



PENSION FUND

ANNUAL REPORT

2011/12

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1. Introduction

1.1 Summary

This report provides information for employers and members of the London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed and been managed during the year ended 31 March 2012.

During the year the market value of the Fund’s assets decreased by £8k to £584.8m. The overall investment return for the year was 0.5%, compared to the Pension Fund’s combined benchmark return of 4.3%.

At 31 March 2012, there were 17 employers participating in the Fund of which 15 have active members, totalling 4,958 active members contributing to the Fund.

1.2 Statutory Background and Legal Framework

The Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. The Local Government Pension Scheme (Administration) Regulations 2008 came into force on 1st April 2008. Membership of the LGPS is open to all employees of local authorities except teachers, fire-fighters and police, who have their own separate schemes.

The Scheme is open to all employees aged 16 or over, whether they work full-time or part-time. The Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration. All members of the scheme can choose to leave at any time. Employees contribute according to a scale ranging from 5.5% to 7.5% based on their full time equivalent rate of pensionable pay. This will include basic pay and any contractual overtime and regular bonuses.

Employers contribute at a rate set by the actuary. Employees in the Scheme are entitled to a pension of one sixtieth of their final pensionable pay for each year of service.

Further information regarding the various benefits offered can be found on the Fund’s website address: www.lbbdpensionfund.org

2. Fund Governance and Administration

2.1 Scheme Funding and Administration

At 31 March 2012 the Fund was funded and administered as set out below:

2.2 Funding

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

2.3 Administering Authority

The London Borough Barking and Dagenham ("the Council"), as Administering Authority, has legal responsibility for the Fund as set out in the LGPS Regulations. The Council delegates its responsibility for administering the Fund to the Pensions Panel, which is the formal decision making body for the Fund.

2.4 Myners principles

In 2000, the UK Government commissioned Lord Myners to review institutional investment in the UK as there were concerns that the behaviour of institutional investors, including pension funds, was distorting the economic decision making to the detriment of small and medium sized companies.

Ten principles were outlined representing a model of best practice, which were incorporated into regulations applicable to the LGPS, with administering authorities required to publish the extent to which they comply with these principles.

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

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

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

2.5 The Pensions Panel

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

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

- determining the investment policy objectives
- ensuring appropriate investment management arrangements are in place;
- appointment of investment managers, advisers and custodians;
- reviewing investment managers' performance;
- commissioning the actuarial valuations in accordance with the provisions of the LGPS Regulations;
- considering requests from organisations wishing to join the Fund as admitted bodies;
- making representations to Government as appropriate concerning any proposed changes to the LGPS; and all aspects of benefit administration; and
- approving Fund publications including but not limited to the Statement of Investment Principles, the Funding Strategy Statement, the Governance Compliance and the Communication Policy Statement.

In addition, as recommended by the Myners' Principles 2008, the Council has adopted the recommendations of the Knowledge and Skills Framework. The Pension Panel undertake various training throughout the year to equip them in their responsibility as Trustees of the Fund. During 2011/12 the Pension Panel consisted of the following Members (the number of Panel Meetings attended by each is in brackets):

Councillor Cameron Geddes to 7 December 2011 – Chair (3)
Councillor Rocky Gill from 7 December 2011 – Chair (1)
Councillor Robert Douglas - Deputy Chair (2)
Councillor James Ogungbose (5)
Councillor Jeff Wade (4)

Pension Panel: (as at 15 May 2012)

Councillor Rocky Gill (Chair)
Councillor Robert Douglas (Deputy Chair)
Councillor James Ogungbose
Councillor Jeff Wade
Councillor Nirmal Gill (New)
Councillor Emmanuel Obasohan (New)

Union Representative:

Miles Dowdell (GMB)

Member Representative:

Bernie Hanreck

2.6 Conflicts of Interest

Conflicts of interest are managed as follows:

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

2.7 Scheme Governance

2.7.1 Scheme Governance Policy Statement

It is important that appropriate governance arrangements are put in place representing the needs of all stakeholders in the Scheme. In accordance with the Local Government Pension Scheme Regulations 2007, Local Government Pension Scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement should set out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government and Myners Principles 2001 as Amended 2008. This statement sets out the best practice guidance, and how the Council comply with this guidance. A copy can be found on the Council's website.

2.7.2 Publicity

The Governance Compliance Statement is available on request. The document is also published on the Council's website as required by statute.

2.7.3 Communication

The Fund has published a Communication Policy Statement which sets out how it communicates with employers and representatives of employers, Scheme members and prospective Scheme members. A copy of this document is available on the Council's website

2.8 Fund Fraud / National Fraud Initiative

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

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

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

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

The Council is committed to the NFI process and undertook the data matching exercise in 2011. The Fund accepts that the vast majority of payments are legitimate but this exercise is very much worthwhile in order to protect the Fund against any possible fraud. Any cases where fraud is suspected will be pursued and where necessary, legal action taken.

3. Fund Management Details

3.1 Investment Managers:

The Fund balance is invested in stocks and shares, fixed interest investments, and property, both in the United Kingdom and overseas. In 2011/12, these funds were managed by six external fund managers including:

Alliance Bernstein Institutional Investments

Devonshire House, One Mayfair Place
London, W1J 8AJ

Goldman Sachs Asset Management

Christchurch Court, 10-15 Newgate Street
London, EC1A 7HD

Aberdeen Asset Management

Bow Bells House, 1 Bread Street,
London, EC4M 9HH

RREEF

1 Appold Street,
London, EC2A 2UU

Schroders Property Indirect Real Estate Fund

31 Gresham Street,
London, EC2V 7QA

Prudential/M&G UK Companies Financing Fund LP

Governor's House,
Laurence Pountney Hill
London, EC4R 0HH

Additional Voluntary Contribution (AVC) Provider:

Prudential PLC

Governor's House ,
Laurence Pountney Hill
London, EC4R 0HH

Custodian:

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

State Street Global Services

20 Churchill Place,
Canary Wharf, London, E14 5HJ

Investment Advisor:

Hymans Robertson LLP
One London Wall
London, EC2Y 5EA

Actuary:

Hymans Robertson LLP
20 Waterloo Street
Glasgow, G2 6DB

Auditor:

Audit Commission
1st Floor, Millbank Tower
Millbank, London, SW1P 4HQ

Performance Measurement:

WM Markets
525 Ferry Road,
Edinburgh, EH5 2AW

Legal Advisors:

The Fund uses the Council's legal team and in some cases may use an external legal team for specific projects.

4. Investment Policy, Performance and Developments

4.1 Powers of Investment

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

4.2 Investment Strategy

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

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

4.3 Asset Allocation and Structure

The investment portfolio is weighted towards equities (as this is the asset class expected to provide the highest return over the medium term to long term) together with holdings in property and bonds.

The risk of holding substantial equity investments is mitigated by investing in different markets across the world in many different sectors and stocks. The Fund investments are allocated to six fund managers and within different investment types to further diversify risk.

The Fund employs a number of Fund Managers to manage its investments. During the year new investments were made in the M&G Financing Fund (which takes advantage of opportunities in UK credit opportunities) and in the Schroder Indirect Property Fund (SIRE) (a pooled "fund of fund" property portfolio). These further diversify the risk of the Fund's portfolio at both manager and investment level.

4.4 Investment Portfolio

Table 4 below shows the Fund's investment portfolio by type and actual weighting:

Table 4: Fund's investment portfolio as at 31 March 2012

| Manager | Type | % of Fund |
|--------------------|----------------------------------|-----------|
| Aberdeen Asset | Bonds | 28.3 |
| Alliance Bernstein | Global and UK Equities | 28.5 |
| Goldman Sachs | Overseas Equities | 32.4 |
| RREEF | UK Property Investments | 6.9 |
| Schroders | Property (UK Fund of Funds) | 2.4 |
| Prudential/M&G | Alternatives (UK Companies Fund) | 1.5 |

4.5 Monitoring the Investment Managers

Investment manager performance is measured by the World Markets (WM) Company. A summary of their report is included within the report to the quarterly Pension Panel meeting.

To assist the Fund in fulfilling its responsibility for monitoring the investment managers, Council officers and the Fund's advisers meet the investment managers regularly to review their actions and the reasons for their investment performance.

4.6 Investment performance

For the twelve months to 31 March 2012 the Fund returned 0.5% against a benchmark return of 4.3%, representing an underperformance of 3.8%. Poor relative performance in equities, property and UK fixed income were the main causes of the underperformance.

