BARNET
LONDON BOROUGH

PENSION FUND

ANNUAL REPORT

2016/17

Contents

1. Trustee's Report

1.1 Local Government Pension Scheme Regulations

The London Borough of Barnet Pension Fund is part of the national Local Government Pension Scheme (LGPS).It is a contributory defined benefit pension scheme established under statute,which provides for the payment of pension benefits to employees and former employees of the London Borough of Barnet and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions that employees and employers pay into the Fund to meet the cost of paying pensions at a later date. The Fund builds up assets at the same time as paying out pensions. Employer contributions are set by the Fund's actuary at the actuarial valuation which is done every three years. The last actuarial valuation was completed as at 31 March 2016. Based on the assumptions of the actuary, there should be enough assets in the Fund to pay, on the day the employee retires, all potential future costs.

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

In the public sector, the individual legal provisions covering many pension schemes were brought together under one Act of Parliament (The Superannuation Act 1972). The regulations appoint major authorities, such as the London Borough of Barnet, to the role of "administering authorities" to manage the scheme at a local level.

The LGPS as introduced in 1972 remained unchanged until 2008 when changes were made to the scheme. More significant changes were introduced in a new look LGPS effective from 1 April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Benefits built up in the scheme before 1 April 2014 are protected and will continue to be based on the scheme member's final year's pay. The revised benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for a member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended), the LGPS (transitional Provisions,Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016 with effect from 14 March 2017 as set out in the Investment Strategy Statement .

The Pension Fund is a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (CIV). The Pension Fund Committee approved the investment of £150,000 as regulatory capital in 2015/16. The Fund has transferred pooled assets of £129.3m into the CIV in 2016/17. This has delivered additional savings in fees. It is also consistent with the Government's LGPS pooling arrangements which require local government pension scheme administering authorities to set out their proposals to invest their assets through one of the approved LGPS investment pools .

The content and detail in the pension fund annual report is prescribed by the LGPS Regulations 2013. In publishing this report, the Council as administering authority, sets out the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one document to show how the Fund is managed and how it is performing.

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

The Local Pension Board enacted through the Public Services Pensions Act 2013 has been established as a Council committee to oversee pension fund governance and administration.

1.2 Administration of the London Borough of Barnet Pension Fund

The Council is the administering authority for the Pension Fund. Capita provide pension financial management and pensions administration on behalf of the Council.

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

- Setting the investment policy for the Fund
- Appointing investment managers, advisors and custodians
- Reviewing the performance of the investment managers and the investments held in the Fund, and
- Approving the statement of investment principles,the new investment strategy statement, funding strategy statement, governance compliance statement and the communication policy statement. These documents are reviewed at least triennially or more frequently if required.

1.3 Management Structure

Administrating Authority

London Borough of Barnet

Pension Fund Committee Members 2016/17

Chairman:	Councillor Mark Shooter
Vice-Chairman	Councillor John Marshall
Members:	Councillor Andreas Ioannidis Councillor Arjun Mittra Councillor Rohit Grover Councillor Jim Tierney Councillor Peter Zinkin
Substitutes:	Councillors : Dean Cohen; Anthony Finn; Ross Houston; Adam Langleben; Pauline Coakley Webb; Stephen Sowerby

Officers

LB Barnet

Anisa Darr	Director of Resources and Statutory Section 151 Officer
Paul Clarke	Head of Finance

Capita CSG (Customer and Support Group)

Gillian Clelland	Assistant Director of Finance
George Bruce	Head of Treasury

Observers

John Burgess	Unison
James Kennedy	Middlesex University

Actuary

Hymans Robertson LLP (from August 2016)
Barnett Waddingham (until August 2016)

Investment Advisors

Hymans Robertson LLP

Auditor

BDO LLP

Legal Advisors

HB Law

Performance Monitoring

Hymans Robertson
WM Company (until 31 March 2017)
PIRC (from 31 March 2017)

Custodians

JP Morgan
The Bank of New York Mellon
Northern Trust
State Street

Pensions Administration Manager

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

2. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the Fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the Fund's assets is delegated to investment managers who are regulated by the Financial Conduct Authority.

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

The Fund

In 2015/16 the Pension Fund Committee started a review of the investment strategy which had been in place since 2010 and agreed a reallocation of investment assets. The Committee set an investment strategy to reduce the weightings in diversified growth funds and corporate bonds to improve long term investment returns. During the year £280 million was transferred from diversified growth funds and invested in passive overseas equity with Legal and General Investment Management. £90 million was moved from Newton Investment Management Corporate Bonds to a Strategic Bond Fund managed by Schroders Investment Management. The Committee also agreed a 15% allocation to both illiquid and liquid credit strategies. Following a procurement process, three new fund managers were appointed in March 2016: Alcentra, Babson Capital and Partners Group. The reallocation of funds was completed in first quarter of 2016/17 from the sale of corporate bonds.

In 2016/17 the Pension Fund Committtee agreed a target investment strategy which is set out in the investment strategy statement. In March 2017, the Committee considered the proposals for allocation of additional funds through a 10% allocation to liquid multi-asset credit. They appointed Insight and M&G and made a further allocation to Partners Group. A 5% infrastructure allocation was made and IFM were appointed. The infrastructure fund will be funded from the sale of diversified growth funds. The reallocation of muliti-asset credit funds started in the first quarter of 2017/18.

Benchmark

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

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

The Fund also subscribes to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other local authority pension funds which operate under the same regulations. This service was provided by WM Company Limited until 31 March 2017. The new provider is PIRC.

