the code in the 2013/14 Annual Report.

6.3 This KSF is intended as:

- A tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs;
- An assessment tool for individuals to measure their progress and plan their development; and
- The framework is designed so that organisations and individuals can tailor it to their own particular circumstances.

6.4 The KSF requires differing degrees of competencies for officers and members. Officers are further grouped into various categories requiring different levels of competencies. There are six key technical areas for which knowledge and skills should be acquired by those involved in the decision making of pension funds:

- Pensions Legislative and Governance context
- Pensions Accounting and Auditing Standards
- Financial Services procurement and relationship management
- Investment Performance and Risk management
- Financial Markets and Products Knowledge
- Actuarial methods standards and practices

6.5 The Fund is committed to ensuring that officers and members acquire relevant KSF which are developed through access to training and education from various sources including:

- Attendance at relevant conferences, seminars and training courses;
- Update on regulations and governance changes at every meeting;
- A minimum of 4 Pension Fund Panel meetings per year; and
- training at Panel meetings where required.

6.6. The Fund has adopted the following statement concerning the training and development of Members and officer responsible for managing the Fund:

1. This Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions KSF.

2. This Fund recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly this Fund will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.
4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance KSF.
5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.
6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Finance Officer, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member, with CIPFA Standards of Professional Practice.

#### **6.7 Summary of training provided to Members and Officer**

1. Members were requested to complete a questionnaire in order to enable an assessment of their level of competency in the key technical areas and identify the skills gap to ensure more targeted collective of individual training;
2. Training was provided on the following Knowledge and Skills areas including:
  - I. Fund Manager Monitoring;
  - II. Risk management;
  - III. Assets:
    - a. Global Credit
    - b. Bonds
    - c. Equities
    - d. Alternatives
  - IV. Investment management; and
  - V. Pension Fund Governance.

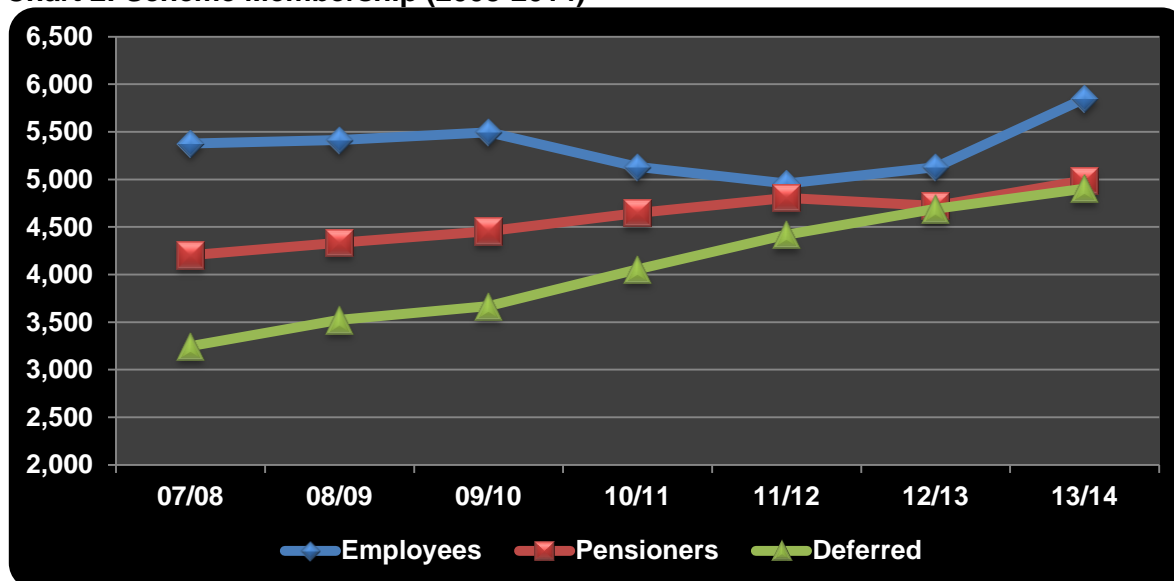


## 7. Fund Membership Details

### 7.1 Scheme Membership

The chart below shows the membership of the Fund over 7 years. All of the Council's employees, except those covered by the Teachers Pension Scheme Regulations, can join the Council's Pension Scheme. The LGPS regulations also provide for specified bodies (employers) to be admitted in to the Fund.

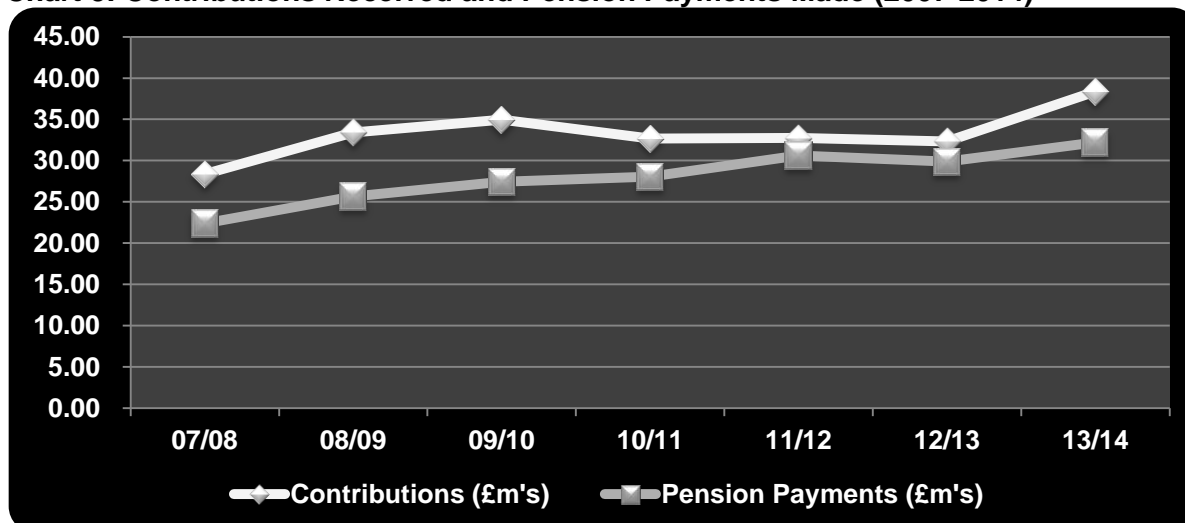
**Chart 2: Scheme Membership (2008-2014)**



### 7.2 Members Cash Flow

The chart below summarises the contributions paid to the Fund and the amounts paid out by the Fund in respect of members over the past 7 years. The total contributions have increased in 2013/14 as a result of increased employer contributions.

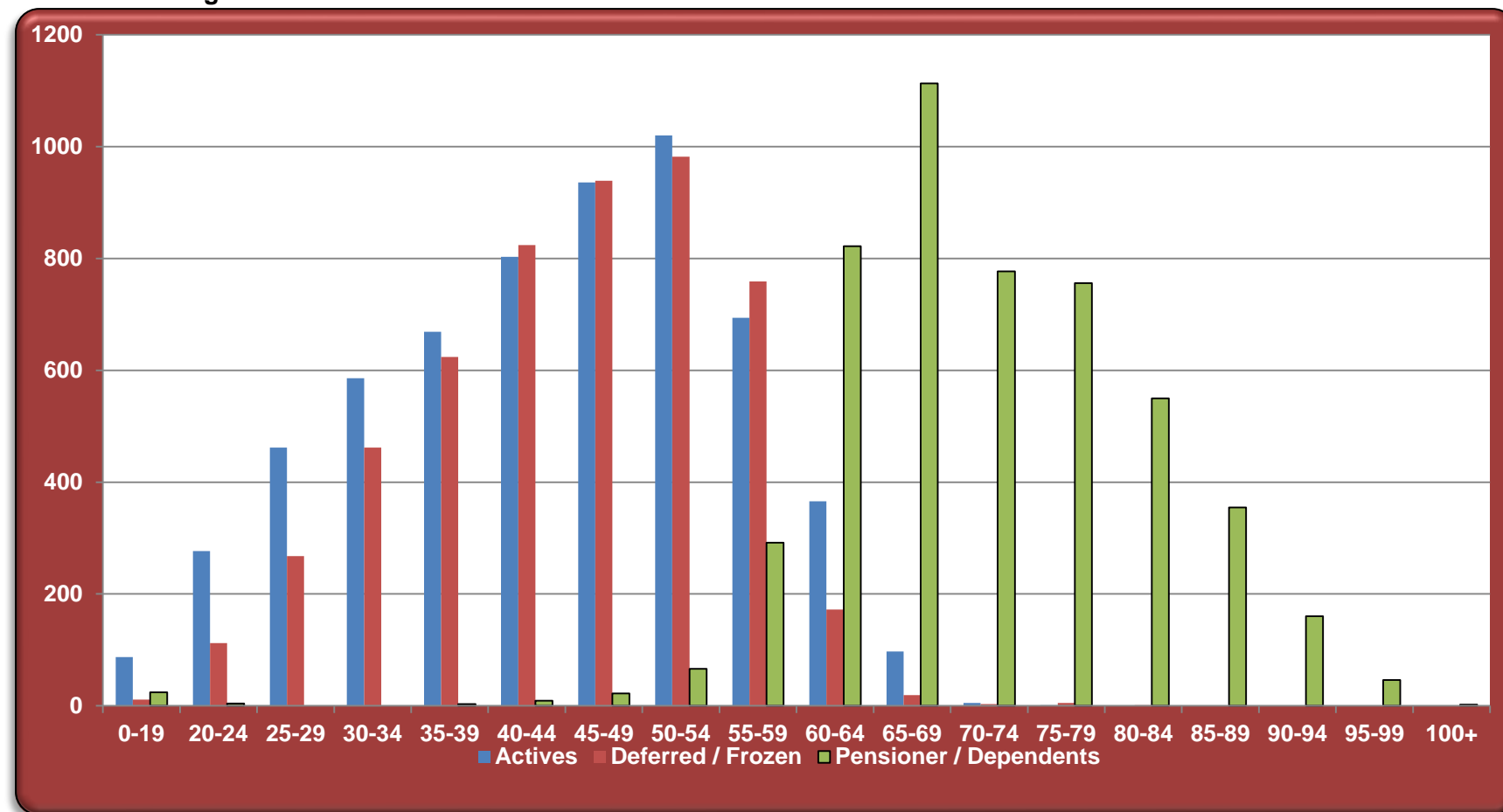
**Chart 3: Contributions Received and Pension Payments Made (2007-2014)**



### 7.3 Membership Details

As at 31 March 2014 the Fund had a total membership of 15,939, split into 5,710 active members, 4,904 deferred members 4,992 pensioners and 333 undecided members. The Fund membership is split 67.6% female and 32.4% male, with two pensioners over 100 years old. Chart 3 shows the Fund age profile at 31 March 2014.

**Chart 4: Fund Age Distribution as at 31 March 2014**



## 7.4 Employee Contributions in 2013/14

Employers contributions are payable at rates specified by the Fund's Actuary following each triennial valuation. Rates are adjusted to reflect any surplus or short fall in the Fund. The rates and salary bandings applicable in 2013/14 are shown in the table below:

**Table 9: Rates and Salary bandings in 2013/14**

Band	Salary Range	Contribution Rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,500 - £87,100	7.2%
7	More than £87,100	7.5%

## 7.5 Employers

The Scheme had nineteen employers as at 31 March 2014, of which the Council is the administering body. Details of employer organisations are as follows:

### Scheduled bodies

The London Borough of Barking and Dagenham  
Barking College  
University of East London  
Magistrates Court  
Thames View Infants Academy  
Riverside Academy

### Admitted Bodies

Age UK (previously Age Concern)	Laing O'Rourke
Abbeyfield Barking Society	Elevate LLP
Barking & Dagenham Citizen's Advice Bureau	May Gurney
Council for Voluntary Service	Laing O'Rourke
CRI	RM Education
Disablement Assoc. of Barking and Dagenham	Enterprise
East London E-Learning	

A summary of the number of employers in the Fund, analysed by scheduled body and admitted body and separated further into active (with active members) and ceased (no active members) is provided in table 10 below:

**Table 10: Rates and Salary bandings in 2013/14**

	Active	Ceased	Total
Scheduled body	5	1	6
Admitted body	7	6	13
<b>Total</b>	<b>12</b>	<b>7</b>	<b>19</b>

## **7.6 Summary of Benefits**

The Scheme is a defined benefit salary scheme which guarantees to provide benefits which are a specified fraction of a Scheme member's "final-pay". Benefits are not affected by variations in investment performance.

## **7.7 Additional Voluntary Contributions AVC**

Scheme members may also elect to pay additional contributions to be invested in an Additional Voluntary Contribution Scheme. The London Borough of Barking and Dagenham have chosen Prudential as its AVC provider.

## **7.8 Dispute Resolution**

The LGPS is required by statute to make arrangements for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active deferred and pensioner members or their representatives. There is a two stage dispute resolution procedure.

## **8. Risk Management**

### **8.1 Summary**

The Council has incorporated key Fund risks in its corporate risk register. In addition, the Fund has an active risk management programme in place and has adopted the recommendations of the 2008 Myners principles. The measures that the Council has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic;
- Longevity;
- Regulatory and
- Governance.