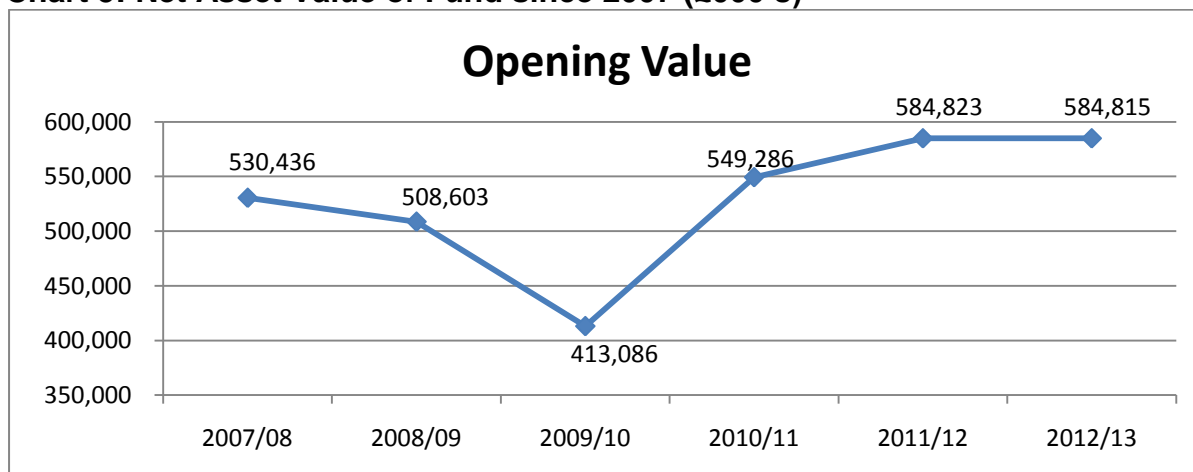
The below benchmark performance during the year was mainly due to the relative underperformance of Alliance Bernstein Global Strategy (a return of -4.7% against a benchmark of 0.5%) and RREEF (0.8% against a benchmark of 6.6%). All other manager underperformed their benchmarks by between 2.7% and 3.2% apart from M&G which provided a positive return of 4.7%, outperforming its benchmark by 4.2%

4.7 Investment Manager Performance

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

During the year the market value of the Fund's assets decreased by £8k to £584.8m with the poor returns by the fund managers the main cause of the underperformance. The overall investment return for the year was 0.5%, compared to the Fund's combined benchmark return of 4.3%.

Chart 5: Net Asset Value of Fund since 2007 (£000's)



The table below shows the performance of the Fund and Benchmark over the last 5 years. The relative return is the degree by which the Fund has over or (underperformed) its benchmark over these periods;

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

| | 12 Months to 31 March 2012 | 3 Years to 31 March 2012 | 5 Years to 31 March 2012 |
|------------------------|---------------------------------------|-------------------------------------|-------------------------------------|
| | % per annum | % per annum | % per annum |
| Fund | 0.5 | 12.4 | 1.4 |
| Benchmark | 4.3 | 14.9 | 4.2 |
| Relative Return | (3.6) | (2.2) | (2.7) |

Source: WM Company Performance Report

4.8 Developments in 2012/13

4.8.1 Due to the poor performance of the past two years, at the 25 October 2011 Pension Panel Members agreed to revise the Fund's asset allocation. The revised strategy sought to diversify away from active equity mandates and move to a strategy that included alternatives and a passive allocation. The revised strategy is outlined below:

- Active and Passive Global Equities representing 43% - 50% of the total fund
- Absolute return representing 12% - 15% of the total fund
- Property representing 10% of the total fund
- Infrastructure representing 6% - 10% of the total fund, with the higher end investment level occurring in the medium term
- Bonds representing 22% of the total fund

4.8.2 The change in strategy, which was implemented in August 2012 will result in a more diversified and less volatile Fund. As a result of the changes the Fund's strategy the asset allocation will change as per the pie charts below:

Chart 3: Fund Asset Allocation as at 31 March 2012

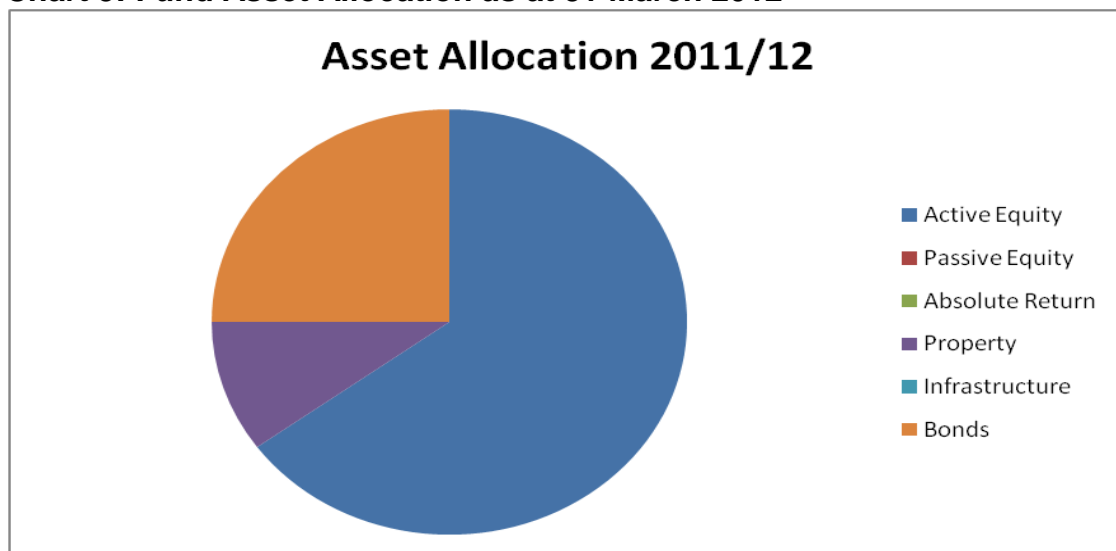
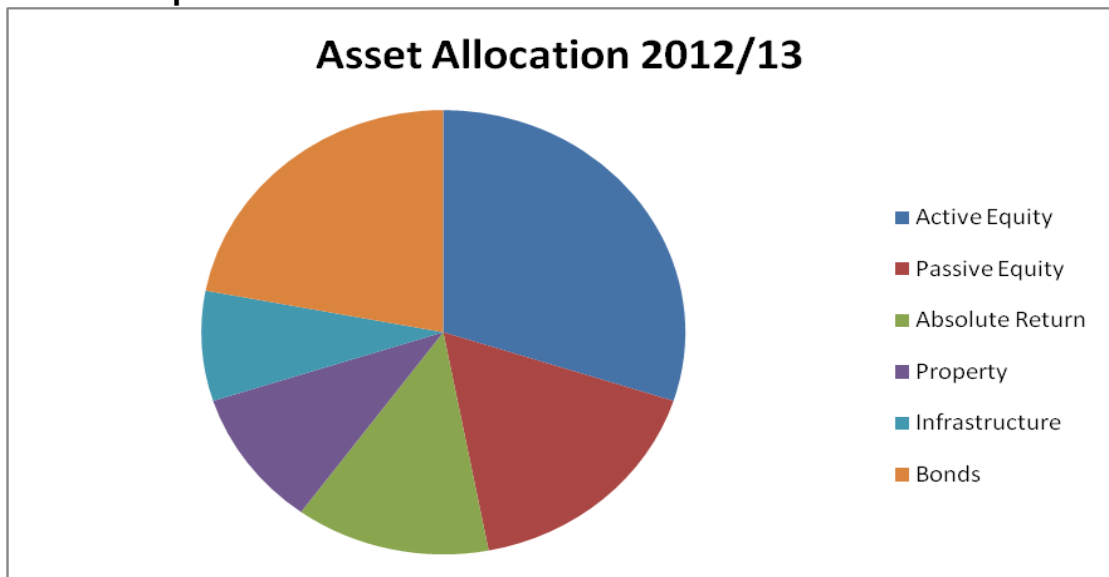


Chart 4: Expected Fund Asset Allocation as at 31 March 2013



4.8.3 At the 19 June 2012 Pension Panel Members also agreed to revise the Fund's equity strategy from one that was overweight UK equities to one that was more reflective of the global investment environment.

4.8.4 The decision to revise the equity structure required a retendering exercise, with the new equity structure likely to be implemented by the end of the 2012.

4.8.5 Other key areas that will be focused on by the Fund Members and officers include:

- Auto-enrolment;
- Preparation for the new LGPS 2014 scheme;
- Reviewing the Fund's fixed income strategy; and
- Preparation for the triennial valuation.

5. Changes Affecting the LGPS during 2011/12

LGPS 2014

Following months of negotiations throughout 2011/12 between the Unions, the Department for Communities and Local Government, the Government Actuaries Department and HM Treasury, on 31 May 2012 an announcement was made which provided details of the proposed LGPS 2014 starting from 1 April 2014.

The key elements of the proposed LGPS 2014 scheme are as follows:

The LGPS 2014 contains an option for members to pay 50% of the contributions for a 50% pension whilst retaining the full value of other benefits of the scheme such as an ill health pension, 'death in service' and redundancy. It is intended to attract non-members on low pay to the scheme and retain members who suffer periods of financial difficulty.

In LGPS 2014, all members will have contribution rates based on actual - not full time equivalent pay – which is not the case in the current scheme. This will mean that some part-time workers will pay lower contributions than in LGPS 2008.

The average member contribution to LGPS 2014 will remain 6.5% and most members will pay the same or lower contributions than at present.

All pensions already being paid or built up before April 2014 will be fully protected. The proposed changes will not affect those in receipt of a pension or have left with a deferred pension. Current contributing scheme members pre-April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age.