Manager	Fund	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve a significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over a rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	CPI plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	Strategic Bond Fund	3 Month LIBOR	To outperform the benchmark by 2% pa over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
Legal and General Investment Management	Global Equity	50% FTSE All World Index 50% FTSE RAFI All World Equity GBP Hedged Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Alcentra	Global multi credit	3 month LIBOR plus 4% p.a.	To outperform the benchmark over a market cycle (typically 5 years
Barings (was Babson)	Global High Yield Credit Strategies Fund	3 month LIBOR plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years
Alcentra	European direct lending	8-10% per annum	To outperform the benchmark over a market cycle (typically 5 years
Partners Group	Private Market Credit Strategies Fund	3 month LIBOR plus 4% p.a.	To outperform the benchmark over a market cycle (typically 5 years

Fund allocation from Investment Strategy Statement March 2017

Asset class	Fund	Benchmark Proportion (%)
EQUITY		**36.0**
LGIM (LCIV)	Passive Global Equity	18.0
LGIM (LCIV)	FTSE RAFI AW 3000 Equity Index Fund	18.0
DIVERSIFIED GROWTH		**22.0**
Schroder	Diversified Growth Fund	11.0
Newton (LCIV)	Real Return Fund	11.0
MULTI-ASSET CREDIT		**17.0**
Schroder	ISF Strategic Bond Fund	10.0
Barings	Global High Yield Credit Strategies Fund	3.5
Alcentra	Global Multi Credit Fund	3.5
CORPORATE BONDS		**12.0**
Schroder	Corporate Bond Fund	12.0
ILLIQUID ALTERNATIVES		**13.0**
Alcentra	European Direct Lending Fund	4.0
Partners Group	Private Market Credit Strategies Fund	4.0
IFM	Infrastructure from 2017	5.0
Total		**100.0**

Investment Ranges

Note *Local Government Pensions (Management and Investment of Funds) Regulations 2009 applied in 2016-17. Revised Investment Regulations adopted by Pension Fund Committee, March 2017.*

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

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

Investment	Limits Adopted
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	2%
3. All contributions to partnerships	5%
4. The sum of all loans and any deposits with – • Any local authority, or • Any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting contracts	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (with certain exclusions described in paragraph 3 of Schedule 1 of the Regulations)	35%
10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
11. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (with certain exclusions described in paragraph 3 of Schedule 1 of the Regulations)	35%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Independent Advisor

The Chief Executive and Council Officers received investment advice from the independent advisor to the fund, Hymans Robertson LLP. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

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

Actuary

The actuary to the Fund for the period was Barnett Waddingham until June 2016 when Hymans Robertson were awarded the contract to provide actuarial service following a public procurement process. The actuary's role is to place a value on the Fund's accumulated pension promises. A formal valuation of the Fund is required legally every three years; the most recent valuation of the Fund took place as at 31 March 2016.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The primary contribution rate for 2017/18 is 17.9% of pensionable pay plus a secondary contribution of £13.374 million. This is the average required employer contribution to give a 66% chance of returning to a fully funded position over 20 years.

Custodian

Custodians are usually banks or other regulated institutions which offer not only custody of documents (safeguarding and administering of investments) but also a range of services such as income collection, tax recovery, cash management, securities settlement, foreign exchange and stock lending. JP Morgan acts as the custodian both for the assets managed by Schroders Investment Managers and for Alcentra. The Bank of New York Mellon (BNYM) acted as custodian for assets managed by Newton Investment Managers and for Partners Group. Following the transition of the Newton Real Return to the London CIV, Northern Trust took over the custody role from BNYM. State Street provide custody services for Barings.

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the Fund's corporate governance and proxy voting policy.

3. Management and Financial Performance of the Fund for the Year 2016/17

3.1 Fund Performance

Over the 12 months to 31 March 2017, the Fund returned 15.3% (net of fees) versus a combined benchmark return of 14.0%.

The table below details the Fund's performance for the 12 months, 3 years and 5 years ending 31 March 2017.

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
Total Fund	15.3%	8.1%	6.6%
Combined benchmark	14.0%	9.0%	8.0%
Relative	1.1%	-0.9%	-1.3%

Note: Total Fund performance excludes cash holding.