A copy of the Council's risk register is included as appendix 7 of this report. Further details on risk can be found in the Fund's accounts on pages 44 to 45.

### **8.2 Management of Third Party Risks**

The Pension Panel reviews annually all SSAE 16 and AAF 01/06 reports for its investment managers and custodian. SSAE 16 and AAF 01/06 reports are Assurance reports on internal controls of service organisations which can identify issues within the way a fund manager is run. Where there are concerns the Panel contacts the fund manager for steps it has taken to mitigate risks or issues raised by third party auditors.

All employers are regularly informed of their statutory duty to ensure that contributions are received by the Administering Authority on time. In 2011/12 Age Concern Barking and Dagenham went into liquidation and the Fund lodged a claim with the Liquidator. In February 2012 liquidators paid 10% of the outstanding liabilities as a first dividend to the Fund. A further 34% was paid as a final settlement payment in early September 2012.

### **8.3 Financial Performance**

The Fund prepares a three year plan of its funding called the Funding Strategy Statement (FSS). The purpose of the Funding Strategy Statement is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly consistent employer contributions as possible; and
- To take a prudent longer-term view of funding those liabilities.

Admitted and Scheduled bodies are circulated with valuation results for comments and agreement on contribution rates. Their responses are considered in preparing the FSS for the Fund. The FSS is included as appendix 2 of this report.

## **9. Actuarial Report on Fund Valuation**

### **9.1 Actuarial Valuation and Solvency of the Fund**

Legislation requires the Fund to have an actuarial valuation undertaken every three years. The purpose of the valuation is for an independent assessment to be made of the financial health of the Fund and its ability to meet its obligations to pay pensions in the future.

The aim of the report is to recommend employer contribution levels to ensure that assets in the fund cover liabilities over the long term. The key features of the review were that:

- the funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- future levels of price inflation are based on the Consumer Price Index (CPI) (previously Retail Price Index) and future levels of real pay increases are assumed to be 2.0% per annum in excess of CPI;
- the discount rate is based on Asset Outperformance target of 1.6% above the yield of fixed interest and index linked government Bonds;
- the market value of the pension scheme's assets at 31 March 2013 was £636m; and
- assumptions made were prudent and based on available evidence.

### **9.2 Actuarial Statement**

The Actuarial Statement is included as appendix 7 of this report and has been produced by the Fund's Actuary, Hymans Robertson LLP.

### **9.3 Monitoring of Fund's Funding Position**

The Administering Authority monitors the funding position between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as liability discount rate) caused by changes in market conditions. This report is prepared by the Fund's actuary Hymans Robertson.

In addition, specific inter-valuation monitoring for individual employers may be undertaken if requested by the employer. The Council is the largest employer in the Fund and undertakes this inter-valuation monitoring annually.

## **10. Pension Fund Three Year Budget (2014/15 to 2016/17)**

10.1 At the March 2014 Pension Panel one of the recommendations in the governance review provided by Aon Hewitt was for a Fund budget to be included in the Business Plan.

10.2 At the July 2014 Members agreed a budget for the next three years, which is included in the Business Plan and is reported on at each quarterly Pension Panel as part of the Business Plan Update.

10.3 The proposed budget is provided in table 11.

10.4 A number of assumptions have been used to calculate the budget, including:

- Council Employee, Employer and Pension Strain contributions will increase initially due to the increase in average contribution rates but will decrease in 2015/16 and 2016/17 due to a reduction in staff numbers. The assumed reduction is 10% for each year.
- Scheduled body contributions are forecast to increase steadily as similar reductions in staff number are not, as yet, expected and due to the assumption that the number of academies may increase.
- Pension payments will increase at an average of 3% to take into account annual CPI increases and the increase in the number of pensioners.
- Administration expenses are expected to reduce as efficiencies are found in increasing in-house expertise and in new ways of working.
- A return of 4.7% has been assumed for net return for the Fund for each year. Liabilities are forecast using the 31 December 2013 valuation update total as the base, with annual increase in liabilities as the Fund grows negated by the increase in discount rate as the discount rates increases following an increase in longer term bond yields.
- The discount rate of 5% has been used for 2014/15 to 2016/17. It is likely that the actual rate will be higher, which in turn will improve the Fund's funding level, subject to asset values remaining strong.

10.5 Overall the budget indicates that, given steady returns, continued increases in longer dated interest rates and continued higher than average contribution rates, the funding level could increase over the 3 years to 81.7%. With continued low wage increases, and lower than expected inflation there are sufficient positive economic factors that will benefit the Fund and make this possibility more likely.

**Table 11: Pension Fund Budget 1 April 2014 to 31 March 2017**

	<b>2013/14 £000's</b>	<b>2014/15 £000's</b>	<b>2015/16 £000's</b>	<b>2016/17 £000's</b>
<b><u>Contributions</u></b>				
<b>Employee Contributions</b>				
Council	5,804	6,000	5,400	4,860
Admitted bodies	496	500	450	405
Scheduled bodies	1,794	1,950	2,000	2,050
<b>Employer Contributions</b>				
Council	22,288	23,300	21,900	20,550
Admitted bodies	1,433	1,575	1,550	1,500
Scheduled bodies	6,022	6,620	7,200	7,800
<b>Pension Strain</b>	540	500	1,000	1,000
<b>Transfers In</b>	1,926	2,000	2,000	2,000
<b><u>Total Member Income</u></b>	40,303	42,445	41,500	40,165
<b><u>Expenditure</u></b>				
<b>Pensions</b>	(26,481)	(27,275)	(28,094)	(28,937)
<b>Lump Sums and Death Grants</b>	(5,749)	(5,921)	(6,099)	(6,282)
<b>Payments to and on account of leavers</b>	(3,177)	(3,200)	(3,400)	(3,600)
<b>Administrative expenses</b>	(655)	(500)	(500)	(500)
<b>Total Expenditure on members</b>	(36,062)	(36,897)	(38,093)	(39,319)
<b><u>Net additions for dealings with members</u></b>	4,241	5,548	3,407	846
<b><u>Returns on Investments</u></b>				
<b>Investment Income</b>	6,208	4,000	4,000	4,000
<b>Profit (losses)</b>	22,728	29,500	31,500	33,500
<b>Investment management expenses</b>	(2,412)	(2,100)	(2,250)	(2,370)
<b>Net returns on investments</b>	26,524	31,400	33,250	35,130
<b>Net increase (decrease) in the net assets</b>	30,765	36,948	36,657	35,976
<b>Asset Values</b>	667,167	704,115	740,772	776,749
<b>Liabilities (net 2% increase)</b>	(896,000)	(913,920)	(932,198)	(950,842)
<b>Discount Rate</b>	5.0%	5.0%	5.0%	5.0%
<b>Funding Level</b>	<b>74.5%</b>	<b>77.0%</b>	<b>79.5%</b>	<b>81.7%</b>



## **Appendix 1: Fund Accounts 2013/14**

### **Summary of Fund Accounts 2013/14**

The key changes in the Fund's income and expenditure are summarised below:

- The number of contributors (active members) to the Scheme increased by 718, 12.3% to 5,710, mainly due to casual workers being included as part of auto-enrolment;
- The number of pensioners paid decreased by 2725, 5.4% to 4,992;
- Contributions (Employers and Members) increased by £6.0m (18.7%) to £38.4m, this included an increase in contribution from the Council of 1.5% to 21.5%;
- Investment income decreased by £3.9m (38.2%) to £6.2m. This decrease was mainly due to investment income being reinvested directly within pooled funds rather than being reported directly by the Fund as part of a segregated holding;
- Payments made out of the Fund increased by £1.0m, 2.9% to £35.4m; and
- The Fund value increased by £30.8m, 4.7% in the year to £667.2m.

### **Explanatory Foreword**

The primary function of the Council in respect of these accounts is as an Administering Body to the Fund.

The 2013/14 Fund Accounts consist of:

- Fund Account;
- Returns from Investments;
- Net Assets Statement; and
- Notes to the Accounts.

### **Publication**

This report will be made available through the Council's website, the Fund's website ([www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)) and to all employers and members participating in the Fund as well as Council Members on request as appropriate. A copy of this document and all other documents referred to in this report can be obtained upon receipt of a written request to the Treasury and Pensions Manager.



# **Pension Fund Accounts**

**for the year ended**

**31 March 2014**

## London Borough of Barking and Dagenham Pension Fund Account

	Note	2012/13 £000	2013/14 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>			
Contributions	7	32,328	38,377
Transfers in from other pension funds	8	2,733	1,926
		<u>35,061</u>	<u>40,303</u>
Benefits	9	(29,900)	(32,230)
Payments to and on account of leavers	10	(4,551)	(3,177)
Administrative expenses	11	(828)	(655)
		<u>(35,279)</u>	<u>(36,062)</u>
<b>Net additions for dealings with members</b>		<u>(218)</u>	<u>4,241</u>
<b>Returns on Investments</b>			
Investment Income	12	10,063	6,208
Taxes on income			
Profit (losses) on disposal of investments and changes in the market value of investments	14	43,827	22,728
Investment management expenses	13	(1,983)	(2,412)
<b>Net returns on investments</b>		<u>51,907</u>	<u>26,524</u>
<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<u>51,689</u>	<u>30,764</u>

### Net Assets Statement as at 31 March 2014

	Note	2012/13 £000	2013/14 £000
<b>Investment Assets</b>	15	631,288	655,031
<b>Investment Liabilities</b>	15	(989)	-
<b>Current Assets</b>	16	6,326	12,381
<b>Current Liabilities</b>	16	(223)	(245)
		<u>636,402</u>	<u>667,167</u>

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

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

### **1. Introduction**

The Barking and Dagenham Pension Fund ("the Fund") is part of the Local Government Pension Scheme ("LGPS") and is administered by the London Borough of Barking and Dagenham ("LBBD"). The Council is the reporting entity for this Fund.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as "members". The benefits include not only retirement pensions, but also widow's pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund's investments.

The objective of the Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund and show the results of the Council's stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund's Pension Panel, which is a Committee of LBBD.

Overall 2013/14 was a reasonable year for the Fund with an investment return, net of fund manager fees of 4.5%. Taking net pension contributions into account, the Fund increased in size by 4.8%, which is in line with the actuaries return expectation for the Fund.

In September 2013 Riverside School, became the Fund's second Academy, which resulted in it being recorded separately from the Council as a scheduled body. No new admitted bodies joined the scheme. The total number of active and closed employers within the fund was nineteen as at year end.

### **2. Format of the Pension Fund Statement of Accounts**

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Finance Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund's Annual Report for 2013/14, which can be obtained from the Council's website: [www.lbld.gov.uk/AboutBarkingandDagenham/Pensions/Pages/PensionsFund.aspx](http://www.lbld.gov.uk/AboutBarkingandDagenham/Pensions/Pages/PensionsFund.aspx)

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: [www.legislation.gov.uk](http://www.legislation.gov.uk).

#### **a) Membership**

All local government employees (except casual employees and teachers) are automatically entered into the Scheme. However, membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

	2012/13	2013/14
<b>Number of Employers with active members</b>	18	19
<b>Number of Employees in scheme</b>		
<b>London Borough of Barking and Dagenham</b>		
Active members*	4,016	4,528
Pensioners	3,855	4,070
Deferred pensioners	3,646	3,846
Undecided and other members	276	242
	<u>11,793</u>	<u>12,686</u>
<b>Admitted and Scheduled Bodies</b>		
Active members	1,113	1,182
Pensioners	865	922
Deferred pensioners	1,046	1,058
Undecided and other members	111	91
	<u>3,135</u>	<u>3,253</u>

*\*Active member numbers increased in 2013/14 due to casual workers being included as part of auto-enrolment. In addition housing maintenance was brought back in-house, thereby reducing the admitted body member numbers and increasing the LBBB active member numbers.*

A list of the Fund's scheduled and admitted employers are provided below:

<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>
LBBB	Age UK
Barking College	Abbeyfield Barking Society
University of East London	B&D Citizen's Advice Bureau
Magistrates Court	Council for Voluntary Service
Thames View Infants Academy	CRI
Riverside School	Disablement Assoc. of B&D
	East London E-Learning
	Elevate East London LLP
	Enterprise (to 30 April 2013)
	Laing O'Rourke
	London Riverside
	May Gurney
	RM Education

## **b) Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised:

	<b>Service pre 1 April 2008</b>	<b>Service post 31 March 2008</b>
<b>Pension:</b>	Each year worked is worth $1/80 \times$ final pensionable salary.	Each year worked is worth $1/60 \times$ final pensionable salary.
<b>Lump sum:</b>	Automatic lump sum of 3 x salary. In addition part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked to keep pace with inflation. From 1 April 2011 the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

### c) Changes to the Local Government Pension Scheme from 1 April 2014

From 1 April 2014 the Local Authority Pension Scheme will change from a final salary defined benefit scheme to a career average scheme. The key changes are summarised below:

- An accrual rate of 1/49th of pensionable earnings each year;
- Revaluation of active members' benefits in line with a price index (currently CPI);
- A Normal Pension Age equal to the State Pension Age (SPA), which applies both to active members and deferred members (new scheme service only). If a member's SPA rises, so too will the Normal Pension Age for all post-2014 service;
- A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate;
- Pensions in payment to increase in line with a price Index (currently CPI);
- Benefits to increase in any period of deferment in line with a price index (CPI);
- Average member contribution yield of 6.5%, with tiered contributions;
- Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations;
- Early/late retirement factors from age 55 on an actuarially neutral basis;
- A vesting period of two years; and
- Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit.