Table 6: LGPS 2014 for membership from 1st April 2014

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

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

Table 7: Proposed Contribution Bands and Rates for April 2012

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

The new LGPS will start on 1 April 2014. Only pensionable service after that point will be in the new scheme, under the new LGPS 2014 rules.

Final salary pension from the LGPS 1997 and LGPS 2008 will be calculated separately when members retire and be added to the pension from the LGPS 2014.

In addition, to ensure that no member within 10 years of age 65 as at 1 April 2012 is worse off, there will be an 'underpin'. This means that those members who would see a change in their pension age in that period will get a pension at least equal to that which they would have received in the current scheme.

Previously agreed protection will continue. This includes the retirement age provisions for remaining members with Rule of 85 benefits.

The provisions of the current scheme are to be extended to ensure that all staff whose employment is compulsorily transferred will still be able to retain membership of the LGPS when transferred.

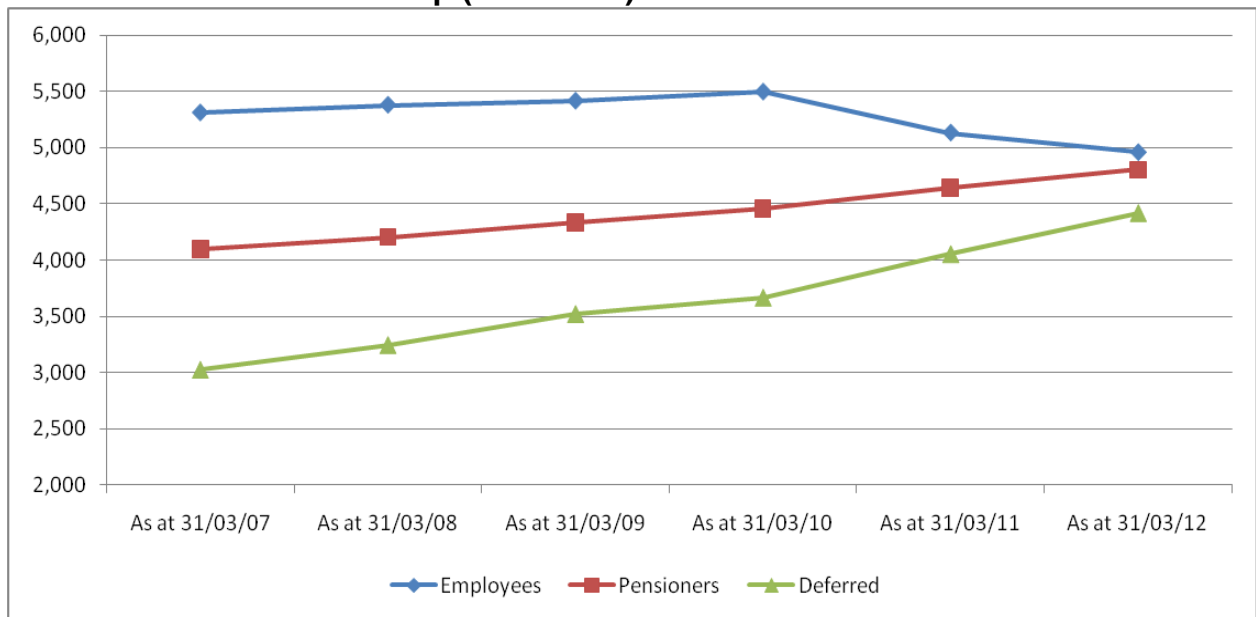
6. Fund Membership Details

6.1 Scheme Membership

The chart below shows the membership of the fund over 5 years. All of the Council's employees, except those covered by the Teachers Pension Scheme Regulations, can join the Council's Pension Scheme. The LGPS regulations also provide for specified bodies (employers) to be admitted in to the Fund.

The scheme membership numbers for employees, pensioners and deferred members are outlined in Chart 6 below:

Chart 6: Scheme Membership (2007-2012)



6.2 Members Cash Flow

The chart below summarises the contributions paid to the Fund and the amounts paid out by the Fund in respect of members over the past five years.

Chart 7: Contributions Received and Pension Payments Made (2007-2012)

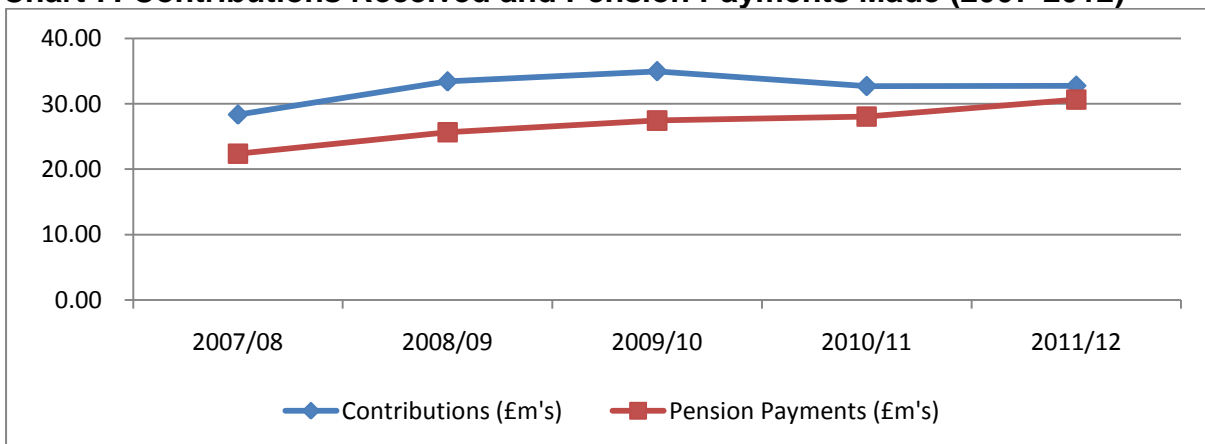


Chart 7 illustrates that the level of benefits paid out of the Fund, if the trend continues, will soon exceed the level of contribution into the Fund. When this occurs the Fund will need to utilise investment income to cover any shortfall. Due to this risk the Fund's Cash flow and member numbers are monitored on a regular basis, with a separate cash flow paper to be produced at each Pension Panel.

6.3 Employee Contributions in 2011/12

The rates and salary bandings applicable during 2011/12 are shown in the table below:

Table 8: Rates and Salary bandings changes in 2011/12

| Band | Salary Range | Contribution Rate |
|------|--------------------|-------------------|
| 1 | £0 - £12,900 | 5.5% |
| 2 | £12,901 to £15,100 | 5.8% |
| 3 | £15,101 to £19,400 | 5.9% |
| 4 | £19,401 to £32,400 | 6.5% |
| 5 | £32,401 to £43,300 | 6.8% |
| 6 | £43,301 to £81,100 | 7.2% |
| 7 | More than £81,100 | 7.5% |

Employers contributions are payable at rates specified by the Fund's Actuary following each triennial valuation. Rates are adjusted to reflect any surplus or short fall in the Fund.

6.7 Employers

The Scheme had fifteen employers as at 31 March 2012, of which the Council is the administering body. Two employers had no active members in the Fund and three employers had no pensioners in the Fund. Details of employer organisations are as follows:

Administering Body: London Borough of Barking & Dagenham

Scheduled Bodies University of East London
Barking College
Magistrates Court

Admitted Bodies Age UK (previously known as Age Concern)
Abbeyfield Barking Society
Barking and Dagenham Citizen's Advice Bureau
Council for Voluntary Service
Disablement Association of Barking and Dagenham
East London E-Learning
Elevate
Enterprise (Thames Accord)
Translinc Ltd
London Riverside
Laing O'Rourke

6.4 Summary of Benefits

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

6.5 Additional Voluntary Contributions AVC

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

6.6 Dispute Resolution

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

7. Risk Management

7.1 Summary

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

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

A copy of the Council's risk register is available on request. Further details on risk can be found in the Fund's accounts on pages 39 to 42.

7.2 Management of Third Party Risks

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

All employers are regularly informed of their statutory duty to ensure that contributions are received by the Administering Authority on time. In 2011/12 Age Concern Barking and Dagenham went into liquidation and the Fund lodged a claim with the Liquidator. In February 2012 liquidators paid 10% of the outstanding liabilities as a first dividend to the Fund. It remains uncertain as to the recoverability of the outstanding 90% claim at the date of this report

7.3 Financial Performance

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

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

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

8. Actuarial Report on Fund Valuation

8.1 Actuarial Valuation and Solvency of the Fund

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

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

- the funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- future levels of price inflation are based on the Consumer Price Index (CPI) (previously Retail Price Index) and future levels of real pay increases are assumed to be 2.0% per annum in excess of CPI;
- the discount rate is based on Asset Outperformance target of 1.6% above the yield of fixed interest and index linked government Bonds;
- the market value of the pension scheme's assets at 31 March 2010 was £549m; and
- assumptions made were prudent and based on available evidence.