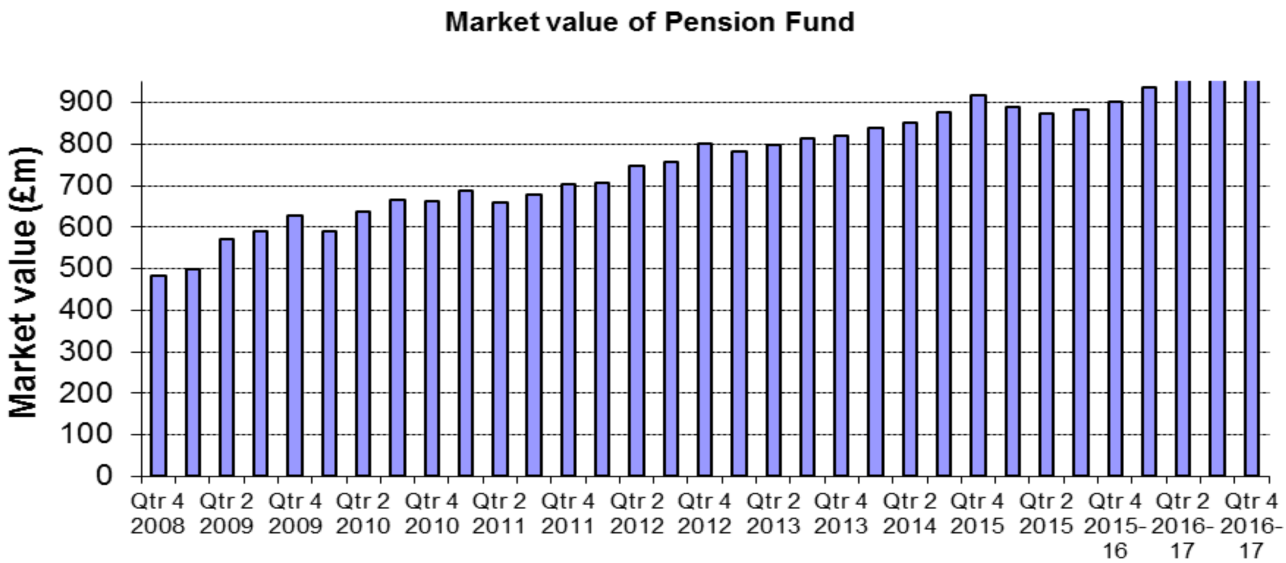
It is important to note that the Scheme's diversified growth and multi-credit mandates are all benchmarked against 'cash plus' performance objectives. These types of performance objectives, e.g. LIBOR + 4% p.a. are broadly in line with a long-term expected return from equities and so are less helpful for measuring short and medium-term performance and in particular the relative performance of the Fund over a 12 month period.

Performance Summary (Net of fees)

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	4.9	2.4	2.1	2.3	2.8	2.8	0.7	3.3
	Benchmark	4.9	1.1	1.1	2.3	1.3	1.8	0.6	2.8
	Relative	0.0	1.2	1.0	0.0	1.4	1.0	0.1	0.5
12 Months (%)	Absolute	27.2	N/A	2.3	9.9	N/A	11.4	5.0	15.3
	Benchmark	27.5	N/A	4.4	8.6	N/A	9.3	2.4	14.0
	Relative	-0.2	N/A	-2.0	1.3	N/A	2.0	2.5	1.1
3 Years (% p.a.)	Absolute	13.3	N/A	3.2	4.8	N/A	7.8	N/A	8.1
	Benchmark	13.4	N/A	4.5	7.0	N/A	7.5	N/A	9.0
	Relative	-0.1	N/A	-1.2	-2.0	N/A	0.2	N/A	-0.9
Since Inception (% p.a.)	Absolute	10.6	10.1	3.3	4.5	11.4	7.5	2.8	6.6
	Benchmark	10.7	4.1	4.6	7.7	4.4	7.4	2.5	8.0
	Relative	-0.1	5.8	-1.2	-3.0	6.7	0.1	0.3	-1.3

3.2 Market Value of the Fund

The following chart shows the movement in the market value of the investments in the Fund from 2009/10 2016/17.



3.3 Investment Report

Summary

As at 31 March 2017, the value of the Fund's investment assets and cash balances was £1,041.3 million comprising investment funds of £1,039.0 million and cash held of £2.3 million. This represents an increase of £135 million compared with the previous year reflecting the recovery of global equities in the last 12 months.

In June 2015, Hymans Robertson LLP was appointed as the Fund's new investment adviser, Following an in-depth review of the Fund's existing investment strategy during the third quarter of 2015, it was determined that the Fund's investment strategy had a low chance of delivering the return required to reach full funding over the next 15 years. As a result, the Council agreed to amend the Fund's investment strategy in order to increase the Fund's expected return and overall efficiency by diversifying the sources of risk and return within the Fund.

As part of reviewing the Fund's investment strategy and exploring alternative asset classes that could potentially deliver 'equity-like' returns, the Pension Fund Committee subsequently agreed to implement further changes over the remainder of 2016. This included the following actions:

- Allocate a further 7% to liquid multi-credit strategies, funded by a full redemption of the Fund's corporate bond mandates managed by Newton and Legal and General. In March 2016, the Council agreed to appoint Babson Capital and Alcentra to each manage a 3.5% allocation. These mandates were implemented midway through 2016.
- Introduce a 13% allocation to illiquid alternatives based on expectations that the Fund will remain cash flow positive for the next five to ten years. Following advice from the Fund's investment adviser regarding current opportunities within both liquid and illiquid credit, the Council has also agreed to appoint Alcentra and Partners Group to each manage a 4% allocation of total Fund assets to illiquid credit strategies. Each of these investment managers are specialists within this asset class and were appointed following presentations from a selection of different managers. Both allocations will be funded over time with monies made available by a further reduction to the Fund's diversified growth allocation.
- The Council has explored further forms of illiquid alternatives towards the end of 2016 in order to complete the transition to the Fund's new long term investment strategy. The Pensions Fund Committee considered the proposals of allocation of additional funds to liquid multi-asset credit and infrastructure.
- The Pension Fund Committee confirmed to make direct appointments in accordance with the following allocations of total fund investments:

  10% to be invested in liquid multi-asset credit strategies and therefore agreed:

  i. a further allocation of 3%,(circa £30 million) to Partners Group
  ii. 4% ,(circa £40 million) to Insight Investment
  iii. 3 %,(circa £30 million) to M &G Investments High Grade Asset Backed Securities Fund.