Transitional protection will be available in respect of:

- All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme;
- Protection underpin for members aged 57 to 59; and
- Rule of 85 protection as in the current scheme.

### 3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2013/14 financial year and its position as at 31 March 2014. The accounts have been

prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2013/14.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2014. Such items are reported separately in the Actuary's Report provided in Note 18 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis.

### **3.1 Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts on the basis of the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 7).

### **3.2 Investment income**

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest 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) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

### **3.3 Investments** in the Net Assets Statement at market value on the following basis:

- i) Quoted investments are valued at bid price at the close of business on 31 March 2014;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;

- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2014. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange;
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

### **3.4 Administration**

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBB's policy.

### **3.5 Taxation**

The Fund is a registered public sector service scheme under section 1(1) of schedule 36 of the Finance act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceed of investments sold.

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

Value Added Tax is recoverable on all Fund activities by the administering authority.

### **3.6 Investment management expenses**

All investment management expenses are accounted for on an accrual basis.

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore investment management fees increase / decrease as the value of these investments change.

The Fund does not currently include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

The majority of the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism. These are disclosed in Note 12.

### **3.7 Foreign currency transactions**

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting year.



### **3.8 Derivatives**

The Fund has a limited use of derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The Fund has no direct holdings in exchange traded or over-the-counter options, although some of these trading tools are used within a number of the Fund's pooled investments.

### **3.9 Cash and cash equivalents**

Cash comprises cash in hand and on-demand deposits.

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

### **3.10 Present Value of Liabilities**

These accruals do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

### **3.11 Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 18).

### **3.12 Contingent assets and liabilities**

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

#### **4 Critical Judgements in applying accounting policies**

In applying the accounting policies set out in Note 2, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2013/14 for which there is a significant risk of material adjustment in the forthcoming financial years.

#### **6 Additional Voluntary Contributions (AVC)**

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBD employees during the year amounted to **£305k** (2012/13 £274k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

AVCs were valued by Prudential at a market value of **£4.9m** (2012/13 £4.7m).

#### **7 Contributions**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 14.0% to 33.1%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

Following a separate modelling exercise carried out by the Fund's actuary, Hymans Robertson, LBBD have had their contribution rates stabilised. The primary contribution rate used during the financial year ending 31 March 2014 was 21.5%. For the year ending 31 March 2015 LBBD's contribution rate will be 22.5%. Contributions shown in the revenue statement may be categorised as follows:

<b>Contributions</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Members normal contributions</b>		
Council	5,150	<b>5,804</b>
Admitted bodies	781	<b>496</b>
Scheduled bodies	1,781	<b>1,794</b>
<b>Total contributions from members</b>	<b>7,712</b>	<b>8,094</b>
<b>Employers normal contributions</b>		
Council	15,707	<b>22,288</b>
Admitted bodies	2,498	<b>1,433</b>
Scheduled bodies	5,634	<b>6,022</b>
Additional retirement contribution	-	-
Capitalised Redundancy costs	777	<b>540</b>
<b>Total contributions from employers</b>	<b>24,616</b>	<b>30,283</b>
<b>Total Contributions</b>	<b>32,328</b>	<b>38,377</b>

## 8 Transfers in from other pension funds

	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Individual Transfers</b>	2,733	<b>1,926</b>
<b>Group Transfers</b>	-	-
	<b>2,733</b>	<b>1,926</b>

## 9 Benefits

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

	<b>2012/13</b>				<b>2013/14</b>			
	Council	Admitted Bodies	Schedule d Bodies	Total	Council	Admitted Bodies	Schedule d Bodies	Total
	£000	£000	£000	£000	£000	£000	£000	£000
				25,604				
<b>Pensions</b>	21,104	824	3,676	4	<b>21,741</b>	<b>957</b>	<b>3,783</b>	<b>26,481</b>
<b>Lump sums</b>	2,595	522	890	4,007	<b>3,566</b>	<b>542</b>	<b>706</b>	<b>4,814</b>
<b>Death grants</b>	264	-	22	286	<b>762</b>	-	<b>160</b>	<b>922</b>
<b>Interest</b>	3	-	-	3	<b>13</b>	-	-	<b>13</b>
				29,900				
	23,966	1,346	4,588	0	<b>26,082</b>	<b>1,499</b>	<b>4,649</b>	<b>32,230</b>

**10 Payments to and on account of leavers**

	2012/13	2013/14
	£000	£000
Individual Transfers	4,539	3,164
Refunds	12	13
	<u>4,551</u>	<u>3,177</u>

**11 Administrative expenses**

	2012/13	2013/14
	£000	£000
*Administration and Processing	550	466
Audit Fee	21	21
Actuarial Fees	87	53
Legal and Other Professional Fees	170	115
	<u>828</u>	<u>655</u>

\*Administrative fees for 2013/14 include one off costs totalling £224k that were incurred in the upgrade of the Fund's IT system, electronic record costs and costs to update systems to accommodate the 2014 LGPS and auto-enrolment. Expenses are now reported within the investment management expenses in Note 13.

**12 Investment Income**

	2012/13	2013/14
	£000	£000
Fixed Interest Securities	2,860	49
Equity Dividends	7,661	3,918
Pooled Property Income	1,755	1,891
Interest - Manager's Cash	3	223
Interest - LBBBD balance*	79	46
Currency Gain/(Loss)	(2,481)	64
Stock Lending fees	121	17
Other Income	65	-
	<u>10,063</u>	<u>6,208</u>

\*The income earned from the cash held with LBBBD is an apportionment of the total interest generated by LBBBD investments based on the average balance for the year.

**13 Investment management expenses**

	2012/13	2013/14
	£000	£000
Management Fees	1,868	2,376
Custody Fees	115	36
	<u>1,983</u>	<u>2,412</u>

## 14 Investments

The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	<b>Value 31/03/2013 £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Change in Fair Value £000</b>	<b>Cash Movement £000</b>	<b>Value 31/03/2014 £000</b>
Fixed Interest Securities	72,462	154,379	(221,748)	(5,093)	-	-
Equities	-	-	-	-	-	-
Pooled Unit Trusts	384,446	91,052	(61,691)	19,968	-	433,775
Property Unit Trusts	44,527	-	-	3,560	-	48,087
Pooled Absolute Return	78,578	40,299	-	1,067	-	119,944
Infrastructure	36,450	6,986	(4,361)	3,212	-	42,287
Other Investments	9,728	-	(1,024)	14	-	8,718
Derivative Contracts						
Futures	(14)			-	14	-
				-		-
Cash Deposits	2,671			-	(1,353)	1,318
<b>Total</b>	<b>628,848</b>	<b>292,716</b>	<b>(288,824)</b>	<b>22,728</b>	<b>(1,339)</b>	<b>654,129</b>

	<b>Value 31/03/2012 £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Change in Fair Value £000</b>	<b>Cash Movement £000</b>	<b>Value 31/03/2013 £000</b>
Fixed Interest Securities	98,013	104,778	(131,046)	717	-	72,462
Equities	327,094	828,297	(1,166,080)	10,689	-	-
Pooled Unit Trusts	82,365	425,886	(158,613)	34,808	-	384,446
Property Unit Trusts	51,876	39,190	(39,203)	(7,336)	-	44,527
Pooled Absolute Return	-	74,995	-	3,583	-	78,578
Infrastructure	-	34,536	-	1,914	-	36,450
Other Investments	8,317	1,426	-	(15)		9,728
Derivative Contracts						
Futures	16	-	-	(30)	-	(14)
Cash Deposits	11,274	-	-	(503)	(8,100)	2,671
<b>Total</b>	<b>578,955</b>	<b>1,509,108</b>	<b>(1,494,942)</b>	<b>43,827</b>	<b>(8,100)</b>	<b>628,848</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by

changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund.

The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. The managers as at 31 March 2014 are highlighted below:

<b>Investment Manager</b>	<b>Mandate</b>	<b>Investment Area</b>
BNY Standish	Active	Global Credit
Baillie Gifford	Active	Global Equity (Pooled)
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Newton	Active	Absolute Return
Prudential/M&G	Active	Alternatives - UK Companies Financing
Pyrford	Active	Absolute Return
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2014 was as follows:

<b>Fund by Investment Manager</b>	<b>2012/13</b>		<b>2013/14</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Aberdeen Asset Management	135,651	21.5	-	0.0
Baillie Gifford	102,147	16.2	114,637	17.5
BlackRock	29,520	4.7	31,450	4.8
Hermes	36,450	5.8	42,287	6.5
Kempen	101,076	16.1	101,412	15.5
Newton	26,269	4.2	50,495	7.7
Other Cash Balances	433	0.1	1,318	0.2
Prudential/M&G	10,403	1.7	8,718	1.3
Pyrford	52,309	8.3	69,449	10.6
RREEF	2,305	0.4	1,939	0.3
Schroders	13,828	2.2	14,698	2.3
Standish	-	-	60,365	9.2
UBS Passive Bonds	-	-	28,555	4.4
UBS Passive Equity	118,457	18.8	128,806	19.7
	<b>628,848</b>	<b>100.0</b>	<b>654,129</b>	<b>100.0</b>

## 15 Securities

	2012/13 £000's	2013/14 £000's
<b>Investment Assets</b>		
<b>Fixed interest securities</b>		
<b>UK</b>		
Fixed Interest Public Sector	66,347	-
Fixed Interest Private Sector	6,115	-
<b>Overseas</b>		
Overseas Fixed Interest - Public Sector	-	-
Overseas fixed Income Unit Trust	24,645	-
<b>Equities</b>		
Overseas Equities	-	-
UK Equities	-	-
<b>Pooled funds</b>		
<b>UK</b>		
UK fixed Income Unit Trust	38,119	28,555
UK Equity Unit Trust	220,604	243,442
UK Absolute Return	26,269	50,495
UK Property Unit Trust	15,008	16,638
UK Unit Trust	9,728	8,718
<b>Overseas</b>		
Overseas Fixed Income Unit Trust	-	60,365
Overseas Absolute Return	52,309	69,449
Overseas Equity Unit Trust	101,076	101,412
Overseas Property Unit Trust	29,520	31,450
Other Investment - Infrastructure	36,450	42,287
Other Investment	2,441	902
<b>Cash</b>	2,671	1,318
<b>Futures</b>	(14)	-
<b>Total Investment Assets</b>	<u>631,288</u>	<u>655,031</u>
<b>Investment Liabilities</b>	(989)	-
<b>Current Assets: Debtors</b>	6,326	12,381
<b>Current Liabilities</b>	(223)	(245)
<b>Total Net Assets</b>	<u>636,402</u>	<u>667,167</u>

## 16 Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2014:

	2012/13 £000	2013/14 £000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	969	-
Dividends receivable	497	-
Stock lending	5	-
Tax recoverable	970	902
	2,441	902
<b>Current Assets</b>		
Other local authorities (LBBD)	6,000	11,993
Other entities and individuals	326	388
	6,326	12,381
<b>Total Debtors</b>	8,767	13,283
<b>Other Investment balances</b>		
Investment purchases	989	-
<b>Current Liabilities</b>		
Other entities and individuals	223	245
<b>Total Creditors</b>	1,212	245

## 17 Cash

The cash balance held at 31 March 2014 is made up as follows:

	2012/13 £000	2013/14 £000
<b>Cash balances held by Investment Managers</b>		
Aberdeen Asset Management	439	99
Alliance Bernstein	4	-
Goldman Sachs	-	40
RREEF	515	-
Prudential / M&G	674	203
Schroders	611	268
BlackRock	-	631
Other balances	428	77
<b>Total Cash</b>	2,671	1,318

## 18 Statement of Investment Principles

A Statement of Investment Principles has been agreed by the Council's Investment Panel and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Statement of Investment Principles. Copies can be obtained from the Council's website:

[www.lbld.gov.uk/AboutBarkingandDagenham/Pensions/Pages/PensionsFund.aspx](http://www.lbld.gov.uk/AboutBarkingandDagenham/Pensions/Pages/PensionsFund.aspx)



## 19 Actuarial position

### Actuarial assumptions

The triennial review of the Fund took place as at 31 March 2013 and the salient features of that review were as follows:

- The funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- The key financial assumptions adopted at this valuation are:
  - Future levels of price inflation are based on the Consumer Price Index (CPI), previously Retail Price Inflation;
  - Future levels of real pay increases - assumed to be 1.3% p.a. in excess of price inflation - based on CPI;
  - Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
  - The resulting discount rate of 4.7% (6.1% as at 31 March 2010).
- Market value of the scheme's assets at the date of the valuation were £636 million;
- The past service liabilities at the rate of the valuation were £902 Million;
- The resulting funding level was 70.6% (75.4% as at 31 March 2010); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2013 valuation are set out below:

<b>Financial Assumptions</b>	<b>Derivation</b>	<b>Rate at 31 March 2013</b>	
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields of fixed and index linked Government bonds at the valuation date less 0.5% per annum	2.50%	-
Pay Increases	Assumed to be 1.5% in excess of price inflation	3.80%	1.3%
Funding basis discount rate	Assumed to be 1.6% above the yield on fixed interest Government bonds	4.70%	2.20%

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date

<b>Longevity Assumptions</b>	<b>2010</b>	<b>2010</b>	<b>2013</b>	<b>2013</b>
at 31 March	Males	Females	Males	Females
Average future life expectancy (in years for a pensioner)	19.1	20.9	19.6	21.9
Average future life expectancy (in years) at age 65 for a non-pensioner assumed to be aged 45 at the valuation date	21.2	23.1	21.8	24.0

## Funding level and position

The table below shows the detailed funding level for the 2013 valuation:

<b>Employer contribution rates</b>	As at 31 March	
	2010	2013
Net Employer Future Service Cost	16.1%	18.7%
Past Service Adjustment – 20 year spread	8.3%	12.7%
<b>Total Contribution Rate</b>	<b>24.4%</b>	<b>31.4%</b>

The table below shows the funding position as at 31 March 2013 and includes an updated valuation as at 31 December 2013.