8.2 Actuarial Statement

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

8.3 Monitoring of Fund's Funding Position

The Administering Authority monitors the funding position between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as liability discount rate) caused by changes in market conditions. This report is prepared by the Fund's actuary Hymans Robertson. In addition, specific inter-valuation monitoring for individual employers may be undertaken if requested by the employer. The Council is the largest employer in the Fund and undertakes this inter-valuation monitoring annually.

Appendix 1: Fund Accounts 2011/12

Summary of Fund Accounts 2011/12

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

- The number of contributors (active members) to the Scheme decreased by 174, 3.39% to 4,958;
- The number of pensioners paid increased by 168, 3.62% to 4,804;
- Contributions (Employers and Members) increased by £55k (0.17%) to £32.75m;
- Investment income decreased by £0.3m (2.39%) to £13.4m;
- Payments made out of the Fund increased by £1.5m, 4.3% to £36.3m; and
- Investment values increased by £9.7m in the year to £579.0m.

The net impact of the changes in income, expenditure, investment returns and market values of investments resulted in a decrease in the value of the Fund of £8k to £584.8m at 31 March 2012.

Explanatory Foreword

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

The 2011/12 Fund Accounts consist of:

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

Publication

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



Pension Fund Accounts

for the year ended

31 March 2012

London Borough of Barking and Dagenham Pension Fund Account

| | Note | 2010/11 £000's | 2011/12 £000's |
|---|------|-------------------|-------------------|
| Dealings with members, employers and others directly involved in the scheme | | | |
| Contributions | 3 | 32,691 | 32,747 |
| Transfers in from other pension funds | 4 | 4,752 | 2,562 |
| | | <u>37,443</u> | <u>35,309</u> |
| | | | |
| Benefits | 5 | (28,057) | (30,632) |
| Payments to and on account of leavers | 6 | (6,741) | (5,673) |
| Administrative expenses | 7 | (672) | (726) |
| | | <u>(35,470)</u> | <u>(37,031)</u> |
| | | | |
| Net additions for dealings with members | | <u>1,973</u> | <u>(1,722)</u> |
| Returns on Investments | | | |
| Investment Income | 8 | 13,724 | 13,397 |
| Taxes on income | | | |
| Profit (losses) on disposal of investments and changes in the market value of investments | 10 | 22,284 | (9,318) |
| Investment management expenses | 9 | (2,444) | (2,365) |
| Net returns on investments | | <u>33,564</u> | <u>1,714</u> |
| | | | |
| Net increase (decrease) in the net assets available for benefits during the year | | <u>35,537</u> | <u>(8)</u> |

Net Assets Statement as at 31 March 2012

| | Note | 2010/11 £000's | 2011/12 £000's |
|--|----------------|-----------------------|------------------------------|
| Investment Assets | 10 | 560,028 | 567,666 |
| Cash Deposits | 10 / 12 | 9,274 | 11,290 |
| | | <u>569,302</u> | <u>578,956</u> |
| Other investment balances | 11 | 3,419 | 7,945 |
| Borrowings | | - | - |
| Current assets | 11 | 15,622 | 8,298 |
| Current Liabilities | 11 | (3,520) | (10,384) |
| Net assets of the fund available to fund benefits at the period end | | <u><u>584,823</u></u> | <u><u>584,815</u></u> |

Notes to the Pension Fund Accounts for the year ended 31 March 2012

1. Format of the Pension Fund Statement of Accounts

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

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Corporate Director of Finance and Resources.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2011/12 and the Superannuation Act 1972 and the LGPS regulations, which are the underlying statutory powers underpinning the scheme.

a) General

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

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

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

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

There are 14 employer organisations within the Fund as detailed below:

| | 2010/11 | 2011/12 |
|---|--------------|--------------|
| London Borough of Barking and Dagenham | | |
| Active members | 3,986 | 3,840 |
| Pensioners | 3,863 | 3,954 |
| Deferred pensioners | 3,211 | 3,453 |
| Undecided and other members | 273 | 261 |
| | <hr/> 11,333 | <hr/> 11,508 |
| Admitted and Scheduled Bodies | | |
| Active members | 1,275 | 1,172 |
| Pensioners | 783 | 850 |
| Deferred pensioners | 844 | 967 |
| Undecided and other members | 90 | 87 |
| | <hr/> 2,992 | <hr/> 3,076 |
| Scheduled bodies | | |
| University of East London | | |
| Magistrates Court | | |
| Barking College | | |

Admitted Bodies

Age UK (previously known as Age Concern)
 Abbeyfield Barking Society
 Barking and Dagenham Citizen's Advice Bureau
 Council for Voluntary Service
 Disablement Association of Barking and Dagenham
 East London E-Learning
 Elevate
 Enterprise (Thames Accord)
 Translinc Ltd
 London Riverside
 Laing O'Rourke

c) Benefits

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

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked to keep pace with inflation. The consumer price index (CPI) is the method of indexation used from 1 April 2011.

2. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2011/12 financial year and its position as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2011/12.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2012; such items are reported separately in the Actuary's Report provided in **note 14** to the Fund's accounts.

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

2.1 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see **note 4**).

2.2 Investments are shown in the Net Assets Statement at market value on the following bases:

- I. Quoted investments are valued at bid price at the close of business on 31 March 2012.
- II. Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines.
- III. Pooled Investment Vehicles are valued at the closing bid price where both bid and mid prices are quoted.
- IV. Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2012. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange.

2.3 Administration

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

2.4 Taxation

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

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

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

2.5 Investment management expenses

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

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

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

2.6 Foreign currency transactions

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

2.7 Derivatives

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

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

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

2.8 Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

3 Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 14.5% to 22.9%.

Following a separate modelling exercise carried out by the Fund's actuary, Hymans Robertson, the LBBB have had their contribution rates stabilised.

The primary contribution rate used during the financial year ending 31 March 2012 was 19.0%. Contributions shown in the revenue statement may be categorised as follows:

| Contributions | 2010/11 £000's | 2011/12 £000's |
|---|----------------------|----------------------|
| Members normal contributions | | |
| Council | 6,142 | 5,406 |
| Admitted bodies | 431 | 724 |
| Scheduled bodies | 1,851 | 1,707 |
| Additional retirement costs | 153 | 86 |
| Total contributions from members | 8,577 | 7,923 |
| Employers normal contributions | | |
| Council | 17,501 | 15,935 |
| Admitted bodies | 1,138 | 2,300 |
| Scheduled bodies | 5,159 | 5,718 |
| Additional retirement costs | 0 | 0 |
| Capitalised Redundancy costs | 316 | 870 |
| Total contributions from employers | 24,114 | 24,823 |
| Total Contributions | <u><u>32,691</u></u> | <u><u>32,746</u></u> |

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBB employees during the year amounted to £301k (2010/11 £429k). AVCs are not included in the Fund's accounts in accordance with regulation 5(2) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

AVCs were valued by Prudential at a market value of £4.8m (2010/11 £5.0m). The above figure includes employees of LBBB, Scheduled and Admitted Bodies.

4 Transfers in from other pension funds

| | 2010/11 £000's | 2011/12 £000's |
|-----------------------------|-------------------|-------------------|
| Individual Transfers | 4,752 | 2,562 |
| Group Transfers | - | - |
| | <u>4,752</u> | <u>2,562</u> |

5 Benefits

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

| | 2010/11 | | | | 2011/12 | | | |
|---------------------|-------------------|------------------------------|-------------------------------|-----------------|----------------------|------------------------------|-------------------------------|----------------------|
| | Council £000's | Admitted Bodies £000's | Scheduled Bodies £000's | Total £000's | Council £000's | Admitted Bodies £000's | Scheduled Bodies £000's | Total £000's |
| Pensions | 18,434 | 803 | 2,383 | 21,620 | 19,789 | 690 | 3,175 | 23,654 |
| Lump sums | 4,763 | 612 | 800 | 6,175 | 4,268 | 658 | 1,578 | 6,504 |
| Death grants | 262 | - | - | 262 | 328 | - | 146 | 474 |
| | <u>23,459</u> | <u>1,415</u> | <u>3,183</u> | <u>28,057</u> | <u>24,385</u> | <u>1,348</u> | <u>4,899</u> | <u>30,632</u> |

6 Payments to and on account of leavers

| | 2010/11 £000's | 2011/12 £000's |
|-----------------------------|-------------------|---------------------|
| Individual Transfers | 6,741 | 5,673 |
| Group Transfers | - | - |
| | <u>6,741</u> | <u>5,673</u> |

7 Administrative expenses

| | 2010/11 £000's | 2011/12 £000's |
|-----------------------------------|-------------------|-------------------|
| Administration and Processing | 447 | 489 |
| Audit Fee | 35 | 27 |
| Actuarial Fees | 86 | 91 |
| Legal and Other Professional Fees | 104 | 119 |
| | <u>672</u> | <u>726</u> |

| | 2010/11 £000's | 2011/12 £000's |
|---------------------------|-------------------|----------------------|
| Fixed Interest Securities | 2,691 | 2,794 |
| Equity Dividends | 8,957 | 11,256 |
| Pooled Property Income | 1,768 | 1,997 |
| Interest - Manager's Cash | 3 | 121 |
| Interest - LBBB balance | 318 | 142 |
| Currency Gain/(Loss) | (293) | (3,053) |
| Stock Lending fees | 62 | 137 |
| Commission Recapture | 218 | 3 |
| | <u>13,724</u> | <u>13,397</u> |