  5% to be invested in infrastructure (circa £50 million) to IFM Global Infrastructure Fund.

The table below details the Fund’s new long term investment strategy as at 31 March 2017

	Allocation at 31 March 2017 %	Long term strategic target %
Equities	**38.9**	**36.0**
Legal and General (Global)	*19.6*	*18.0*
Legal and General (RAFI)	*19.3*	*18.0*
Diversified growth	**26.8**	**22.0**
Schroder	*13.9*	*11.0*
Newton	*12.9*	*11.0*
Multi-credit (liquid)	**15.8**	**17.0**
Schroder	*9.1*	*10.0*
Barings Capital	*3.5*	*3.5*
Alcentra	*3.2*	*3.5*
Corporate bonds	**11.0**	**12.0**
Schroder	*11.0*	*12.0*
Newton	*0.0*	*12.0*
Illiquid alternatives	**5.2**	**13.0**
Alcentra	*1.5*	*4.0*
Partners Group	*3.7*	*4.0*
Infrastructure	*0.0*	*5.0*
Money market funds	**2.3**	**0.0**
Standard Life	*2.3*	*0.0*

Scheme Administration

Administration of the Pension Scheme is provided by Capita Employee Benefits. The performance table below shows the range of work undertaken.

Performance Indicator *(from point at which all required information has been received)*	**Local Government Pension Committee Target**	**Authority Target**	**Achieved (%)**
Letter detailing transfer ***in*** quote	10 days	10 days	100.0%
Letter detailing transfer ***out*** quote	10 days	10 days	75.0%
Process and pay refund	5 days	5 days	91.7%
Letter notifying estimate of retirement benefits	10 days	10 days	98.2%
Letter notifying actual retirement benefits	5 days	5 days	77.0%
Process and pay lump sum retirement grant	5 days	5 days	100.0%
Initial letter acknowledging death of active/deferred/pensioner member	5 days	5 days	92.3%
Letter notifying amount of dependant's benefits	5 days	5 days	92.3%
Calculate and notify deferred benefits	10 days	10 days	91.2%

Membership of the Pension Fund 2016/17

	31 March 2017	31 March 2016
Number of employers with active members	65	64
Number of employees in scheme		
London Borough of Barnet	4,410	4,739
Other employers	4,018	3,999
Total	8,428	8,738
Number of pensioners		
London Borough of Barnet	5,124	5,077
Other employers	2,606	2,534
Total	7,730	7,611
Deferred pensioners		
London Borough of Barnet	7,166	6,171
Other employers	3,179	3,019
Total	10,345	9,190
Total number of members in pension scheme	**26,503**	**25,539**

Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector:

Absolutely Catering 1- Queenswell	Graysons Restaurants	NSL Ltd
Absolutely Catering 2- St James	Green Sky	Oaklodge
BEAT (Barnet Education Arts Trust)	Greenwich Leisure	OCS Group UK Ltd
Birkins - St James School	Hartwig (1)	Personnel & Care Bank
Blue 9 Security Ltd	Hestia	Servest
Capita CSG	Housing 21 (2)	Turners Cleaning
Capita RE	ISS	Viridian Housing
Fremantle Trust (2)	KGB Cleaning	Ridge Crest Cleaning
Go Plant Hire	London Care plc	Hartwig
Goldsborough Homecare	Mears Group	Allied Healthcare

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

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

4. Governance Compliance Statement

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

Principle	Compliance Status	Comment
Governance structure	Compliant	The decision making structure is clearly defined. Council delegates responsibility to the Pension Fund Committee which meets quarterly, see: https://barnet.moderngov.co.uk/documents/s33855/15AResponsibilityforFunctionsAnnexA.doc.pdf
Representation	Partial Compliance	Main employers and scheme members represented on the committee. However, no individual representation for admitted bodies.
Selection/ role of lay members	Partial Compliance	Lay member observer role.
Voting	Partial Compliance	Voting rights have not been extended to employer and member representatives.
Training/Facility time/ Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The Pension Investment Panel's terms of reference are investment related
Publicity	Compliant	All statutory documents are made available to members.

5. Funding Strategy Statement

The funding strategy statement for the London Borough of Barnet Pension Fund is on pages 16 – 51 of this Annual Report and can also be found on the Barnet website at:

http://barnet.moderngov.co.uk/documents/s41049/Appendix%20A%20Funding%20Strategy%20Statement%20FSS.pdf

London Borough of Barnet Pension Fund

Funding Strategy Statement

March 2017

Contents

Funding Strategy Statement

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barnet Pension Fund ("the Fund"), which is administered by London Borough of Barnet Council, ("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. It is effective from 31 March 2017.

1.2 What is the London Borough of Barnet Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Barnet Pension Fund, in effect the LGPS for the London Borough of Barnet area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;

- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Gillian Clelland, Assistant Director of Finance in the first instance at gillian.clelland@barnet.gov.uk.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. A Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in a Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority may consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund may permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Colleges, Universities etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 years or less depending on circumstance	15 years or less depending on circumstance	Outstanding contract term unless pass-through
Secondary rate – Note (d)	monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority	Covered by academy approach detailed below	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the time horizon
Probability of achieving target – Note (e)	66%	66%	66%	66%	66%	66% - assuming there is a guarantor
Phasing of contribution changes	Covered by stabilisation arrangement	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of non pass-through contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) 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 from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and 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 or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be 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.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	London Borough of Barnet Council and Academies
Max cont increase per year	Max of +1% pa until 2020, to be confirmed thereafter
Max cont decrease per year	-0.5% pa

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a monetary amount. However, where set as pay the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (Academy schools)

At the time of writing, the Fund's proposed approach on academies' funding issues is as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's stand-alone contribution rate may be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

v. Academies existing in the Fund as at 31 March 2017 and those who convert between 1 April 2017 and 31 March 2020 will pay a pooled rate until the certification of rates following the 31 March 2019 valuation.

vi. From 1 April 2020 onwards (i.e. when the Rates and Adjustments certificate comes into force following the 31 March 2019 formal valuation) rates will be set as follows:

   a. all academies' stand-alone rates will be calculated either at the valuation or on conversion, and

   b. stabilisation of rates will apply; this means that academies will take steps upwards or downwards towards their stand-alone rate in line with the parameters set out in Note (b).