	As at 31 March 2010 £m	As at 31 March 2013 £m	As at 31 December 2013 £m
<b>Past Service Funding Position at 31 March</b>			
<b>Past Service Liabilities</b>			
Employees	(298)	(316)	(306)
Deferred Pensioners	(117)	(180)	(163)
Pensioners	(314)	(406)	(373)
	(729)	(902)	(842)
Market Value of Assets	549	636	657
<b>Funding Deficit</b>	<b>(180)</b>	<b>(266)</b>	<b>(185)</b>
<b>Funding Level</b>	<b>75.4%</b>	<b>70.6%</b>	<b>78.0%</b>

## Present value of funded obligation

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be £1,077m (2013: £1,072m). This figure is used for statutory accounting purposes by the London Borough of Barking and Dagenham Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

## Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which will be applied to the 2014/15 accounting period:

LBB	22.5%	May Guerny	22.8%
University of East London	25.1%	Laing O'Rourke	14.0%
Barking College	22.7%	RM Education	22.8%
Disablement Association of B&D	22.9%	Elevate	21.3%
B&D Citizen's Advice Bureau	33.1%	CRI	15.1%
Thames view Infants Academy	22.3%		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

## 20 Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council:

- Cash investments of **£12.0m** (2012/13; £6.0m) are managed on behalf of the Fund; and
- Pension administration costs of **£676k** (2012/13; £605k) are charged by the Council.

## 21 Contingent liabilities

There are no contingent liabilities.

## 22 Contingent assets

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. As at 31 March 2014 the Fund did not hold any contingent assets.

## 23 Holdings

All holdings within the Fund as at 31 March 2014 were in pooled funds or in Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2014 the following holdings in pooled funds and LLPs were over 5% of the net assets of the scheme:

Security	Market Value as at 31 March 2014 £000	% of total Fund %
UBS Life World Equity Tracker Fund	128,806	19.7%
Baillie Gifford Global Alpha	114,638	17.5%
Kempfen Global High Dividend	101,412	15.5%
Pyrford Global Total Return Fund	69,449	10.6%
Standish Global Opportunistic Fixed Income	60,365	9.2%
Newton Real Return Fund	50,495	7.7%
Hermes GPE Infrastructure Fund	42,287	6.5%

## 24 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted

equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the **Fund at Level 1 were £513.3m.**

## **Level 2**

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data. For the Fund these investment includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The total financial instruments held by the **Fund at Level 2 were £98.6m.**

## **Level 3**

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £42.3m.**

## **25 Post balance sheet events**

There are no adjusting or non-adjusting events which have occurred after the Fund Statement date.

## **26 Compensation of key management personnel**

Compensation of key management personnel, including members of the Pension Panel, the Chief Finance Officer and the Pension and Treasury Manager, are charged to the Fund are provided below:

	2012/13 £000	2013/14 £000
Short Term employee benefits	138.0	132.8
<b>Total</b>	<b>138.0</b>	<b>132.8</b>

## **27 Financial Instruments**

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. 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. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

	Fair Value through profit and loss 2012/13 £000	Loan and receiv ables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit and loss 2013/14 £000	Loan and receiv ables £000	Financial liabilities at amortise d cost £000
<b>Financial assets</b>						
Pooled Fixed Income						
Unit Trusts	97,299	-	-	-	-	-
Equities	-	-	-	-	-	-
Property Unit Trusts	44,528	-	-	48,087	-	-
Cash	-	2,479	-	-	1,318	-
Other investments	486,981	-	-	605,626	-	-
<b>Total Financial Assets</b>	<b>628,808</b>	<b>2,479</b>	<b>-</b>	<b>653,713</b>	<b>1,318</b>	
<b>Financial Assets</b>						
Debtors	-	6,326	-	-	12,381	-
<b>Financial liabilities</b>						
Creditors	-	-	(1,212)	-	-	(245)
Borrowings	-	-	-	-	-	-
<b>Total Net Assets</b>	<b>628,808</b>	<b>8,805</b>	<b>(1,212)</b>	<b>653,713</b>	<b>13,699</b>	<b>(245)</b>

## 28 Nature and extent of risks arising from Financial Instruments

The Fund activities expose it to a variety of financial risks in respect of financial instruments, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meets its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

In additions, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Fund's Panel. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies will be reviewed regularly to reflect changes in activity and in market conditions.

## **Risk and risk management**

### **Market risk**

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk from its investment activities, predominantly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- The exposure of the Fund to market risk is monitored through regular reviews of the Fund's asset allocation; and
- Specific risk exposure is limited by applying maximum exposures to individual investments.

Fund equity managers may use futures contracts and exchange traded option contracts to manage market risk on equity investment.

### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

## Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Funds' asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

<b>Asset Class</b>	<b>1 Year Expected Volatility (%)</b>
Global Pooled Inc UK	11.0
Total Bonds	4.3
Property	4.9
Alternatives	2.9
Cash	0.0

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

<b>Asset Type</b>	<b>Value as at 31 March 2014 £000</b>	<b>% Change</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Pooled Fixed Income Unit				
Trusts	88,920	4.3	92,744	85,096
Pooled Equity Investments	344,855	11	382,789	306,921
Pooled Property	48,087	4.9	50,443	45,731
Pooled Absolute Return	119,944	2.9	123,422	116,466
Infrastructure	42,286	2.9	43,512	41,060
Other Investments	8,718	2.9	8,971	8,465
Cash	1,318	0	1,318	1,318
<b>Total</b>	<b>654,128</b>		<b>703,199</b>	<b>605,057</b>

<b>Asset Type</b>	<b>Value as at 31 March 2013 £000</b>	<b>% Change</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Fixed Interest Securities	72,654	4.9	76,214	69,094
Pooled Investments	384,446	14.2	439,037	329,855
Pooled Property	44,527	4.5	46,531	42,523
Pooled Absolute Return	78,578	4.5	82,114	75,042
Infrastructure	36,450	4.5	38,090	34,810
Other Investments	9,728	4.5	10,166	9,290
Futures	(14)	0.0	(14)	(14)
Cash	2,479	0.0	2,479	2,479
<b>Total</b>	<b>628,848</b>		<b>694,408</b>	<b>562,888</b>

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value and includes Fund cash held with the Council with a value of £12.0m (2012/13: £6.0m):

Asset type	As at 31 March 2013	As at 31 March 2014
	£000	£000
Cash and cash equivalent	2,479	1,318
Fixed interest securities	72,654	88,920
<b>Total change in assets available</b>	<b>75,133</b>	<b>90,238</b>

## Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	1,318	13	(13)
Fixed interest securities	88,920	889	(889)
<b>Total change in assets available</b>	<b>90,238</b>	<b>902</b>	<b>(902)</b>



Asset type	Carrying amount as at 31 March 2013 £000	Change in year in the net assets available to pay benefits	
		+100 BPS £000	-100 BPS £000
Cash and cash equivalent	2,479	25	(25)
Fixed interest securities	72,654	727	(727)
Total change in assets available	75,133	752	(752)

### **Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### **Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

All financial liabilities at 31 March 2014 are due within one year.

### **Refinancing risk**

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

### **Cash Flow Risk**

The Pension Panel Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBF needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long term shortfall in net income into the Fund, investment income will be used to cover the shortfall.

### **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

### **London Borough of Barking and Dagenham**

The Fund is administered by LBBD. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of **£0.49m** in 2013/14 (2012/13: £0.60m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£22.3m** to the Fund in 2013/14 (2012/13:£15.7m). All monies owing to and due from the Fund were paid in year.

## Appendix 2: Governance Compliance Statement

In accordance with the Local Government Pension Scheme Regulations 2007, Local Government Pension Scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement sets out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government.

The Governance and Compliance Statement sets out best practice guidance and how the London Borough of Barking and Dagenham (the Council) comply with this guidance.

### Structure

- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council;
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee;
- Where a secondary committee or Panel has been established, the structure ensures effective communication across both levels;
- Where a secondary committee or Panel has been established, at least one seat on the main Panel is allocated for a member from the secondary committee or Panel.

The Council delegates the management of the Fund to the Pension Panel. The Panel meets on a quarterly basis.

The Panel comprises six Councillors (seven Councillors from 12 June 2014). The Panel also includes representation from the General and Municipal Boilermakers Union (GMB), from an employee representative and from an employer within the Fund. Admitted bodies are not represented on the Panel, but are consulted on a regular basis. The Panel reviews its terms of reference on a regular basis, so this position will be reviewed in the near future.

The Pension Panel terms of reference are set out below and the Panel is responsible for monitoring all aspects relating to the investment of the assets of the Fund as follows:-

- The Panel will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance from the Panel regarding tolerance of risk. They will recommend changes in asset allocation to the Executive;
- The Panel will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Panel will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management);
- The Panel will formally review annually the manager's mandate, and its adherence to its expected investment process and style. The Panel will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale;
- The Panel will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.

- In the event of a proposed change of managers, the Panel will evaluate the credentials of potential managers;
- The Panel will consider the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism;
- The Panel will review the Fund's AVC arrangements annually. If they consider a change is appropriate, they will make recommendations to the Executive;
- The Panel will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Panel will be responsible for the appointment and termination of providers;
- The Panel will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers;
- In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis;
- The Panel is able to take such professional advice as it considers necessary;
- The Panel will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Executive;
- The Panel may also carry out any additional tasks delegated to it by the Borough Council.

The Panel currently consists of:

Councillor Dominic Twomey (Chair)  
 Councillor Faraaz Shaukat (Deputy Chair)  
 Councillor Sade Bright  
 Councillor Mick McCarthy  
 Councillor James Ogungbose  
 Councillor Moin Quadri  
 Councillor Jeff Wade

Any changes to the membership of the Panel require the approval of the Executive.

Membership of the Panel consists of a minimum of two Members with a quorum of two Members. All Panel members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Panel responsibilities and to interpret the advice which they receive.

### **Representation:**

All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- Employing authorities;
- Scheme members;
- Independent professional observers; and
- Expert advisors.

Where lay members sit on the main or secondary Panel, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Admitted bodies are not currently represented at Pension Panel meetings. Professional advice is offered to the Pension Panel by the Fund's investment advisor, Aon Hewitt, and by the Chief Financial Officer for the Council.

The Pension Panel regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Panel.

### **Selection and role of lay members**

Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary Panel. The Pension Panel regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Pension Panel.

### **Voting**

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Voting rights remain with Councillors, due to the fact that the Council retains legal responsibility as administering authority. The Chairman has the casting vote. In practical terms, decisions on the Fund are usually made by consensus.

### **Training, Facility Time, Expenses**

There is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process which applies equally to all members of committees, sub-committees advisory Panels or any other form of secondary forum.

The Council's policy on expenses applies in these instances, and there are no specific policies in place for the Pension Panel. Training is provided to all attendees of the Pension Panel as stated previously.

### **Meetings (frequency, quorum)**

The administering authority's main committee or committees meet at least quarterly.

The administering authority's secondary committee or Panel meets at least twice a year, and is synchronised with the dates when the main committee sits.

The administering authority provides a forum outside of those arrangements by which the interests of key stakeholders can be represented.

The Pension Panel sits on a quarterly basis. The GMB union has the option to be represented in these meetings.

### **Access**

Subject to any rules in the Council's constitution, all members of main and secondary committees or Panels have equal access to committee papers, documents and advice that fails

to be considered at meetings of the main committee. Barking and Dagenham is fully compliant with this principle.

### **Scope**

The administering authority has taken steps to bring wider scheme issues within the scope of their governance arrangements.

The Pension Panel has a broad work programme which is regularly reviewed and updated in light of current developments. Key issues such as investment performance are considered on a quarterly basis, documents such as the statement of investment principles is reviewed at least annually, and current developments are a regular agenda item for the Panel.

### **Publicity**

The administering authority has published details of their governance arrangements in such a way that stakeholders with an interest in the way in which a scheme is governed can express an interest in wanting to be part of those arrangements.