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

8 Investment management expenses

| | 2010/11 £000's | 2011/12 £000's |
|-------------------------------------|-------------------|-------------------|
| Aberdeen Asset Management | 295 | 188 |
| Alliance Bernstein Asset Management | 863 | 802 |
| Goldman Sachs Asset Management | 789 | 815 |
| RREEF | 290 | 294 |
| State Street (Custodian) | 193 | 201 |
| Prudential M&G | 8 | 32 |
| Schroders | 6 | 33 |
| | <u>2,444</u> | <u>2,365</u> |

9 Investments

The Fund employs a number of specialist investment managers with mandates corresponding to the principle asset classes:

| Investment Manager | Investment Area |
|--------------------|--|
| Aberdeen | Bonds |
| Alliance Bernstein | Global and UK Equities |
| Goldman Sachs | Overseas Equities |
| RREEF | Property Investments (UK) |
| Prudential/M&G | Alternatives - UK Companies Financing Fund |
| Schroders | Property Investments (UK Fund of Funds) |

The value of the Fund, by manager, as at 31 March 2012 was as follows:

| Fund by Investment Manager | 2010/11 | | 2011/12 | |
|----------------------------|----------------|-------------|----------------|-------------|
| | £000's | % | £000's | % |
| Aberdeen Asset Management | 148,315 | 26.1 | 163,655 | 28.3 |
| Alliance Bernstein | 171,664 | 30.2 | 165,112 | 28.5 |
| Goldman Sachs | 193,356 | 34.0 | 187,410 | 32.4 |
| RREEF | 42,005 | 7.4 | 40,184 | 6.9 |
| Prudential/M&G | 4,039 | 0.7 | 8,558 | 1.5 |
| Schroders | 9,923 | 1.7 | 14,038 | 2.4 |
| | <u>569,302</u> | <u>100%</u> | <u>578,956</u> | <u>100%</u> |

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

| | Market Value 01/04/2011 | Purchases | Sales | Change in Market Value | Market Value 31/03/2012 |
|-----------------------------------|----------------------------|----------------|------------------|------------------------------|-------------------------------|
| UK Investment Assets | | | | | |
| Quoted | 219,516 | 234,303 | (216,112) | 6,218 | 243,925 |
| Unquoted | 91,006 | 17,272 | (5,870) | 2,215 | 104,623 |
| | <u>310,522</u> | <u>251,575</u> | <u>(221,982)</u> | <u>8,433</u> | 348,548 |
| Overseas Investment Assets | | | | | |
| Quoted | 201,215 | 249,025 | (258,884) | (15,774) | 175,582 |
| Unquoted | 48,290 | 1,725 | (4,503) | (1,977) | 43,535 |
| | <u>249,505</u> | <u>250,750</u> | <u>(263,387)</u> | <u>(17,751)</u> | 219,117 |
| Cash Deposits | 9,275 | | | | 11,290 |
| Total Investments | <u>569,302</u> | <u>502,325</u> | <u>(485,368)</u> | <u>(9,318)</u> | 578,956 |

Securities

| | 2010/11 £000's | 2011/12 £000's |
|--------------------------|-------------------|-------------------|
| Unlisted | 188,623 | 216,272 |
| Listed | 384,098 | 370,629 |
| Total Investments | <u>572,721</u> | 586,901 |
| Working Capital | 12,102 | (2,086) |
| Total Net Assets | <u>584,823</u> | 584,815 |

10 Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2012:

| | 2010/11 £000's | 2011/12 £000's |
|---|-------------------|-------------------|
| Other Investment Balances | | |
| Investment sales | 1,053 | 4,912 |
| Dividends receivable | 1,670 | 2,169 |
| Stock lending | 2 | 15 |
| Tax recoverable | 694 | 841 |
| Other Debtors | - | 8 |
| | <u>3,419</u> | 7,945 |
| Current Assets | | |
| Pension contributions due | 285 | 329 |
| London Borough of Barking and Dagenham | 15,337 | 7,969 |
| | <u>15,622</u> | 8,298 |
| Total Debtors | <u>19,041</u> | 16,243 |

Included in Debtors is an amount due from LBBB which reflects cash held and invested by the Council on behalf of the Fund.

| Creditor | 2010/11 £000's | 2011/12 £000's |
|----------------------------------|-------------------|-------------------|
| Other Investment balances | | |
| Investment purchases | 2,317 | 9,057 |
| Current Liabilities | | |
| Unpaid benefits | 601 | 514 |
| Administrative expenses | 602 | 813 |
| | <u>1,203</u> | <u>1,327</u> |
| Total Creditors | 3,520 | 10,384 |
| | <u> </u> | <u> </u> |
| Net Debtors | <u>15,521</u> | <u>5,859</u> |

11 Cash

The cash balance held at 31 March 2012 is made up as follows:

| Cash balances held by Investment Managers | 2010/11 £000's | 2011/12 £000's |
|--|-------------------|-------------------|
| Aberdeen | 1,322 | 4,501 |
| Alliance Bernstein | 2,935 | 2,655 |
| Goldman Sachs | 1,030 | 1,548 |
| RREEF | 3,818 | 1,845 |
| Prudential / M&G | 26 | 241 |
| Schroders | 143 | 500 |
| Total Cash | <u>9,274</u> | <u>11,290</u> |

12 Statement of Investment Principles

A Statement of Investment Principles has been agreed by the Council's Investment Panel and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Statement of Investment Principles. Copies can be obtained from the Council's website www.lbbd.gov.uk together with the Annual Report of the Fund which provides additional information on the Fund.

13 Actuarial position

Actuarial assumptions

The triennial review of the Fund took place as at 31 March 2010 and the salient features of that review were as follows:

- The funding target remains unchanged to achieve a funding level of at least 100% over a specific period
- The key financial assumptions adopted at this valuation are:
- Future levels of price inflation are based on the Consumer Price Index (CPI); previously Retail Price Inflation.
- Future levels of real pay increases - assumed to be 2.0% p.a. in excess of price inflation - based on CPI;

- Funding basis discount rate - is based on an Asset Outperformance target of 1.6% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
- The market value of the pension scheme's assets at the date of the valuation, were £549million.
- The use of an appropriate Asset Outperformance Assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2010 valuation are set out below:

| Financial Assumptions | Derivation | Rate at 31 March 2010 | |
|------------------------------|--|------------------------------|-------|
| Price Inflation (CPI) | Market expectation of long term future inflation as measured by the difference between yields of fixed and index linked Government bonds at the valuation date less 0.5% per annum | 3.30% | - |
| Pay Increases | Assumed to be 1.5% in excess of price inflation | 5.30% | 2.00% |
| Gilt based discount rate | The yield on fixed interest (nominal) and index linked (real) Government bonds | 4.50% | 1.20% |
| Funding basis discount rate | Assumed to be 1.6% above the yield on fixed interest Government bonds | 6.10% | 2.80% |

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

| Longevity Assumptions | 2007 | 2007 | 2010 | 2010 |
|---|-------------|-------------|-------------|-------------|
| at 31 March | Males | Females | Males | Females |
| Average future life expectancy (in years for a pensioner) | 20.7 | 23.6 | 19.1 | 20.9 |
| Average future life expectancy (in years) at age 65 for a non-pensioner assumed to be aged 45 at the valuation date | 20.7 | 23.6 | 21.2 | 23.1 |

Funding level

The table below shows the detail funding level for the 2010 valuation:

| Employer contribution rates | As at 31 March | |
|--|-----------------------|--------------|
| | 2007 | 2010 |
| Net Employer Future Service Cost | 14.2% | 16.1% |
| Past Service Adjustment – 20 year spread | 4.5% | 8.3% |
| Total Contribution Rate | 18.7% | 24.4% |

Funding position

The table below shows the funding position for the 2010 valuation and illustrates how the funding objective has been met in the form of a funding level:

| Past Service Funding Position at 31 March | 2007 | 2010 |
|--|--------------|--------------|
| Past Service Liabilities | £m | £m |
| Employees | (285) | (298) |
| Deferred Pensioners | (81) | (117) |
| Pensioners | (239) | (314) |
| | <hr/> | <hr/> |
| | (605) | (729) |
| Market Value of Assets | 530 | 549 |
| | <hr/> | <hr/> |
| Funding Deficit | (75) | (180) |
| | <hr/> | <hr/> |
| Funding Level | 87.6% | 75.3% |

Total contribution rate

The Common Rate of Contribution payable by each employer from 1 April 2014 is 24.4% of pensionable pay. The table below shows the Minimum Total Contribution Rates, expressed as a percentage of pensionable pay, which applied to the 2011/12 accounting period:

| | |
|---|-------|
| London Borough of Barking and Dagenham | 19.5% |
| University of East London | 20.2% |
| Barking College | 18.2% |
| Disablement Association of Barking and Dagenham | 22.9% |
| Barking and Dagenham Citizen's Advice Bureau | 17.2% |
| Elevate | 19.0% |
| Enterprise | 21.1% |
| E-Learning Cross River | 14.5% |