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- 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 an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) 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”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, 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. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Barnet Council pool
- Colleges
- Orphan employer codes with the relevant successor body

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Early retirement strains are payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities.

However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in w/c 20 March 2017 for comment;

b) Comments were requested within 14 days;

c) An Employers Forum was scheduled for the first quarter of 2017/18, which provided the opportunity for questions regarding the FSS to be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published on the administering authority’s website and reported to the Pension Fund Committee.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at www.barnet.gov.uk;
- A copy sent by post/e-mail to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives via the Local Pension Board;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, adoption of and changes to the FSS would need agreement by the Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.barnet.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 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;
- have a policy and 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 Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	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 should

Risk	Summary of Control Mechanisms
	be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are

Risk	Summary of Control Mechanisms
	monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses 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".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. 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, including but not limited to:

- the actual timing of employer contributions within any financial year;
- 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.

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 it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

This apportionment uses 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".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. 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, including but not limited to:

- the actual timing of employer contributions within any financial year;
- 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.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. 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.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.7%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum.

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.2 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.

Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

6. Investment Strategy Statement

Administering authorities are required to prepare, maintain and publish a written investment strategy statement which must be in accordance with the guidance issued by the Secretary of State.

The Investment Strategy Statement document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Proper advice has been taken from the Pension Fund Committee's investment advisor Hymans Robertson LLP.

The Investment Strategy Statement (ISS) replaces the Pension Fund Statement of Investment Principles and includes the Fund's approaches to investment pooling and risk; Asset classes and fund managers; Stewardship; Voting Rights; Environmental, Social and Governance Engagement and Fund Compliance with the "Myners Principles". The Statement is published on the Council's website at:

https://barnet.gov.uk/citizen-home/search.html?keywords=investment+strategy+statement

7. Communication Policy Statement

An effective communications strategy is vital for the pension administration service (provided on behalf of the Council by Capita Employee Benefits) in its aim to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the pension administration service will communicate with:

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

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

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

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

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

Comments

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

barnetpensions@capita.co.uk
Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ
Telephone: 01325 746010/11/12/13/14

On behalf of the Pension Fund Committee

Councillor Mark Shooter
Chairman of the Pension Fund Committee
London Borough of Barnet Pension Fund

London Borough of Barnet Pension Fund ("the Fund")
Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

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 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 around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £916 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £339 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

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 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

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 2013 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	21.9 years	24.3years
Future Pensioners*	23.9 years	26.5 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers FFA
For and on behalf of Hymans Robertson LLP
16 May 2017
Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COUNCIL OF LONDON BOROUGH OF BARNET

Opinion on the financial statements of the pension fund

We have audited the pension fund financial statements of the London Borough of Barnet Pension Fund for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the fund account, the net assets statement and the related notes. The framework that has been applied in the preparation of the pension fund financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Council of London Borough of Barnet, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on pension fund financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of London Borough of Barnet Pension Fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion the other information published with the audited pension fund financial statements is consistent with the pension fund financial statements.

Leigh Lloyd-Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

29/09/2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

BARNET
LONDON BOROUGH

PENSION FUND

STATEMENT OF ACCOUNTS

2016/17

STATEMENT OF RESPONSIBILITIES

PENSION FUND'S RESPONSIBILITIES

London Borough of Barnet Pension Fund is required to:

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

CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The chief finance officer is responsible for the preparation of London Borough of Barnet Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2016-17* (the Code).

In preparing this Statement of Accounts, the chief finance officer has:

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

CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Pension Fund Statement of Accounts 2016/17 present a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund (the Balance Sheet) and its income and expenditure for the year ended 31 March 2017.

Signed:…………………………………………

Date:

Anisa Darr

Director of Resources and Section 151 Officer

CHAIRMAN OF PENSION FUND COMMITTEE CERTIFICATE

In accordance with the Accounts and Audit (England) Regulations 2016, I certify that the Statement of Accounts was approved by the Pension Fund Committee.