The Fund has a communication policy that sets out how it communicates with stakeholders. The Fund's Annual Report is reported to the Council's Executive on an annual basis. This document is published on the Council's website and is included in the Fund Annual Report.

**Appendix 3:**



**Funding Strategy  
Statement  
2014/15 – 2016/17**

## **1. Introduction**

This is the Funding Strategy Statement (FSS) of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), which is administered by the London Borough of Barking and Dagenham, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 1 April 2014.

### **1.1 Regulatory Framework**

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant), replaced from 1 April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report. Details of the Rate and Adjustments Certificate has been included in Appendix A to this report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

(a) The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
  - FSS guidance produced by CIPFA
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.



- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund's actuary must have regard to the FSS as part of the Fund valuation.

## 1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years as part of the triennial valuation being carried out, with the next full review due to be completed by 31 March 2017. More frequently, Appendix A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities and is not an exhaustive statement of policy on all issues. If you have any queries please contact David Dickinson in the first instance (david.dickinson@lbbd.gov.uk or 020 8227 2722).

## 2. Purpose

### 2.1 Purpose of FSS

The department for Communities and Local Government (CLG), formally the Office of the Deputy Prime Minister, has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

### 2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension Fund are summarised in Appendix B.

## **2.3 Aims of the Funding Policy**

The objectives of the Fund's funding policy are as follows:

- to ensure the long-term solvency of the Fund and the long term solvency of shares of the Fund attributable to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

## **3. Solvency Issues and Target Funding Levels**

### **3.1 Derivation of Employer Contributions**

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus
- b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period (see 3.7.3 below for deficit recovery periods).

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*,<sup>1</sup> for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the deficit under (b) is currently spread over a period of 20 years.

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<sup>1</sup> See regulation 36(4) of the 2008 Regulations

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer<sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

Employer contribution rates differ due to:

- Differing membership profiles;
- Differing salary rates, mortality rates, outsourcings and other demographic assumptions;
- Differing levels of maturity; and
- Previous contributions paid to recover deficit.

Appendix A contains a breakdown of each employer's contributions following the 2013 valuation for the financial years 2014/15, 2015/16 and 2016/17.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minimum rates, with employers able to pay regular contributions at a higher rate. Employers should discuss the impact of making one-off capital payments with the Administering Authority before making such payments.

### **3.2 Solvency and Target Funding Levels**

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency' for ongoing employers is defined to be the ratio of the current market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

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<sup>2</sup> See regulation 36(7) of the 2008 Regulations

- (b) The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.
- (c) Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.
- (d) The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.
- (e) The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for Community and Transferee Admission bodies will vary depending on the expected duration of their participation in the Fund. Please refer to Section 3.8 for the treatment of departing employers.

### **3.3 Ongoing Funding Basis**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The longevity assumptions that have been adopted at this valuation are a bespoke set of Vita Curves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided for the purposes of the 2013 valuation. Full details of these are available on request.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in

excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In the light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2013 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 1.7% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the Fund Actuary's formal valuation report.

### **3.4 Future Service Contribution Rates**

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

#### **3.4.1 Employers that admit new entrants**

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

### **3.4.2 *Employers that do not admit new entrants***

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Future service rates calculated under both funding methods will include related administration expenses, to the extent that they are borne by the Fund, and will include an allowance for benefits payable on death in service and ill health retirement.

## **3.5 Adjustments for Individual Employers**

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and

- the additional costs of any non ill-health retirements relative to any extra payments made over the period between the 2010 and 2013 triennial valuation and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other Funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

### **3.6 Asset Share Calculations for Individual Employers**

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

### **3.7 Stability of Employer Contributions**

#### **3.7.1 Solvency Issues and target Funding Levels**

- (f) A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within predetermine range (“Stabilisation”)
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases/decreases

### **3.7.2 Stabilisation**

- (g) There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.
- (h) In view of this possibility, the Administering Authority has commissioned the Fund actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:
- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
  - there were no material events occurring before 1 April 2014 which rendered the stabilisation unjustifiable.
- (i) In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.
- (j) The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.
- (k) The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Fund actuary, in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

### **3.7.3 Deficit Recovery Periods**



The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority has targeted the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

<b>Type of Employer</b>	<b>Maximum Length of Deficit Recovery Period</b>
Statutory bodies with tax raising powers	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period not exceeding 20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract subject to not exceeding expected future working lifetime
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the employer allowing for expected leavers.
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate which for the 2013 valuation is 1 April 2014. The Administering Authority reserves the right to propose alternative spreading periods, for example to improve the stability of contributions.

### **3.7.2 Surplus Spreading Periods**

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions. However, to help meet the stability requirement, employers may prefer not to take such reductions.

### **3.7.3 Phasing in of Contribution Rises**

The Administering Authority may allow some employers to phase in contribution rises over the period to which their contribution rates apply i.e. 1 April 2014 to 31 March 2017. Employers are notified of the results of the tri-annual actuarial valuation, and the implications that this has on employer contributions. These details have been summarised in Appendix A.

#### ***3.7.4 Phasing in of Contribution Reductions***

Any contribution reductions between 2014/15 – 2016/17 will be phased in over three years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect, however employers are recommended to phase contributions over the shortest time possible. Agreed contribution rates in the 2013 valuation have been phased over 3 years

#### ***3.7.5 The Effect of Opting for Longer Spreading or Phasing-In***

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

### **3.8 Admission Bodies ceasing**

Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a TAB).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation as required under Regulation 78 of the 1997 regulations (38 of the 2008 regulations) to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- (l) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (m) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.
- (n) For admission bodies with guarantors, it is possible that any deficit could be transferred to the guarantors in which case it may be possible to simply transfer the assets and liabilities relating to the former admission bodies to the respective guarantors, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

- (o) In the event that the Fund is not able to recover the required payment in full directly from the admission body or from any bond or indemnity or guarantor, then:
  - a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any

outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

- b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing admission body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing admission body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

### **3.9 Early Retirement Costs**

#### **3.9.1 *Non Ill Health retirements***

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The current cost of these is specified in the latest early retirement manual from Hymans Robertson.

Since the introduction of the new LGPS many members now have two tranches of pension - namely that which was accrued before and after 1 April 2008. In theory, these can be paid without reduction from two different retirement ages. In practice, the member can only retire once and so both pensions are paid from a single age. It is assumed that the member will retire at the age when all of the members pension can be taken without reduction.

The additional costs of premature retirement are calculated by reference to these ages.

#### **3.9.2 *Ill health monitoring***

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

### **4. Links to Investment Strategy**

The Funding and the investment strategy are inextricably linked. The Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

## 4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles. For details of this, please refer to Appendix C.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

## 4.2 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

## 4.3 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of annual interim valuations, measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds. It reports back to employers on an annual basis, following the production of the relevant information by the Fund's actuary. The table below shows the funding position as at 31 March 2013 and includes an updated valuation as at 31 December 2013.

	As at 31 March 2010	As at 31 March 2013	As at 31 December 2013
<b>Past Service Funding Position at 31 March</b>			
<b>Past Service Liabilities</b>	£m	£m	£m
Employees	(298)	(316)	(306)
Deferred Pensioners	(117)	(180)	(163)

Pensioners	(314)	<b>(406)</b>	<b>(373)</b>
	(729)	<b>(902)</b>	<b>(842)</b>
Market Value of Assets	549	<b>636</b>	<b>657</b>
<b>Funding Deficit</b>	<b>(180)</b>	<b>(265)</b>	<b>(185)</b>
<b>Funding Level</b>	75.4%	<b>70.6%</b>	<b>78.0%</b>

## 5. Key Risks & Controls

### 5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory;
- governance; and
- longevity.

### 5.2 Financial Risks

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on an annual basis</i>
Inappropriate long-term investment strategy	<i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Measuring performance and setting managers' targets as set out in the "fund objective guidelines".</i>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<i>Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.</i>
Active investment manager under-performance relative to benchmark	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i>
Pay and price inflation significantly more than anticipated	<i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i>

Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p> <p><i>Consideration of the effects of possible increases in employer rates in the Council's Medium Term Financial Strategy.</i></p>
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### 5.3 Demographic Risks

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.
Pensioners living longer.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 90 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p>
Deteriorating patterns of early retirements	<p><i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i></p> <p><i>Employer ill health retirement experience is monitored.</i></p>

### 5.4 Regulatory

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Changes to regulations, e.g. more favourable benefits package, removal of Rule of 85 for new entrants from October 2006 and for existing members from 1 April 2008 (with protections)	<p><i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i></p> <p><i>It considers all consultation papers issued by the DCLG and comments where appropriate.</i></p> <p><i>The Administering Authority will consult employers where it considers that it is appropriate.</i></p>

### 5.5 Governance

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	<i>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</i>

Administering Authority not advised of an employer closing to new entrants.	<i>The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Appendix A).</i>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	<i>The Administering Authority monitors membership movements on a quarterly basis and employer and employee contributions on a monthly basis. Dialogue is maintained with all employers on a regular basis.</i>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>• <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i></li> <li>• <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i></li> <li>• <i>Vetting prospective employers before admission.</i></li> <li>• <i>Offering lower risk investment strategies – with higher employer contributions - for Best Value Admission Bodies to reduce the risk of volatile contributions and a significant debt crystallising on termination.</i></li> </ul>

## 5.6 Longevity (mortality)

Members live longer than expected due to improved health care and standard of living	<p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>• <i>Seeking detailed monitoring of longevity profile of the fund over the valuation period</i></li> <li>• <i>Bringing to the attention of all employers the risk involved and the need to make provision.</i></li> </ul>
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## 6.0. List of Appendices:

Appendix A – Employers' Contributions, Spreading and Phasing Periods

Appendix B – Responsibilities of Key Parties



**APPENDIX A****Employers' Contributions, spreading and phasing periods:**

Following the 2013 valuation, the minimum total employer contributions to be shown in the Rates and Adjustment Certificate attached to the 2013 valuation report are detailed in the table below:

	<b>Employer Name</b>	<b>Minimum Contribution for the Year Ending</b>					
		<b>31 March 2015</b>		<b>31 March 2016</b>		<b>31 March 2017</b>	
		<b>% of Payroll</b>	<b>£(000)</b>	<b>% of Payroll</b>	<b>£(000)</b>	<b>% of Payroll</b>	<b>£(000)</b>
1	LB Barking & Dagenham	22.5%	0	23.5%	0	24.5%	0
2	University of East London	25.1%	0	26.6%	0	28.1%	0
3	Barking College	22.7%	0	25.1%	0	27.5%	0
8	Disablement Association	22.9%	0	22.9%	0	22.9%	0
9	Barking & Dagenham CAB	33.1%	0	33.1%	0	33.1%	0
10	Elevate	21.3%	0	21.3%	0	21.3%	0
12	Kier	22.8%	0	22.8%	0	22.8%	0
13	Laing O'Rourke	14.0%	0	14.0%	0	14.0%	0
14	RM Education	22.8%	0	22.8%	0	22.8%	0
15	Thames View Infants School	22.3%	0	22.3%	0	22.3%	0
20	CRI	15.1%	0	15.1%	0	15.1%	0

## **APPENDIX B**

### **Responsibilities of Key Parties**

#### ***The Administering Authority should:-***

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP; and
- advise the Actuary of any new or ceasing employers.

#### ***The Individual Employer should:-***

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- provide annual reconciliation of pay and contributions promptly to the employer at the end of the financial year;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

#### ***The Fund actuary should:-***

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

**Appendix 4:**



**PENSION FUND**

**STATEMENT OF INVESTMENT  
PRINCIPLES**

## 1. Introduction

This is the Statement of Investment Principles (SIP) produced by London Borough of Barking and Dagenham as administering authority of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), to comply with the regulatory requirements specified in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (Regulation 12(1)).

The Regulations set out that the SIP must cover the administering authority’s policy on:

- The types of investments to be held;
- The balance between different types of investments;
- Risk, including the ways in which risks are to be measured and managed;
- The expected return on investments;
- The realisation of investments;
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- The exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- Stock lending.

The Statement must also set out the extent to which the Fund complies with the statutory guidance “Investment Decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”.

The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the administering authority has taken and considered advice from the Investment Practice of Aon Hewitt. A copy of the statement can be found on the Fund’s website: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)

For further information, please contact David Dickinson at [david.dickinson@lbbd.gov.uk](mailto:david.dickinson@lbbd.gov.uk).

## 2. Overall Responsibilities

A full explanation of the Fund’s governance arrangements can be found in the Council’s Constitution Part C – Responsibility for Functions – Our Scheme of Delegation - Section M – The Pension Panel published on the Council’s website: <http://www.lbbd.gov.uk/CouncilandDemocracy/Documents/Constitution/const-c-section-m.pdf>

London Borough of Barking and Dagenham (the Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) through the Fund.

## 3. Investment Responsibilities

The Administering Authority the Council has delegated responsibility for the administration of the Fund to the *Chief Finance Officer*, advised by the Pension Panel and after taking expert advice from the Fund’s Investment Advisor (Aon Hewitt) on investment matters.