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

Funding assumptions

The table below shows the assumptions used by the actuary to arrive at the 2010 actuarial funding position:

| | As at 31 March | | |
|----------------------------------|----------------|-------------|-------------|
| | 2007 | 2010 | 2010 |
| | Funding | Funding | Gilts |
| | Basis | Basis | Basis |
| | (% p.a.) | (% p.a.) | (% p.a.) |
| Discount Rate | 6.1% | 6.1% | 4.5% |
| Price Inflation | 3.2% | 3.3% | 3.3% |
| Pay Increases | 4.7% | 5.3% | 5.3% |
| Pension Increases | | | |
| - Pension in excess of GMP | 3.2% | 3.3% | 3.3% |
| - Post 1988 GMP | 2.8% | 2.8% | 2.8% |
| - Pre 1988 GMP | 0.0% | 0.0% | 0.0% |
| Revaluation of deferred pensions | 3.2% | 3.3% | 3.3% |
| Expenses | 0.5% | 0.5% | 0.5% |

Present value of funded obligation

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is as follows (based upon IAS 19 information as at 31st March 2012 for the Council's obligation):

| | 31 March 2011 £000's | 31 March 2012 £000's |
|--|----------------------------|----------------------------|
| Total present value of funded obligation | (623,490) | (683,921) |
| Fair value of scheme assets | 430,131 | 424,142 |
| Net Liability | <u>(193,359)</u> | <u>(259,779)</u> |

14 Related parties

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

- Cash investments of £8.0m (2010/11; £15.3m) are managed on behalf of the Fund.
- Pension administration costs of £489k (2010/11; £447k) are charged by the Council.

15 Contingent liabilities

There are no contingent liabilities at the Fund Statement date.

16 Holdings

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

| Security | Market Value as at 31 March 2012 £000's | % of total Fund % |
|---------------------------------------|---|-------------------------|
| RREEF Ltd UK Core Property Fund A | 36,420 | 6.22 |
| Aberdeen Global II STERLING CRD FD Z2 | 35,992 | 6.15 |

17 Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

The total financial instruments held by the Fund at Level 1 were £578.96m.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level 3

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

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund did not hold any Level 2 or 3 financial instruments during the 2011/12 financial year.

18 Post balance sheet events

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

19 Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| Financial assets | Fair Value through profit and loss | Loan and receivables | Financial liabilities at amortised cost | Designated as fair value through profit and loss | Loan and receivables | Financial liabilities at amortised cost |
|-----------------------------|------------------------------------|----------------------|---|--|----------------------|---|
| | £000 | 2010/11 £000 | £000 | £000 | 2011/12 £000 | £000 |
| Fixed interest securities | 84,923.00 | | | 98,013.12 | | |
| Equities | 335,808.00 | | | 327,094.23 | | |
| Pooled property investments | 91,007.00 | | | 99,023.26 | | |
| Cash | | 9,274.00 | | | 11,290.18 | |
| Other investment balances | 51,709.00 | | | 51,472.25 | | |
| Debtors | | 15,622.00 | | | 8,305.58 | |
| | 563,447.00 | 24,896.00 | - | 575,602.86 | 19,595.76 | - |
| Financial liabilities | | | | | | |
| Creditors | | | (3,520.00) | | | (10,383.50) |
| Borrowings | - | - | (3,520.00) | - | - | (10,383.50) |
| | - | - | (3,520.00) | - | - | (10,383.50) |
| Total | 563,447.00 | 24,896.00 | (3,520.00) | 575,602.86 | 19,595.76 | (10,383.50) |

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

20 Nature and extent of risks arising from Financial Instruments

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

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

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

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

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

Risk and risk management

Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk- sensitivity analysis

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

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix.

The Council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

| Asset Class | 1 Year Expected Volatility (%) |
|--------------------|---------------------------------------|
| Total Equities | 16.3 |
| UK Bonds | 4.9 |
| Overseas Bonds | 7.2 |
| UK Index Linked | 6.5 |
| Property and other | 6.1 |
| Cash | 0.0 |

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one year standard deviation for a single currency.

Had the market price of the Fund investments increased/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 2012 £000's | % Change | Value on Increase £000's | Value on Decrease £000's |
|-------------------|---|-----------------|-------------------------------------|-------------------------------------|
| Total Equities | 327,094 | 16.3 | 380,411 | 273,778 |
| UK Bonds | 55,046 | 4.9 | 57,749 | 52,343 |

| | | | | |
|---------------------|----------------|-----|----------------|----------------|
| Overseas Bonds | 11,015 | 7.2 | 11,809 | 10,221 |
| UK Index Linked | 26,352 | 6.5 | 28,062 | 24,642 |
| Property and other | 142,559 | 6.1 | 151,212 | 133,905 |
| Cash | 16,890 | 0.0 | 16,894 | 16,887 |
| Total Assets | 578,956 | | 646,136 | 511,776 |

| Asset Type | Value as at 31 March 2011 £000's | % Change | Value on Increase £000's | Value on Decrease £000's |
|---------------------|---|---------------------|---|---|
| Total Equities | 335,808 | 16.3 | 390,544 | 281,071 |
| UK Bonds | 66,120 | 4.9 | 69,367 | 62,874 |
| Overseas Bonds | - | 7.2 | - | - |
| UK Index Linked | 18,802 | 6.5 | 20,023 | 17,582 |
| Property and other | 139,297 | 6.1 | 147,752 | 130,841 |
| Cash | 9,275 | 0.0 | 9,277 | 9,273 |
| Total Assets | 569,302 | | 636,962 | 501,641 |

Interest rate risk

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

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

The Fund's direct exposure to interest movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset type | As at 31 March 2011 £000's | As at 31 March 2012 £000's |
|---|---|---|
| Cash and cash equivalent | 24,611 | 19,259 |
| Fixed interest securities | 84,923 | 98,013 |
| Total change in assets available | 109,534 | 117,272 |

Interest rate risk sensitivity analysis

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

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

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

| Asset type | Carrying amount as at 31 March 2012 £000's | Change in year in the net assets available to pay benefits | |
|---|---|--|--------------------|
| | | +100 BPS £000's | -100 BPS £000's |
| Cash and cash equivalent | 19,259 | 193 | (193) |
| Fixed interest securities | 98,013 | 980 | (980) |
| Total change in assets available | 117,272 | 1,173 | (1,173) |

| Asset type | Carrying amount as at 31 March 2012 £000's | Change in year in the net assets available to pay benefits | |
|---|---|--|--------------------|
| | | +100 BPS £000's | -100 BPS £000's |
| Cash and cash equivalent | 24,611 | 246 | (246) |
| Fixed interest securities | 84,923 | 849 | (849) |
| Total change in assets available | 109,534 | 1,095 | (1,095) |

Currency risk

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

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

Liquidity risk

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

All financial liabilities at 31 March 2012 are due within one year.

Refinancing risk

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

Cash Flow Risk

The Pension Panel Members are aware of the cash flow pressures that are affecting the Fund, with a reduction in Fund current members and an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases.

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

London Borough of Barking and Dagenham

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

The Council incurred costs of **£0.49m** in 2011/12 (2010/11: £0.45m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£15.9m** to the Fund in 2011/12 (2010/11:£17.5m). All monies owing to and due from the Fund were paid in year.

Appendix 2: Glossary of Terms

| Term | Definition |
|-------------------------|--|
| Accounting Policies | The rules and practices adopted by the Council that dictate how transactions and events are shown or costed. |
| Accruals | Amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March. |
| Active Members | Members of the Fund who are in employment with the council or one of its admitted or scheduled bodies making contributions to the Fund. |
| Actuary | An independent qualified consultant who advises on the financial position of the Fund. Every three years the Actuary reviews the assets and produce the actuarial valuation which recommends the employer contribution rates. |
| Actuarial Valuation | A review required by law carried out every three years, by the actuary, on the assets and liabilities of the Fund. The actuary reports to the Fund's trustees on the financial position and recommended employer's contribution rates. |
| Administering Authority | A local authority required to maintain a Fund under the Local Government Pension Scheme regulations. For the London Borough of Barking and Dagenham pension fund, the administering authority is the council. |
| Admission agreement | A contract between and administering authority, admitted body and if applicable, the outsourcing Scheme employer. |
| Augmentation | Additional membership awarded to a member by their employer, to a maximum of ten years. |
| Benchmark | A notional fund which is developed to provide a standard against which an Investment Manager's performance is measured. |
| Bonds | A certificate of debt issued by a company, government or other institution. A bondholder is a creditor of the issuer and usually receives interest at a fixed rate. Also referred to as fixed interest securities. |
| Communication Policy | A statement of policy on communications with members and employers including the provision of information about the scheme, the format, frequency and method of distributing such information and the promotion of the Scheme to prospective members. |
| Contingent Liability | A contingent liability is either: <ul style="list-style-type: none"> • A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control (e.g. the outcome of a court case) • A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured. |
| Creditors | Amounts owed by the Council for goods received or services provided before the end of the accounting period but for which payments have not been made by the end of that accounting period. |
| Custody/Custodian | The safe-keeping of securities by a financial institution. The Custodian is responsible for maintaining investment records, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Fund's Investments. |
| Debtors | Amounts due to the Council before the end of the accounting period but for which payments have not yet received by the end of that accounting period. |