Councillor:……………………………………

Date:

Mark Shooter

Chairman, Pension Fund Committee

MAIN STATEMENTS

FUND ACCOUNT

	Notes	2016/17 £000	2015/16 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	6	(58,614)	(52,300)
Transfers in from other pension funds	7	(950)	(1,907)
Other Income		0	(31)
		(59,564)	**(54,238)**
Benefits	8	51,067	49,346
Payments to and on account of leavers	9	5,577	6,656
		56,644	**56,002**
Net (additions)/withdrawals from dealings with members		**(2,920)**	**1,764**
Management expenses	10	4,904	5,095
Net withdrawals including fund management expenses		**1,984**	**6,859**
Returns on investments			
Investment income	11	(1,620)	(12)
(Profit) and losses on disposal of investments and changes in the market value of investments	13	(136,188)	5,725
Net return on investments		**(137,808)**	**5,713**
Net (increase)/decrease in the net assets available for benefits during the year		**(135,824)**	**12,572**
Opening net assets of the scheme		916,333	928,905
Closing net assets of the scheme		**1,052,157**	**916,333**

NET ASSETS STATEMENT

	Notes	31 March 2017 £000	31 March 2016 £000
Investments			
Pooled investment vehicles	13	1,038,872	902,772
Long term investments		150	150
Total investments		**1,039,022**	**902,922**
Current assets	17	14,524	15,935
Current liabilities	18	(1,389)	(2,524)
Net assets of the fund available to fund benefits at the end of the reporting period		**1,052,157**	**916,333**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 21.

NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

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

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Interim Chief Executive (Section 151 Officer) of the Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the *London Borough of* Barnet *Pension Fund Annual Report 2016/17* and the underlying statutory powers underpinning the scheme.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the LBB Council to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

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

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

Membership

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

- Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector

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

The number of employees contributing to the Fund decreased during the year from 8,738 to 8,428 at 31 March 2017. During the same period the number of pensioners increased from 7,611 to 7,730 and the number of deferred pensioners increased from 9,190 to 10,345.

The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2017, including the comparative figures. An analysis of membership movement in the year is provided in the note below.

	31 March 2017	31 March 2016
Number of employers with active members	65	64
Number of employees in scheme		
London Borough of Barnet	4,410	4,739
Other employers	4,018	3,999
Total	8,428	8,738
Number of pensioners		
London Borough of Barnet	5,124	5,077
Other employers	2,606	2,534
Total	7,730	7,611
Deferred pensioners		
London Borough of Barnet	7,166	6,171
Other employers	3,179	3,019
Total	10,345	9,190
Total number of members in pension scheme	**26,503**	**25,539**

Funding

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

Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. These are tabled in the actuarial valuation report

Benefits

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

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Fund account – revenue recognition

Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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 Local Government Pension Scheme Regulations 2013.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment income

- **Distributions from pooled funds** are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- **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/losses during the year.

3.2 Fund account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public 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 proceeds of investments sold. As the London Borough of Barnet is the administrating authority of the Fund, VAT input tax is recoverable on all Fund activities.

Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

- All **administrative expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity, based on estimated time spent, and charged as expenses to the Fund. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.
- All **oversight and governance expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- All **investment management expenses** are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in-house Fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

3.3 Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign currency transactions

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

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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.

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only.

Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The net pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

These actuarial revaluations are used to set future contribution rates and underpin the Fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are protected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund managers with expert advice about the assumptions to be applied. Sensitivity analysis and the effects of changes in individual assumptions on the net pension liability are shown in Note 15A.

6. CONTRIBUTIONS RECEIVABLE

By category

	2016/17	2015/16
	£000	£000
Employees' contributions:	**(10,962)**	**(10,269)**
Employers' contributions:		
Normal contributions	(34,840)	(32,075)
Deficit recovery contributions	(5,496)	(5,171)
Augmentation contributions	(7,316)	(4,685)
Total employers' contributions	**(47,652)**	**(42,031)**
Total contributions receivable	**(58,614)**	**(52,300)**

By authority

	2016/17	2015/16
	£000	£000
London Borough of Barnet	(30,351)	(25,862)
Scheduled bodies	(24,269)	(22,111)
Admitted bodies	(3,994)	(4,327)
Total contributions receivable	**(58,614)**	**(52,300)**

7. TRANSFERS IN FROM OTHER PENSION FUNDS

	2016/17	2015/16
	£000	£000
Individual transfers	(950)	(1,907)
Total transfers in from other Pension Funds	**(950)**	**(1,907)**

8. BENEFITS PAYABLE

By category

	2016/17	2015/16
	£000	£000
Pensions	44,603	41,154
Commutation and lump sum retirement benefits	5,723	7,276
Lump sum death benefits	741	916
Total benefits payable	**51,067**	**49,346**

By authority

	2016/17	2015/16
	£000	£000
London Borough of Barnet	34,863	33,958
Scheduled bodies	10,892	10,067
Admitted bodies	5,312	5,320
Total benefits payable	**51,067**	**49,346**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17	2015/16
	£000	£000
Refunds to members leaving service	150	113
Group transfers	0	3,303
Individual transfers	5,427	3,240
Total payments to and on account of leavers	**5,577**	**6,656**

10. MANAGEMENT EXPENSES

	2016/17	2015/16
	£000	£000
Administrative costs	1,782	1,259
Investment management expenses	2,931	3,732
Oversight and governance costs	192	104
Total management expenses	**4,904**	**5,095**

10A. INVESTMENT MANAGEMENT EXPENSES

	2016/17	2015/16
	£000	£000
Management fees	2,918	3,708
Performance related fees	0	11
Custody fees	13	13
Total investment management expenses	**2,931**	**3,732**

11. INVESTMENT INCOME

	2016/17	2015/16
	£000	£000
Pooled investments	(1,582)	0
Interest on cash deposits	(38)	(12)
Total investment income	**(1,620)**	**(12)**

12. AUDIT COSTS

	2016/17	2015/16
	£000	£000
Payable in respect of external audit	21	31
Total investment income	**21**	**31**