As at 31 March 2014 the Pension Panel currently comprises:

- Councillor Rocky Gill (Chair);
- Councillor Evelyn Carpenter (Deputy Chair);
- Councillor Emmanuel Obasohan;
- Councillor James Ogungbose;
- Councillor Gerald Vincent;
- Councillor Jeff Wade;

This Statement has been adopted by the Pension Panel (the “Panel”), which acts on the delegated authority of London Borough of Barking and Dagenham, the administering authority for the Fund. The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Panel has consulted with the administering authority and other principal employers within the Fund and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

In Appendix A, the Panel has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy’s (CIPFA) publication, ‘Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds’.

#### **4. Fund Objective**

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Panel aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation of the Fund, or more frequently as required. *The next triennial valuation is scheduled to take place in 2013, with the contribution rates effective from 1 April 2014.*

#### **5. Investment Strategy**

The Panel has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Appendix B). All day to day investment decisions have been delegated to the Fund's authorised investment managers. The strategic benchmark is also reflected in the investment structure adopted by the Panel; this comprises a mix of segregated and pooled manager mandates, *including actively managed and passive mandates*. The Fund benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Panel monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

## **6. Funding Strategy Statement**

There are close links between the SIP and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The Funding Strategy Statement is available on the Fund's website: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)

## **7. Types of investment to be held**

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and commodities, infrastructure either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Panel considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

## **8. Statutory Investment Limits**

Statutory maximum limits were increased, subject to administering authorities taking proper advice and compliance with a variety of criteria in the LGPS (Management and Investment of Funds) Regulations 2009.

The normal maximum limits, as a percentage of the total Fund, are restated as shown below. The potential higher limits which can be agreed by the Panel are shown in parentheses:

- Any single sub-underwriting contract is limited to one per cent (five per cent);
- All contributions to any single partnership are limited to two per cent (five per cent);
- All contributions to partnerships are limited to five per cent (15 per cent);
- All loans and any deposits with local authorities or their preceptors are limited to ten per cent;
- All investments in unlisted securities of companies are limited to ten per cent (15 per cent);
- Any single holding is limited to ten per cent unless guaranteed by Her Majesty's Government;
- All deposits with any single bank, institution or person, (other than the National Savings Bank) are limited to ten per cent;
- All sub-underwriting contracts are limited to 15 per cent;
- All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body are limited to 25 per cent (35 per cent);

- All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body are limited to 25 per cent (35 per cent).

## **9. Investments in Limited Liability Partnerships**

The Fund is required to comply with Section 15 of the LGPS (Management and Investment of Funds) Regulations 2009 with regards to investments in partnerships.

Below is an outline of the partnerships the Fund has invested in, including the size and managers invested in:

Currently the Fund is invested in three separate partnerships including one in an alternatives investment with M&G / Prudential and two with the Fund's infrastructure manager Hermes GPE. The size of the M&G / Prudential investment is a maximum of 2% of the Fund's assets under management, with the Hermes GPE investment split into two separate LLPs to a maximum of 3.5% each. The total strategic allocation for LLPs will be 9%.

The infrastructure investment is accessed via two partnerships, with a limit of 7%. The allocation was agreed by the pension panel on 19 June 2012, with an investment period limited to 18 years.

## **10. Balance between different kinds of investments**

The Panel has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Panel, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

## **11. Risk**

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

### **Funding risks:**

- Financial mismatch
  1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities.
  2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Panel measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Panel keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Panel seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

#### Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Panel manages asset risks as follows: It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Panel's expected parameters. By investing across a range of assets, including quoted equities and bonds; the Panel has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Panel has considered the risk of underperformance by any single investment manager.

#### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Panel takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Panel monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

## 12. Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.



### **13. Realisation of investments**

The majority of each Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. A proportion of each Fund's investments, including property and infrastructure, both with a 7% benchmark allocation each, would take longer to be realised.

The overall liquidity of each Fund's assets is considered in the light of potential demands for cash.

### **14. Social, Environmental and Ethical Considerations**

The Panel recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The manager has produced statements setting out its policy in this regard. The manager has been delegated by the Panel to act accordingly.

At the 12 March 2014 Panel Meeting, Members agreed a policy to restrict direct investment in tobacco but allow indirect investments in tobacco through pooled funds.

### **15. Exercise of Voting Rights**

The Panel has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager(s) has produced written guidelines of its process and practice in this regard. The manager(s) is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

### **16. Stock Lending**

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Panel, which include both pooled and segregated mandates.

Within segregated mandates, the Panel has absolute discretion over whether stock lending is permitted. The Panel has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Panel has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce the risk of financial loss to the Fund in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent and regular reviews of credit-worthiness of potential borrowers.

The Panel reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

## **17. Safekeeping of Assets**

The services of a global custodian are employed to ensure the safekeeping of investments.

## **18. Performance measurement**

An independent provider is employed to calculate performance for the Funds. Each quarter, the Investment Strategy Panel considers the performance of the combined assets and each manager's portfolio against their respective benchmark. The Pensions and Trusts Panel review performance on an annual basis.

## **19. Stewardship Code**

The UK Stewardship Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code set out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis. The FSA requires UK authorised asset managers to report on whether or not they apply the Code.

The Fund's compliance, via its equity managers, with the UK Stewardship Code is included as Appendix C.

## **20. Additional Voluntary Contributions (AVCs)**

The Panel gives members the opportunity to invest in a range of vehicles at the members' discretion. Currently AVC is managed by Prudential Plc.

Signed For and on Behalf of the Pension Panel of the London Borough of Barking and Dagenham Pension Fund

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Jonathan Bunt

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Chief Finance Officer

## Appendix A: Myners Principles

The Pension Panel considers that its practices are compliant with the CIPFA principles for Investment Decision Making in LGPS. The 6 principles are:

- 1) Effective decision making
- 2) Clear objectives
- 3) Risk and liabilities
- 4) Performance assessment
- 5) Responsible ownership
- 6) Transparency and reporting

The Panel's self-assessment of adherence to the principles is shown below

Principles	Response on Adherence
<p><b>Principle 1 Effective Decision Making:</b> Administering authorities should ensure:</p> <ul style="list-style-type: none"><li>• That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li><li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li></ul>	<p><b>Compliant</b> Decisions are taken by the Pension Panel, which is responsible for the management of the Fund.</p> <p>The Panel has support from Council officers with sufficient experience to assist them. The Panel also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Panel is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Panel and in relation to service providers.</p>
<p><b>Principle 2 Clear objectives:</b></p> <ul style="list-style-type: none"><li>• An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li></ul>	<p><b>Compliant</b> The Panel has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Panel to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p>
<p><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"><li>• In setting and reviewing their investment strategy, administering authorities</li></ul>	<p><b>Compliant</b> The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and</p>

<p>should take account of the form and structure of liabilities.</p> <ul style="list-style-type: none"> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p>demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Panel and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p>
<p><b>Principle 4 Performance assessment:</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>	<p><b>Compliant</b></p> <p>The performance of the Fund and its individual managers are monitored on a regular basis, <i>with a report produced by an independent external advisor.</i></p> <p>The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender.</p> <p><i>The Fund's contracts with its advisers are regularly market tested.</i></p> <p><i>The Pension Panel will carry out a formal process to measure its own effectiveness and will report this to the Pensions Panel on a regular basis.</i></p> <p><i>Training and attendance of members of the Pensions Panel are monitored and reported on annually.</i></p>
<p><b>Principle 5 Responsible Ownership:</b> Administering authorities should</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Panel Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• include a statement of their policy on responsible ownership in the Statement of Investment Principles.</li> <li>• Report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p><b>Compliant</b></p> <p>The Pension Panel encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles.</p> <p>This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.</p>

**Principle 6 Transparency and Reporting:**

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Should provide regular communication to scheme members in the form they consider most appropriate.

**Compliant**

The Pension Panel maintains minutes of meetings which are available on the Council website.

The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Panel meetings.

The Statement of Investment Principles is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.

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## Appendix B: Strategic Asset Allocation

The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows:

<b>Asset Class</b>	<b>Future Strategic Allocation</b>	<b>Future Strategic Allocation</b>	<b>Future Strategy Control Range</b>	<b>Benchmark Index</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
<i>UK Equities</i>	0	0	-	-
<i>Global Equities (including UK Equities)</i>	51	45	42.0–47.0	MSCI AC World Index
<b>TOTAL EQUITIES</b>	<b>51</b>	<b>45</b>	<b>42.0–47.0</b>	MSCI AC World Index
<i>UK Bonds</i>	5	5	4.0-6.0	Merrill Lynch Sterling Broad Market
<b>Global Credit</b>	<b>9</b>	<b>8</b>	<b>6.0-10.0</b>	Target Return 6%
<i>Non-investment grade bonds</i>			Up to 75%	
<i>Emerging markets debt</i>			Up to 30%	
<i>Non-rated debt (rated internally)</i>			Up to 10%	
<i>Securitised Debt</i>			Up to 25%	
<b>TOTAL BONDS</b>	<b>14</b>	<b>13</b>	<b>11.0–15.0</b>	
<b>Absolute Return</b>	<b>19</b>	<b>19</b>	<b>18.0–20.0</b>	Pyrford: 1 mth LIBOR +5% p.a. Newton: 1 mth LIBOR +4% p.a
<b>Property</b>	<b>7</b>	<b>7</b>	<b>7.0–10.0</b>	IPD UK Property Fund Indices All Balanced Property Funds
<b>Diversified Alternatives</b>	<b>0</b>	<b>8</b>	<b>7-10.0</b>	3mth LIBOR plus 4%
<b>Infrastructure</b>	<b>7</b>	<b>7</b>	<b>5.0–9.0</b>	Target yield 5.9% per annum
<b>Senior Loans</b>	<b>2</b>	<b>1</b>	<b>1.0-3.0</b>	Target Return 5-6%
<b>Cash</b>	<b>0</b>	<b>0</b>	<b>0.0–3.0</b>	
<b>TOTAL ASSETS</b>	<b>100</b>	<b>100</b>	<b>-</b>	

## Appendix C: Statement of Compliance with UK Stewardship Code

<p><b>Principle 1</b> Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p>	<p>Stewardship is seen as part of the responsibilities of share ownership, and is therefore an integral part of the Fund's investment strategy.</p> <p>The Pension Panel actively monitor the fund manager through quarterly performance analysis, annual and periodic meetings with the fund manager and through direct monitoring by the officers, which includes monitoring and reporting on:</p> <ul style="list-style-type: none"> <li>• Fund manager performance;</li> <li>• Investment Process compliance and changes;</li> <li>• Changes in personnel (joiners and leavers);</li> <li>• Significant portfolio developments;</li> <li>• Breaches of the IMA / Restrictions;</li> <li>• Business wins and losses; and</li> <li>• Corporate and other issues.</li> </ul> <p>Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).</p> <p>Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.</p> <p>Details are available on their websites at</p> <p><a href="http://www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx">www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx</a></p> <p><a href="http://www.ubs.com/global/en/about_ubs/corporate_governance.htm">http://www.ubs.com/global/en/about_ubs/corporate_governance.htm</a></p> <p><a href="http://www.kempen.nl/over_kempen.aspx?id=27770">http://www.kempen.nl/over_kempen.aspx?id=27770</a></p>
<p><b>Principle 2</b> Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p>	<p>We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.</p> <p>In respect of conflicts of interest within the Fund, Pension Panel members are required to make declarations of interest prior to Panel meetings.</p> <p>The Funds' overriding obligation is to act in the best financial interests of the members.</p>

<p><b>Principle 3</b> Institutional investors should monitor their investee companies.</p>	<p>Day-to-day responsibility for managing the Fund's investments is delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.</p> <p>Reports from fund managers on voting and engagement activity will be reported to the Panel on a quarterly basis from June 2013.</p> <p>Concerns are raised directly with the fund managers and issues raised are reported back to the Panel at the subsequent Panel meeting.</p> <p>Fund manager Internal Control reports are monitored, with breaches reported back to the Panel.</p> <p>Where the Fund is directly invested, such as infrastructure, members of the Panel and officers are able to attend their AGM.</p>
<p><b>Principle 4</b> Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.</p>	<p>As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.</p> <p>We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect Kempen, Baillie Gifford and UBS to disclose their guidelines for such activities in their own statements of adherence to the Code. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</p> <p>Consistent with our fiduciary duty to beneficiaries, we also participate in shareholder litigation. We pursue compensation for any losses sustained because of inappropriate actions by company directors in order to encourage improved conduct in the future.</p>
<p><b>Principle 5</b> Institutional investors should be willing to act collectively with other investors where appropriate</p>	<p>The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.</p> <p>Where possible, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings by delegation through Power of Attorneys.</p>
<p><b>Principle 6</b> Institutional investors should have a clear policy on voting and disclosure of voting activity.</p>	<p>The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held.</p> <p>Our preference is for managers to vote on the Funds behalf and for responsible stewardship to be integral to the investment decision making process.</p> <p>We are comfortable with delegation of voting to Baillie Gifford and Kempen for the funds they manage. UBS vote on our behalf because the investment is in a passive pooled fund. The managers' voting policies can be found at the websites mentioned above.</p>



<p><b>Principle 7</b>  <i>Institutional investors should report periodically on their stewardship and voting activities.</i></p>	<p><i>We will seek to report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website.</i></p> <p><i>We also report annually on stewardship issues to the Pension Panel.</i></p>
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## Appendix 5: Communications Policy Statement

### 1. Introduction

This is the Communications Policy Statement of LB of Barking and Dagenham Pension Fund, administered by LB of Barking and Dagenham (the Administering Authority).