| | |
|-------------------------------------|---|
| Deferred Liabilities | These are creditor balances repayable after one year. |
| Deferred members | Members who leave their employment or opt out of the Scheme and have their benefits deferred until retirement or until they request a transfer to another pension scheme. |
| Defined benefit final salary scheme | A scheme where the scheme rules define the benefits independently of the contributions paid by the members and employer. Members' benefits are a specified fraction of a scheme member's final pay. |
| Defined Benefit Scheme | A pension or retirement benefit scheme into which an employee pays regular contributions fixed as an amount or as a percentage of pay. There are no legal obligations to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. |
| Equities | Shares in UK or overseas companies. |
| Final pensionable pay | The figure used to calculate a member's pension benefits and is normally a members pay in the last year before they retire |
| Fixed interest securities | Investments which guarantee a fixed rate of interest |
| Funded scheme | A pension scheme that has available assets to cover all liabilities, including the obligations of future payments to retirees. |
| Funding Strategy Statement | A statement of the Fund's strategy for meeting employers' pension liabilities. |
| Governance Compliance Statement | A statement of the governance arrangements of the Fund including the delegation of responsibility, terms of reference, representation and compliance with statutory guidelines. |
| Index linked | Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in inflation. |
| Interest | The amount received or paid for the use of a sum of money when it is invested or borrowed. |
| Investment Consultant | A professionally qualified individual or company who provides objective, impartial investment advice to the Fund. |
| Investment Manager | An organisation that specialise in the investment of a portfolio of securities on behalf of an organisation subject to guidelines and directions of the investor. |
| Mandate | A set of instructions given to an investment manager as to how a fund is to be managed. |
| Net Book Value | The amount of which fixed assets are included in the balance sheet, i.e. historical cost or current value less the cumulative amounts provided for depreciation and impairment. |
| Net Expenditure | Total expenditure less any income due to the council. |
| Net Realisable Value | The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset. |
| Past Service Cost | For a defined benefit scheme, the increase in the value of benefits payable that was earned in prior years arising because of improvements to retirement benefits. |
| Pensioners | Members of the Fund who receive a pension scheme from the Scheme (including spouses' and dependants' pension). |
| Pooled Investment vehicles | An investment which allows investors' money to be pooled and used by investment managers to buy a variety of securities, hereby giving investors a stake in a diversified portfolio of securities. |
| Post Balance Sheet Events | Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the statement of accounts is signed. |
| Prior Year Adjustment | A material adjustment applicable to prior years arising from changes in accounting policies or from changes the correction of fundamental errors. |
| Provision | An amount set aside for liabilities and losses which are likely to |

| | |
|----------------------------------|--|
| | be incurred but where the exact amount and date on which it will arise is uncertain. |
| Quoted securities | Shares with prices quoted on a recognised stock exchange. |
| Rates and Adjustment Certificate | A certificate issued by the Fund's Actuary setting out the contribution rates payable by participating employers. |
| Related Party Transaction | A related party transaction is the transfer of assets or liabilities or the performance of services by, to or from a related party irrespective of whether a charge is made. Members and senior Officers of the Council are required to declare if they have entered into any such transactions and any relationships of significant influence with any organisations associated with the Council. |
| Revenue Expenditure | Day-to-day payments on the running of council services such as salaries and wages, heating and lighting transport and charges for the use of assets. |
| Scheme Administrator | An organisation responsible for the administration of benefits of the Fund. |
| Statement of Investment | A formal policy on how a pension fund will invest its Principles assets including the types in investment to be held, the balance between different types of investments and risk. |
| Transfer values | A capital value transferred to or from a pension scheme in respect of a contributor's previous periods of pensionable employment. |
| Unit Trust | A pooled fund in which investors can buy or sell units on an ongoing basis. |
| Unquoted securities | Shares which are dealt in the investment market but which are not listed on a recognised stock exchange. |

Appendix 3: Governance Compliance Statement

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

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

Structure

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

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

The Panel comprises four Councillors (six Councillors from 15 March 2012). The Panel also includes representation from the General and Municipal Boilermakers Union (GMB). Admitted bodies are not represented on the Panel, but are consulted on a regular basis. The Panel reviews its terms of reference on a regular basis, so this position will be reviewed in the near future.

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

- The Panel will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance from the Panel regarding tolerance of risk. They will recommend changes in asset allocation to the Executive;
- The Panel will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Panel will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management);

- The Panel will formally review annually the manager's mandate, and its adherence to its expected investment process and style. The Panel will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale;
- The Panel will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Panel will evaluate the credentials of potential managers;
- The Panel will consider the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism;
- The Panel will review the Fund's AVC arrangements annually. If they consider a change is appropriate, they will make recommendations to the Executive;
- The Panel will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Panel will be responsible for the appointment and termination of providers;
- The Panel will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers;
- In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis;
- The Panel is able to take such professional advice as it considers necessary;
- The Panel will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Executive;
- The Panel may also carry out any additional tasks delegated to it by the Borough Council.

The Panel currently consists of Councillors:

- Rocky Gill (Chairman);
- Robert Douglas (Deputy Chair);
- James Ogungbose;
- Jeff Wade;
- Emmanuel Obasoham; and
- Nirmal Gill.

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

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

Representation:

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

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

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

Admitted bodies are not currently represented at Pension Panel meetings. Professional advice is offered to the Pension Panel by the Fund's investment advisor, Hymans Robertson, and by the Corporate Director of Finance and Resources; as Chief Financial Officer for the Council.

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

Selection and role of lay members

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

Voting

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

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

Training, Facility Time, Expenses

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

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

Meetings (frequency, quorum)

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

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

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

The Pension Panel sits on a quarterly basis. The GMB union is represented in these meetings.

Access

Subject to any rules in the Council's constitution, all members of main and secondary committees or Panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. Barking and Dagenham is fully compliant with this principle.

Scope

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

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

Publicity

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

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

Appendix 4: Funding Strategy Statement 2011/12 to 2013/14

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 1st April 2011.

1.1 Regulatory Framework

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

The FSS forms part of a framework which includes:

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

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

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

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
 - FSS guidance produced by CIPFA
 - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the Fund valuation.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years as part of the triennial valuation being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Appendix A is updated to reflect any changes to employers.

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

2. Purpose

2.1 Purpose of FSS

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

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

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

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

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding Policy

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

- to ensure the long-term solvency of the Fund and the long term solvency of shares of the Fund attributable to individual employers;

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

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

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

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

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

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

Employer contribution rates differ due to:

- Differing membership profiles;
- Differing salary rates, mortality rates, outsourcings and other demographic assumptions;

¹ See regulation 36(4) of the 2008 Regulations)

² See regulation 36(7) of the 2008 Regulations)

- Differing levels of maturity; and
- Previous contributions paid to recover deficit.

Appendix A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14.

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

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

3.2 Solvency and Target Funding Levels

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

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

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

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

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

3.3 Ongoing Funding Basis

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

The longevity assumptions that have been adopted at this valuation are a bespoke set of Vita Curves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided for the purposes of the 2010 valuation. Full details of these are available on request.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

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

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

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

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

3.4 Future Service Contribution Rates

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

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

3.4.1 Employers that admit new entrants

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

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

3.4.2 Employers that do not admit new entrants

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

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

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

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

3.5 Adjustments for Individual Employers

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;

- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non ill-health retirements relative to any extra payments made over the period between the 2007 and 2010 triennial valuation and each subsequent triennial valuation period.

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

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

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

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and target Funding Levels

- (f) A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-

term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

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

3.7.2 Stabilisation

- (g) There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.
- (h) In view of this possibility, the Administering Authority has commissioned the Fund actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:
- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
 - there were no material events occurring before 1 April 2011 which rendered the stabilisation unjustifiable.
- (i) In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.
- (j) The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.
- (k) The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Fund actuary, in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements. The

approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

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

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

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

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

The deficit recovery period starts at the commencement of the revised contribution rate which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element

over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

The Administering Authority may allow some employers to phase in contribution rises over the period to which their contribution rates apply i.e. 1 April 2011 to 31 March 2014

Employers are notified of the results of the tri-annual actuarial valuation, and the implications that this has on employer contributions. These details have been summarised in Appendix A.

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions between 2011/12 – 2013/14 will be phased in over six years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect, however employers are recommended to phase contributions over the shortest time possible. Agreed contribution rates in the 2010 valuation have been phased over 3 years

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

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

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

3.8 Admission Bodies ceasing

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

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

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

- Last active member ceasing participation in the LGPS;

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

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

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

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

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

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

- (o) In the event that the Fund is not able to recover the required payment in full directly from the admission body or from any bond or indemnity or guarantor, then:
- a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.
 - b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

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

3.9 Early Retirement Costs

3.9.1 *Non Ill Health retirements*

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

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

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

3.9.2 *Ill health monitoring*

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

4. Links to Investment Strategy

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

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property were 73% of the total Fund assets.