13. INVESTMENTS

2016/17	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	900,163	120,193	(141,592)	136,188	1,014,952
Money market funds	2,502	77,000	(55,602)	0	23,900
Long term investments	150	0	0	0	150
	902,815	**197,193**	**(197,194)**	**136,188**	**1,039,002**
Other investment balances:					
Cash deposits	107				20
Net investment assets	**902,922**				**1,039,022**

2015/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£000	£000	£000	£000	£000
Investment assets:					
Pooled investments	910,564	473,532	(475,556)	(8,377)	900,163
Money market funds	0	0	0	2,502	2,502
Long term investments	0	150	0	150	150
	910,564	**473,682**	**(475,556)**	**(5,725)**	**902,815**
Other investment balances:					
Cash deposits	1,160				107
Net investment assets	**911,724**				**902,922**

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

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

13A. ANALYSIS OF INVESTMENTS

	31 March 2017	31 March 2016
	£000	£000
Pooled funds – additional analysis UK		
Unit trusts	538,864	361,931
UK managed funds	476,088	538,232
Money market funds	23,900	2,502
	1,038,852	**902,665**
Long term investments	150	150
Cash deposits	20	107
Total investment assets	**1,039,022**	**902,922**
Net investment assets	**1,039,022**	**902,922**

13B. INVESTMENTS ANALYSED BY FUND MANAGER

	Market value	31 March 2017	Market value	31 March 2016
	£000	%	£000	%
Legal and General	405,190	39.0	361,931	40.1
Schroder Investment Management	353,799	34.1	353,092	39.1
LCIV NW Real Return Fund	133,673	12.9	185,247	20.5
Alcentra	47,940	4.6	0	0
Partners Group	38,171	3.7	0	0
Babson	36,199	3.4	0	0
Standard Life	23,900	2.3	2,502	0.3
London Collective Investment Vehicle (Share Capital)	150	0.0	150	0
	1,039,022	**100.0**	902,922	100.0

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

	31 March 2017		31 March 2016	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker	201,179	19.4	170,482	18.9
Legal and General Index Linked Tracker Fund	173,017	16.7	145,389	16.1
Schroder Life Diversified Growth Fund	144,586	13.9	130,767	14.5
LCIV NW Real Return Fund	133,673	12.9	130,294	14.4
Schroder All Maturities Corporate Bond Fund	114,694	11.0	132,787	14.7
Schroder Strategic Bond	94,500	9.1	89,503	9.9
Newton Long Corporate Bond Fund	0	0.0	52,583	5.8

13C. FAIR VALUE – BASIS OF VALUATION

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

- Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2017.

13D. FAIR VALUE – HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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 exchange traded quoted unit trusts.

Level 2

Assets and liabilities 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 are used to determine fair value. This included unit trusts priced by the fund managers that are not held as exchange traded funds.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

31 March 2017	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
	£000	£000	£000
Financial Assets			
Designated at fair value through profit and loss	0	1,015,102	0
Loans and receivables	23,920	0	0
Total financial assets	**23,920**	**1,015,102**	**0**
Total:			**1,039,022**

31 March 2016	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
	£000	£000	£000
Financial Assets			
Designated at fair value through profit and loss	0	900,313	0
Loans and receivables	2,609	0	0
Total financial assets	**2,609**	**900,313**	**0**
Grand Total:			**902,922**

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2017			31 March 2016		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial assets						
Pooled investments	1,014,952			900,163		
Cash and cash equivalent	20	26,226		107	8,381	
Other investment balances		150			150	
Receivables		12,198			10,056	
Total financial assets	**1,014,972**	**38,574**	**0**	**900,270**	**18,587**	**0**
Financial liabilities						
Creditors			(1,389)			(2,524)
Total financial liabilities	**0**	**0**	**(1,389)**	**0**	**0**	**(2,524)**
Total	**1,014,972**	**38,574**	**(1,389)**	**900,270**	**18,587**	**(2,524)**
Total			**1,052,157**			**916,333**

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its 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 addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009/2016 (Revised investment regulation applied from 14 March 2017) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

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

The Pension Fund Committee has prepared an Investment Strategy Statement which sets out the Pension Fund's policy on matters such as the type of investments to be held, the balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external investment managers is reported to the Pension Fund Committee quarterly. Performance of Pension Fund investments managed by external Investment managers is compared to benchmark returns.

15A. Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016.

Details of the (Management and Investment of Funds) regulations 2016 can be found in the Investment Strategy Statement adopted by Pension Fund Committee on 14th March 2017.

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.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset type	Potential market movements (+/-)
Other pooled investments	10.0%

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

Had the market price of the fund investments increased/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).

Asset type	Value as at 31 March 2017	Potential value on increase	Potential value on decrease
	£000	£000	£000
Other pooled investments	1,014,952	1,116,447	913,457
Total	**1,014,952**	**1,116,447**	**913,457**

Asset type	Value as at 31 March 2016	Potential value on increase	Potential value on decrease
	£000	£000	£000
Other pooled investments	900,163	990,179	810,147
Total	**900,163**	**990,179**	**810,147**

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 direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	26,246	-	26,246	26,246
Total	**26,246**	**262**	**26,508**	**25,984**

Assets exposed to interest rate risk	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	5,986	-	5,986	5,986
Total	**5,986**	**60**	**6,045**	**5,926**

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

15B. 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. However, the Pension Fund reviews its exposure to credit and counterparty risk through its external investment managers by review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in their activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by custodians who have acceptable credit ratings determined by three credit rating agencies. As at 31 March 2017 working capital was held in the Pension Fund bank account with the Royal Bank of Scotland and in a money market fund with Standard Life, in accordance with the credit rating criteria within the Council's Treasury Management Strategy. Pension administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

Summary	Rating	Source	Balances as at 31 March 2017 £000	Balances as at 31 March 2016 £000
Standard Life	AAAm	S&P	23,900	2,502
Royal Bank of Scotland	A2	Moody's	2,326	3,377
Cash held by Fund Managers			20	107
Total			**26,246**	**5,986**

15C. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

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

The key refinancing risk is that the Council will be bound to replenish a significant proportion of its pension fund 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 investment strategy.