The Fund liaises with over 19 employers and approximately 5700 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful. It is effective from 1 April 2014.

This policy statement is required by the provisions of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

*“...prepare, maintain and publish a written statement setting out their policy concerning communications with:*

- (a) members.*
- (b) representatives of members.*
- (c) prospective members.*
- (d) employing authorities.”*

*In addition it specifies that the statement must include information relating to:*

*“(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*

*(b) the format, frequency and method of distributing such information or publicity; and*

*(c) the promotion of the Scheme to prospective members and their employing authorities.”*

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice.

The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *“reasonable period”*. The draft Code of Practice<sup>1</sup> issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met.

A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice (Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005)

Within the Pension Section the responsibility for communication material is performed by our Pension Manager with the assistance of the Senior Pensions Officer. Although we write the majority of all communication within the section, including any web based or electronic material, the design work is carried out by the Council's publications team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement.

Some printing is carried out by an external supplier, which is usually decided based on the most economic of three quotations from suppliers. In exceptional circumstances (either due to lack of skills or inability to meet delivery timescales), we may use external consultants to assist with the preparation or design of communications. Any such circumstances are agreed in advance with the Pensions Manager. The remainder of the printing is carried out internally by the Council's printing department.

## **2. Communication with key audience groups**

### **2.1 Our audience**

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active, deferred members, pensioners and prospective members;
- employing authorities (scheme employers and admission bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pension Section staff;
- Tax payers, the media and other Stakeholders / Interested Parties.

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

### **2.2 How we communicate**

- **General communication** - We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by use of electronic means such as our intranet. We will accept communications electronically, for example, by e-mail and, where we do so, we will respond electronically where possible. Our pension section staff are responsible for all pension related queries. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person;
- **Branding** - as the Fund is administered by London Borough of Barking & Dagenham Council, all literature and communications will conform with the branding of the Council; and
- **Accessibility** - we recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for

alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically; however, these are available on request.

## 2.3 Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees;
- for better education on the benefits of the LGPS;
- to provide more opportunities for face to face communication;
- as a result of improved communication, for queries and complaints to be reduced;
- for our employers to be employers of choice;
- to increase take up of the LGPS employees; and
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail in the table below:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Scheme booklet	Paper based / on website	At joining & major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based	As scheme changes necessitate notification	Via employers / post to home address	Separately for active / deferred and pensioners
Pension Fund Report and Accounts	Paper based and on website	Annually	On request	All
Pension Fund Accounts Summary	Paper based	At valuation	Via employers	All Actives
Estimated Benefit Statements	Paper based	Annually	Post to home address	active & deferred members
Face to Face education sessions	Face to Face	On request	On request	All
Joiner Packs	Paper based	On joining	Post to home addresses	Active members

## 2.4 Explanation of communications

- **Scheme booklet** – A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits;

- **Newsletters** – An ad hoc newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, a summary of the accounts for the year, contact details, etc;
- **Fund Report and Accounts** – Details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed;
- **Fund Report and Accounts Summary** – provides a handy summary of the position of the Fund during the financial year, income and expenditure as well as other related details;
- **Estimated Benefit Statements** – For active members these include the current value of benefits as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits;
- **Face to face education sessions** – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights; and
- **Joiner packs** – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

## 2.5 Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS;
- the LGPS to be used as a tool in the attraction of employees; and
- our employers to be employers of choice.

The Pension Administration Section does not have direct access to prospective members which necessitates working with the employing authorities in the Fund to meet these objectives by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational Sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Ad Hoc	Via employers	Existing employees

## 2.6 Explanation of communications

- **Overview of the LGPS leaflet** – A short leaflet that summaries the costs of joining the LGPS and the benefits of doing so;
- **Educational sessions** – An opportunity to talk to individuals to provide an overview of the benefits of joining the LGPS;
- **Promotional newsletter/flyers** – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

## 2.7 Policy on promotion of the scheme with Employing Authorities

Our objectives with regard to communication with employers are to:

- improve relationships;
- assist them in understanding costs/funding issues;
- work together to maintain accurate data;
- ensure smooth transfers of staff;
- ensure they understand the benefits of being an LGPS employer;
- assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Employers' Guide	Paper based	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and paper based	As required	Post or via email	All contacts for all employers
Employers meeting	Face to face	As required / when contribution rate dictates	Invitations by email	All contacts for all employers
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for employers

## 2.8 Explanation of communications

- **Employers' Guide** – a detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members;
- **Newsletters** – a technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date;
- **Employers meeting** – a formal seminar style event covering topical LGPS issues;

- **Pension Fund Report and Accounts** – details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

## 2.9 Policy on communication with Senior Managers

Our objectives with regard to communication with senior managers are to:

- ensure they are fully aware of developments within the LGPS;
- ensure that they understand costs/funding issues;
- promote the benefits of the scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Panel papers	Paper based and electronic	In advance of Pension Panel	Email or hard copy	All

## 2.10 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues or developments relating to the LGPS and the Fund which can be used by senior managers when attending meetings;
- **Committee paper** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

## 2.11 Policy on communication with union representatives

Our objectives with regard to communication with union representatives are to:

- foster close working relationships in communicating the benefits of the scheme to their members;
- ensure they are aware of the Fund's policy in relation to any decisions that need to be taken concerning the scheme;
- engage in discussions over the future of the scheme;
- provide opportunities to educate union representatives on the provisions of the scheme.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Panel meetings	Meeting	As and when required	Via invitation when appropriate	All

## 2.12 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues and developments relating to the LGPS and the Fund;
- **Face to face education sessions** – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies;
- **Pension Panel meetings** – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

## 2.13 Policy on communication with elected members/the Pensions Panel

Our objectives with regard to communication with elected members/the Pensions Panel are to:

- ensure they are aware of their responsibilities in relation to the scheme;
- seek their approval to the development or amendment of discretionary policies, where required;
- seek their approval to formal responses to government consultation in relation to the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	As and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Panel as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pension Panel
Pension Panel Meetings	Meeting	Monthly/quarterly/half yearly	Members elected onto Pension Panel	All members of the Pension Panel

## 2.14 Explanation of communications

- Training Sessions – providing a broad overview of the main provisions of the LGPS, and elected members' responsibilities within it;
- Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund;
- Pension Panel meeting – a formal meeting of elected members, attended by senior managers, at which local decisions to the scheme (policies, etc) are taken.

## 2.15 Policy on communication with pension section staff

Our objectives with regard to communication with pension section staff are to:

- ensure they are aware of changes and proposed changes to the scheme;
- provide on the job training to new staff;



- develop improvements to services, and changes to processes as required;
- agree and monitor service standards.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to Face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

## 2.16 Explanation of communications

- **Face to face training sessions** – which enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme
- **Staff meetings** – to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales
- **Attendance at seminars** – to provide more tailored training on specific issues.

## 2.17 Policy on communication with tax payers

Our objectives with regard to communication with tax payers are to:

- provide access to key information in relation to the management of the scheme;
- outline the management of the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

## 2.18 Explanation of communications

- **Pension Fund Report and Accounts** – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers;
- **Fund Committee Papers** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

## 2.19 Policy on communication with the media

Our objectives with regard to communication with the media are to:

- ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme.

Our objectives will be met by providing the following communications:

<b><i>Method of Communication</i></b>	<b><i>Media</i></b>	<b><i>Frequency of Issue</i></b>	<b><i>Method of Distribution</i></b>	<b><i>Audience Group</i></b>
Press releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Local press

## 2.20 Explanation of communications

- **Press releases** – provide statements setting out the Fund's opinion of the matters concerned (i.e. Fund valuation results).

## 2.21 Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are to:

- meet our obligations under various legislative requirements;
- ensure the proper administration of the scheme;
- deal with the resolutions of pension disputes;
- Administer the Fund's AVC scheme.

Our objectives will be met by providing the following communications:

<b><i>Method of Communication</i></b>	<b><i>Media</i></b>	<b><i>Frequency of Issue</i></b>	<b><i>Method of Distribution</i></b>	<b><i>Audience Group</i></b>
Pension Fund valuation reports R&A certificates Revised R&A certificates Cessation valuations	Electronic	Every three years	Via email	Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	HMRC
Formal resolution of pension disputes	Hard copy or	As and when a dispute	Via email or post	Scheme member, representatives,

	electronic	requires resolution		Pensions Advisory Service/ Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	HMRC/the Pensions Regulator

## 2.22 Explanation of communications

- Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date;
- Details of new employers – a legal requirement to notify both organisations of the name and type of employers entered into the Fund (i.e. following the admission of third party service providers into the scheme);
- Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute;
- Completion of questionnaires – various questionnaires that are received, requesting specific information in relation to the structure of the LGPS or the make-up of the Fund.

## 2.23 Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

## 2.24 Review Process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at [www.barking-dagenham.gov.uk](http://www.barking-dagenham.gov.uk) and paper copies will be available on request.

## 2.25 Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme booklet / Brief Guide to the scheme	New joiners to the LGPS	Within two months of joining	Included with new joiner pack / day of joining the Council
Estimated Benefit Statements as at 31/03	Active members	On request	31 October of each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued with 5 working days of retirement

Issue of deferred benefits	Leavers	Within one months of withdrawal	Within one month
Transfers in	Joiners/active members	Within two months of request	Within one month
Issue of forms i.e. expression of wish	Active/Deferred members	N/A	Included within new joiner pack or upon request within five working days
Changes to scheme rules	Active/Deferred and pensioner members	as required	Within two months of the change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

## 2.26 Quality

<b><i>Audience</i></b>	<b><i>Method</i></b>	<b><i>To consider</i></b>	<b><i>Notes</i></b>
All member types	Annual paper base survey on completion of specific tasks	Service received during that task	One task to be chosen as and when required

## 2.27 Results

We will publish an overview of how we are performing when appropriate to active members. Full details will be reported to our Pensions Panel.

## **Appendix 6: London Borough of Barking and Dagenham Pension Fund (“the Fund”) Actuarial Statement for 2013/14**

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

### **1. Description of Funding Policy**

The funding policy is set out in the administering authority’s Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund and the long term solvency of shares of the Fund attributable to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer’s contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised at a rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

### **2. Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund’s assets, which at 31 March 2013 were valued at £636 million, were sufficient to meet 71% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £265 million.

Individual employers’ contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund’s funding policy as set out in its FSS.

### 3. Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 24 February 2014.

**Method:** The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions:** A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.70%	2.20%
Pay increases	3.80%	1.30%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.8 years	24 years
Future Pensioners*	24.1 years	26.5 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Barking and Dagenham, the administering authority to the Fund.

### 4. Experience over the period since April 2013

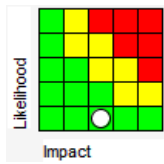
Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and despite asset returns having been slightly lower than expected, funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

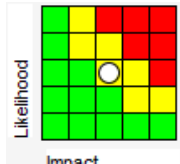
**Barry McKay FFA**  
**Fellow of the Institute and Faculty of Actuaries**  
**For and on behalf of Hymans Robertson LLP**

30 July 2014

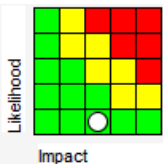
## Appendix 7: Pension Fund Risk Register

1 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information leading to qualification of accounts and inaccurate valuations with financial and reputational impact	Finance		Reviewed April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Underlying financial information is incorrect: Monitoring Reconciliations of key financial transactions.	Quarterly & annual reconciliations of all accounting data. Monthly reconciliation of cash book, bank accounts.	David Dickinson	Jonathan Bunt	30 June 2014	Reviewed April 2014 - controls ongoing

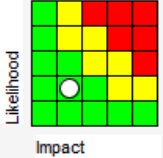
2 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor stakeholder engagement	Poor communication with stakeholders giving rise to disaffection and actions against Council	Finance		January 2014 - ongoing, score increased due to auto enrolment occurring in April 2013 and good attendance at the Pension Fund Stakeholder meeting.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Poor stakeholder engagement and Poor communication with stakeholders giving rise to disaffection and actions against Council	Annual Newsletter on Pension Fund, updates to any changes to scheme Website, presentations. Employer meetings, communications strategy AGM	David Dickinson, Justine Spring	Jonathan Bunt	30 June 2014	Reviewed April 2014 - ongoing

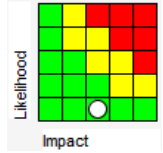
3 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Reliance on External Systems	Heavy reliance on external systems in all aspects of Treasury and Pensions which includes Lloyds Link, State Street, Fund Managers, Heywood, Logotech. Failure of systems could result in significant issues, such as an inability to make payments, process claims, etc.	Finance		Updated January 2014 - risk merged with a number of separate risks which dealt with risks to the individual systems. Systems failure is an overall issue which could impact on all areas of Treasury and Pensions so should be considered as such, with appropriate controls.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
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BCP and manual processes	Business Continuity Plans includes use of manual process in emergency, backing up of records, working from home etc.	David Dickinson	Jonathan Bunt	30 June 2014	January 2014 - updated.
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4 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Recruitment and retention of experienced Treasury and Pensions staff	The Authority is unable to recruit or retain experienced or suitably qualified staff because the salaries offered are not competitive, the working environment is unattractive or the authority has a bad reputation as an employer.	Finance		Reviewed April 2014 - ongoing

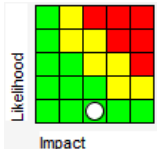
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Continuity of team and ability to cover different roles plus appropriate pay levels	Ensure continuity by having other members of the team able to cover essential functions. Benchmarking of salaries for the section both against other local authorities and private sector.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	April 2014 - ongoing with controls in place
Detailed policies and procedures in place to enable others to take on key tasks	Ensure there are detailed policies and procedure notes which enable others to take on key roles. Involvement of different team members to ensure that specialist knowledge is not confined to one or two individuals	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	April 2014 ongoing with controls in place

5 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Overpayments	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	Finance		Reviewed April 2014 - ongoing

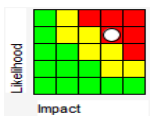
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Pension Fraud : NFI	Management of NFI matches and follow up. NFI exercises to identify checks. Checks through other companies that carry out data checks. A tracing agent has been appointed to run quarterly reports on members to ensure the pension fund database is up to date and prevent overpayments of pensions.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Reviewed April 2014 - ongoing

6 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
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Management of Third Party Contracts – lack of control could result in financial and reputational risks	Pensions manage in excess of 20 external contracts, which carry significant financial and reputational risks if not managed appropriately -for example leading to higher costs or legal challenges,	Finance		Reviewed April 2014 - ongoing
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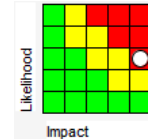
7 Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Contract Monitoring and Service Level Agreements	Regular monitoring of key contracts, including performance monitoring, service level agreements, reviewing internal controls reports	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014
Market Testing of contracts and benchmarking	Market testing of contracts through procurement exercises and/or benchmarking of costs regularly	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014
Market Intelligence gathering	Regular reviews of developments in the market place to ensure the section maintains up to date knowledge and can act on market intelligence such as changes to financial standing	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014

8 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Increased Longevity	Pensioners living longer, drawing pensions for longer than accounted for within the funding position leading to increasing liabilities giving rise to higher costs and major financial implications. Longevity Risk.	Finance		Reviewed April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of Pension Fund position	Controls in place to monitor developments with Fund Actuary and Triennial valuations, targeting increased funding level to manage increased longevity. A flight path structure will be developed and implemented during the year to allow opportunities in funding level to be acted on.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014
Raising retirement ages to match increasing longevity	Scheme retirement age of 65, State Pension Age changes Retirement and a linking of future increases in longevity with increasing retirement age, then it would be possible to downgrade this risk rating.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014
Fund profiling to monitor specific experience	Club Vita membership to annually monitor the LBBB specific fund longevity profile	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014

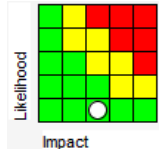
9 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Asset/Liability mismatch	Assets and liabilities impacted by investment performance. Assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore increased cost to the Pension Fund	Finance		Reviewed April 2013 - Risk likelihood has increased slightly as this has actually happened, and otherwise the risk is ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Asset allocation reviews	Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Use of external advisers	Actuarial and investment advisor advise the Fund on how to manage the asset/liability mismatch	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Strategic goal Setting	Set strategic goals to achieve full funding, set targets to make changes to the assets when appropriate.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

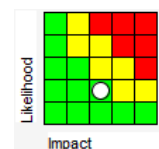
10 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Investment Performance	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Finance		Jan 2014 - Risk reviewed and ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Set aside reserves	Rebuilding Pensions reserve to buffer against future valuations variations.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Performance Monitoring	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Appropriate levels of knowledge and skills to make decisions	Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

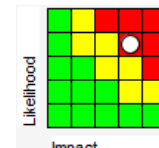
11 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
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Poor Membership Data	Poor administration by the Pension Fund, employers and payroll providers participating in the Fund giving rise to inaccurate data – causing financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment etc	Finance		Reviewed April 2014 - ongoing
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Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of membership data	Controls – annual monitoring of membership records, valuation checks, external data validations	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Contributions monitoring	Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

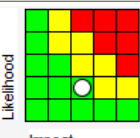
12 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Discretionary Policies	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Risk is where policies are too generous or not robust enough leaving the Pension Fund and employers exposed to higher costs and reputational risks	Finance		Reviewed April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Discretionary Policies in place	Controls – Agreed policies and procedures to control such risks.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Awareness of employers	Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

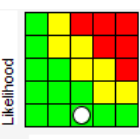
13 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Regulatory Risks	Regulatory Risks encompass both compliance with existing legislation and regulatory changes – this particularly affects LGPS 2014 changes, pension auto-enrolment and Jackson reforms for insurance	Finance		Reviewed April 2014 - ongoing. This is happening and the new demands of auto enrolment promise to have a significant impact which needs to be managed carefully.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Regulatory Changes	Monitor proposed changes and	David	Jonathan Bunt	30	Updated April 2014 -

– monitoring developments and responding to changes	respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes	Dickinson Justine Spring		June 2014	ongoing
Compliance with regulation policies	Ensure processes and policies in place to meet regulatory compliance	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Compliance with regulation knowledge and skills	Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

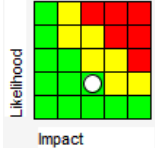
14 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Admission/Scheduled Body failures or deficits on termination	Risk employer goes into default, deficit on termination, change of status, financial risk	Finance		Updated April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Admission/Scheduled Body failures or deficits on termination	Controls – valuation and Intervaluation monitoring, monitoring of contributions, employer covenant check, putting bonds/guarantees in place for admission bodies. Ensure funding levels remain high for individual employers.	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

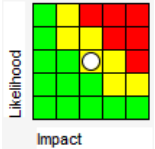
15 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Administration Risk	Risks arising from administration of pensions by employers, the administering authority and the pension administrator. Poor administration could lead to incorrect pension payments, financial and reputational damage	Finance		Updated April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Clear policy and procedures for the administration of pensions	Ensuring there are detailed policies and procedures for all parties involved in administering the pension scheme – Pension Administration Strategy	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Monitoring of Performance	Benchmarking of performance against other authorities	David Dickinson Justine Spring	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

16 Risk Title	Description of Risk	Directorate	Current Risk	Risk - Latest Note
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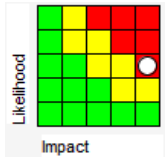
			Matrix	
Pensions- Lack of adequate professional advice on strategies, projects and decisions	Decisions made in respect of Pensions can have a major financial impact on the Council and Pension Fund. Lack of adequate or inappropriate professional advice on strategies, projects and decisions could give rise to financial and reputational risks.	Finance		Updated April 2014 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of advice	Controls – monitoring of advice received, risk assessment for procurements, Committee review of recommendations. Also ensure there is a good level of 'in-house expertise'.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Market intelligence gathering	Monitoring wider developments and ensuring that officers and Members are kept informed. Wider networking and collaboration with other authorities where appropriate to ensure best practice.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

17 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Failure to manage costs	Failure to manage the costs of running the various services within Treasury and Pensions would give rise to significant additional financial costs for the Council along with reputational risks of poor value for money.	Finance		Reviewed Jan 14 - upgrade due to potential additional costs arising from regulatory changes LGPS 2014, Auto-Enrolment

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Budget Monitoring	Controls budget monitoring, performance fees, monthly budget monitoring, financial intelligence, etc	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Benchmarking	Benchmarking costs with other authorities to ensure costs for LBBD are not disproportionate	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Market Testing	Regular market testing of external costs which includes regular procurement exercises, assessing the market place for both pensions and insurance costs	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Frameworks/ Collaborative Working	Consider the use of Framework Agreements and other joint working where appropriate to control costs and to work with other authorities to deliver value for money and efficiency savings	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

18 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
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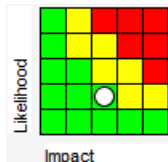
Pension Funding Risk	The fund is unable to meet its liabilities, due to a mismatch of assets/liabilities. The Funding position as at March 2010 showed 74% funding position. Further deterioration of the funding position from poor asset returns or increasing liabilities could result in the Council and other employers being required to make significant additional employer contributions.	Finance		Reviewed Jan 2014
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Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations. Rebuilding Pensions reserve to buffer against future valuations variations. The current financial strategy ensures that the base budget anticipates changes to contribution levels.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Pens - Valuation Monitoring	Triennial Valuation assesses the funding position, Intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Identifying the external risk factors that affect the funding position	Identifying the various risk factors, asset/liability, investment, longevity, interest rates, inflation, liquidity, etc and how the interaction of these impacts on the funding position and adapting the strategy and business plans to manage these risk where feasible.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Knowledge and Skills	Ensuring those charged with governance of the Fund and for managing the day to day operations have the requisite knowledge and skills to make informed decisions when managing the funding position	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Cash flow Monitoring	Quarterly monitoring of Pension Fund cashflows to ensure that there is sufficient cash inflows from contributions and income to meet the cash outflows from benefit and cost payments. This will also provide early warning of potential cashflow mismatch and possible changes to investment strategy. Longer term cash flow monitoring in conjunction with the Fund Actuary to establish trigger points for the Fund becoming cashflow negative.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

19 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Auto Enrolment Risk	Workplace Pensions or Auto-Enrolment. LBBD staging date is 01/04/2013 (with transitional arrangements pushing back full implementation to October 2017). Risks include increased costs for employers, failure to implement, lack of preparation, failure to communicate, inability to manage auto-enrol process	Finance		Risk Reviewed May 2014.

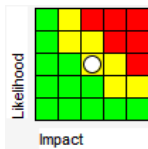
	and have adequate monitoring in place. Significant financial (including Regulator Fines) and reputational risks			
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Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Auto Enrolment Risk Communications	Use of different forms of communications to reach wider possible audience to understand what A-E means for individuals and employers within the Pension Fund. Use of individual letters, presentations, internet, etc. Communications strategy to feed into project plan	Justine Spring, David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Auto Enrolment Risk System Enhancements	Review of existing systems both payroll and pension to ensure that they are able to cope with the implementation of A-E and to ensure that they are adequate to cope with the ongoing monitoring requirements.	Justine Spring, David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Auto Enrolment Risk Monitoring	Monthly monitoring of A-E to ensure all new employees are auto-enrolled and to ensure that any existing employees who were previously not eligible or who had previously opted out are auto-enrolled should their circumstances change. Use of payroll/ pension to ensure compliance with legislation.	Justine Spring, David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

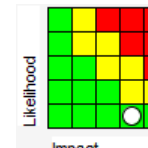
20 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Governance Risk	Governance is important in Pension Fund as it carries significant financial and reputational risks. It is therefore crucial that those charged with governance understand the full implications of the decisions which are being taken in these areas. Membership turnover on Committees poses risks due to lack of understanding of the responsibilities.	Finance		Risk added January 2014

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Governance Risk A – Knowledge and Skills Training Programme	Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before them to make high level strategic decisions.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Governance Risk B – Assessment	Committees to undertake assessment to ensure that their level of understanding is adequate for the decisions being made.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

Governance Risk C – S151 Responsibilities	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The CFO will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Governance Risk D – Succession Planning for Panel	Succession planning to ensure some continuity of Membership and the introduction of substitute members with access to suitable training will help to ensure that the knowledge base is maintained within Committees.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

21 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Procurement Risk	Treasury and Pensions is heavily reliant on the use of external contractors in all areas. All the contracts have to be tendered on a regular basis which brings procurement risks in terms of both timetables for procurement (often several procurements having to take place at the same time) and potential challenges to procurements.	Finance		Risk created Jan 2014

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Ensuring adequate resources	The Council will look to use external advisers to supplement internal resources when undertaking procurement exercises.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Timing of Procurements	Where feasible, procurement exercises will be spread across different time periods, although this is not always feasible.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Collaborate with other authorities	Where the timing and scope of procurement exercises are likely to coincide with other authorities and where practical to do, joint exercises including Frameworks will be undertaken.	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing

22 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Internal Fraud within Team	Treasury and Pensions is involved in the management of large scale financial resources on behalf of the Council and there is a potential risk that the area could be subject to internal fraud leading to significant financial and reputational risks	Finance		Risk Reviewed April 2013

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Internal Fraud A – Policies and Procedures	Detailed policies and procedures and internal controls to ensure segregation of duties for key roles	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing
Internal	Treasury and Pensions is subject to internal		Jonathan Bunt	30	Updated April



Fraud B – Internal Audit	audit scrutiny on an annual basis with different areas being tested to ensure compliance.	David Dickinson		June 2014	2014 - ongoing
Internal Fraud C – External Audit	All aspects of the work of Treasury and Pensions are subject to annual external audit covered by the audit of the Financial Statements with the Pension Fund also being subject to a separate audit opinion	David Dickinson	Jonathan Bunt	30 June 2014	Updated April 2014 - ongoing