16. ACTUARIAL VALUATION

Hymans Robertson LLP were appointed as fund actuary in 2016 and undertook a formal triennial actuarial valuation of the fund as at 31 March 2016 in accordance with the Local Government Pension Scheme Regulations 2013. The actuarial valuation calculates the contribution rate payable by the Authority, as an employer, to meet the administering authority's funding objectives.

Barnett Waddingham LLP undertook the previous actuarial valuation of the fund as at 31 March 2013. The funding level in 2013 was 79% with a fund deficit of £211 million.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The primary contribution rate for 2017/18 is 17.9% of pensionable pay plus a secondary contribution of £13.374 million. This is the average required employer contribution to restore the funding position to 100% over the next 20 years.

The assumptions used for the triennial valuation were:

Financial assumptions

	31 March 2016	31 March 2013
	%	%
Discount rate	4.2	6.0
RPI	3.2	3.5
CPI	2.1	2.7
Pension increases rate	2.1	2.7
Salary increases rate	2.4	4.5

Demographic assumptions

	31 March 2016	31 March 2013
Life expectancy from age 65		
Retiring today:		
Males	21.9	22.1
Females	24.3	24.4
Retiring in 20 years:		
Males	23.9	24.2
Females	26.5	26.8
Other demographic assumptions		
Commutation	50%	50%
50:50 option	5%	10%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 14 March 2017. The next actuarial valuation will be based on the value of the fund as at 31 March 2019.

17. CURRENT ASSETS

	31 March 2017	31 March 2016
	£000	£000
Contributions due – employees	791	845
Contributions due – employers	11,337	10,574
Sundry debtors	70	1,139
Cash balances	2,326	3,377
Total current assets	**14,524**	**15,935**

Analysis of debtors

	31 March 2017	31 March 2016
	£000	£000
Central government bodies	42	320
Other local authorities	8,910	9,398
Other entities and individuals	3,246	2,840
Total debtors	**12,198**	**12,558**

18. CURRENT LIABILITIES

	31 March 2017	31 March 2016
	£000	£000
Sundry creditors	(1,024)	(1,651)
Transfer values payable (leavers)	(365)	0
Benefits payable	0	(873)
Total current liabilities	**(1,389)**	**(2,524)**

Analysis of creditors

	31 March 2017	31 March 2016
	£000	£000
Central government bodies	(483)	(73)
Other local authorities	(246)	(7)
Other entities and individuals	(660)	(2,444)
Total creditors	**(1,389)**	**(2,524)**

19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market value 31 March 2017	Market value 31 March 2016
	£000	£000
Aviva	616	544
Prudential	2,436	2,044
Total AVC	**3,052**	**2,588**

AVC contributions of £454,000 (2015/16: £344,000) were paid directly to Prudential and £8,000 (2015/16: £8,000) were paid to Aviva during the year.

20. RELATED PARTY TRANSACTIONS

The London Borough of Barnet Pension Fund is administered by the London Borough of Barnet. Consequently there is a strong relationship between the Council and the Pension Fund. During the reporting period the Council incurred costs of £1.388m 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 Pension Fund and contributed £18.927m to the Fund in 2016/17 (2015/16: £17.599m). As at 31 March 2017 the Council owed the Pension Fund £1.894 million in pension contributions (£2.059 million as at 31 March 2016).

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operation of Barnet Council. During the year to 31 March 2017, the Fund had an average investment balance of £9.5m (year to 31 March 2016: £2.4m), earning interest of £0.039m (2015/16: £0.012m).

Governance

Two members of the Pension Fund Committee are in receipt of a pension from the Barnet Pension Fund. There are no active members of the Fund that are members of the Pension Fund Committee. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

20A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Chief Executive, the s.151 officer and the Deputy s.151 officer. The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below. For part of the year, the Chief Executive was also the s.151 officer.

	2016/17	2015/16
	£000	£000
Short-term benefits	24	24
Post-employment benefits	6	6
Total remuneration	**30**	**30**

21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Barnet Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits Year ended

Year ended	31 March 2017	31 March 2016*
Active members (£m)	660	n/a
Deferred members (£m)	461	n/a
Pensioners (£m)	708	n/a
Total (£m)	**1,829**	**1,572**

* Please note, the figures as at 31 March 2016 were provided by Barnett Waddingham in their report dated 9 May 2016. A split of the liability by class of member was not shown in the report.

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £272m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £12m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.3%
Salary Increase Rate	2.7%	4.1%
Discount Rate	2.5%	3.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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 summarised below:

	Males	Females
Current pensioners	21.9 years	24.3 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.9 years	26.5 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	147
0.5% p.a. increase in the Salary Increase Rate	1%	19
0.5% p.a. decrease in the Real Discount Rate	9%	168

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

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25 April 2017
For and on behalf of Hymans Robertson LLP