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

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

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

4.2 Consistency with Funding Basis

The Fund's investment adviser's current *best estimate* of the long-term real return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2% a year, which is 1% a year less than the *best estimate* return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), currently around 75% of all the Fund's assets.

Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.4% pa more than the prevailing redemption yield on Government bonds.

In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 16 years).

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 5 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.

4.3 Balance between risk and reward

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

In the light of the 2007 valuation results which showed the sensitivity of individual employers' contributions to changes in investment returns, the Administering Authority is reviewing whether its single strategy should be refined. Enabling other investment strategies will require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of annual interim valuations, measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds. It reports back to employers on an annual basis, following the production of the relevant information by the Fund's actuary.

5. Key Risks & Controls

5.1 Types of Risk

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

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

5.2 Financial Risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term | <p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Analyse progress at three yearly</i></p> |

| | |
|--|--|
| | <p><i>valuations for all employers.</i></p> <p><i>Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on an annual basis</i></p> |
| Inappropriate long-term investment strategy | <p><i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i></p> <p><i>Measuring performance and setting managers' targets as set out in the "fund objective guidelines". .</i></p> |
| Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities | <p><i>Inter-valuation monitoring, as above.</i></p> <p><i>Some investment in bonds helps to mitigate this risk.</i></p> |
| Active investment manager under-performance relative to benchmark | <p><i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i></p> |
| Pay and price inflation significantly more than anticipated | <p><i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i></p> <p><i>Inter-valuation monitoring, as above, gives early warning.</i></p> <p><i>Some investment in bonds also helps to mitigate this risk.</i></p> <p><i>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i></p> |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | <p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p> <p><i>Consideration of the effects of possible increases in employer rates in the Council's Medium Term Financial Strategy.</i></p> |

5.3 Demographic Risks

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

5.4 Regulatory

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

5.5 Governance

| Risk | Summary of Control Mechanisms |
|-------------|--------------------------------------|
|-------------|--------------------------------------|

| | |
|---|---|
| <p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</p> | <p><i>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</i></p> |
| <p>Administering Authority not advised of an employer closing to new entrants.</p> | <p><i>The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations) between triennial valuations</i></p> <p><i>Deficit contributions are expressed as monetary amounts (see Appendix A).</i></p> |
| <p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</p> | <p><i>The Administering Authority monitors membership movements on a quarterly basis.</i></p> |

| | |
|--|--|
| <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p> | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i> • <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> • <i>Vetting prospective employers before admission.</i> • <i>Offering lower risk investment strategies – with higher employer contributions - for Best Value Admission Bodies to reduce the risk of volatile contributions and a significant debt crystallising on</i> |
|--|--|

| | |
|--|---------------------|
| | <i>termination.</i> |
|--|---------------------|

5.6 Longevity (mortality)

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

6.0. List of Appendices:

- Appendix A – Employers’ Contributions, Spreading and Phasing Periods
- Appendix B – Responsibilities of Key Parties

APPENDIX A

Employers' Contributions, spreading and phasing periods:

Following the 2010 valuation, the minimum total employer contributions to be shown in the Rates and Adjustment Certificate attached to the 2010 valuation report are detailed in the table below:

| | Employer Name | Minimum Contribution for the Year Ending | | | | | |
|----|---------------------------|--|--------|---------------|--------|---------------|--------|
| | | 31 March 2012 | | 31 March 2013 | | 31 March 2014 | |
| | | % of Payroll | £(000) | % of Payroll | £(000) | % of Payroll | £(000) |
| 1 | LB Barking & Dagenham | 19.5% | 0 | 20.0% | 0 | 20.5% | 0 |
| 2 | University of East London | 20.2% | 0 | 21.9% | 0 | 23.6% | 0 |
| 3 | Barking College | 18.2% | 0 | 19.2% | 0 | 20.3% | 0 |
| 8 | Disablement Association | 22.9% | 0 | 22.9% | 0 | 22.9% | 0 |
| 9 | Barking & Dagenham CAB | 17.2% | 0 | 17.2% | 0 | 17.2% | 0 |
| 17 | Enterprise | 21.1% | 113 | 21.1% | 115 | 21.1% | 0 |
| 19 | E-Learning Cross River | 14.5% | 0 | 14.5% | 0 | 14.5% | 0 |

APPENDIX B

Responsibilities of Key Parties

The Administering Authority should:-

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

The Individual Employer should:-

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

The Fund actuary should:-

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

Appendix 5: Statement of Investment Principles

1. Introduction

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

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

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

The Statement must also set out the extent to which the Fund complies with the statutory guidance “Investment Decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”. The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the administering authority has taken and considered advice from the Investment Practice of Hymans Robertson LLP. A copy of the statement can be found on the Fund’s website: www.lbbdpensionfund.org

For further information, please contact David Dickinson at david.dickinson@lbbd.gov.uk.

2. Overall Responsibilities

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

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

3. Investment Responsibilities

The Administering Authority the Council has delegated responsibility for the administration of the Fund to the Director of Finance & Resources, advised by the Pension Panel and after taking expert advice from the Fund's Investment Advisor (Hymans Robertson) on investment matters.

The Pension Panel currently comprises:

- Councillor Rocky Gill (Chairman);
- Councillor Robert Douglas (Deputy Chair);
- Councillor James Ogungbose;
- Councillor Jeff Wade;
- Councillor Emmanuel Obasoham; and
- Councillor Nirmal Gill

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

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

4. Fund Objective

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

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

This funding position will be reviewed at each triennial actuarial valuation of the Fund, or more frequently as required.

5. Investment Strategy

The Panel has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Appendix B). All day to day investment decisions have

been delegated to the Fund's authorised investment managers. The strategic benchmark is also reflected in the investment structure adopted by the Panel; this comprises a mix of segregated and pooled manager mandates, all of which are actively managed. The Fund benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

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

6. Funding Strategy Statement

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

7. Types of investment to be held

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

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

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

8. Balance between different kinds of investments

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

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

9. Risk

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

Funding risks:

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting Fund liabilities.

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

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

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

Asset risks

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

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

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Panel

takes professional advice and considers the appointment of specialist transition managers.

- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

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

10. Expected return on investments

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

11. Realisation of investments

The majority of assets held within the Fund may be realised quickly if required. Property, which has a benchmark allocation of 10% of total assets, may be difficult to realise quickly in certain circumstances.

12. Social, Environmental and Ethical Considerations

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

13. Exercise of Voting Rights

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

14. Stock Lending

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

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

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

15. Additional Voluntary Contributions (AVCs)

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

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

Tracie Evans

Director of Finance & Resources

Appendix A: Myners Principles

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

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

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

| <i>Principles</i> | Response on Adherence |
|--|--|
| <p><i>Principle 1 Effective Decision Making:</i> Administering authorities should ensure:</p> <ul style="list-style-type: none"> • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. | <p>Compliant</p> <p>Decisions are taken by the Pension Panel, which is responsible for the management of the Fund.</p> <p>The Panel has support from Council officers with sufficient experience to assist them. The Panel also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Panel is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Panel and in relation to service providers.</p> |

| | |
|---|--|
| <p>Principle 2 Clear objectives:</p> <ul style="list-style-type: none"> An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. | <p>Compliant</p> <p>The Panel has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Panel to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p> |
| <p>Principle 3 Risk and liabilities:</p> <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. | <p>Compliant</p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Panel and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p> |
| <p>Principles</p> | <p>Response on Adherence</p> |
| <p>Principle 4 Performance assessment:</p> <ul style="list-style-type: none"> Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to | <p>Partially compliant</p> <p>The performance of the Fund and its individual managers are monitored on a regular basis.</p> <p>The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender.</p> <p>The Pension Panel does not yet have a formal process in place to measure its own effectiveness.</p> |

| | |
|--|--|
| <p>scheme members.</p> | |
| <p>Principle 5 Responsible Ownership: Administering authorities should</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities. | <p>Partially compliant</p> <p>The Pension Panel encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles.</p> <p>This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.</p> |
| <p>Principle 6 Transparency and Reporting: Administering authorities should</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate. | <p>Compliant</p> <p>The Pension Panel maintains minutes of meetings which are available on the Council website.</p> <p>The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Panel meetings.</p> <p>The Statement of Investment Principles is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.</p> |

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Appendix B: Strategic Asset Allocation

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

| Asset Class | Current Strategic Allocation | Future Strategic Allocation | Future Control Range | Benchmark Index |
|--------------------------|------------------------------|-----------------------------|----------------------|--|
| | % | % | % | |
| UK Equities | 25.0 | 0.0 | - | - |
| Global equities (inc UK) | 40.0 | 46.0 | 41.0–51.0 | MSCI AC World Index |
| TOTAL EQUITIES | 65.0 | 46.0 | 41.0–51.0 | MSCI AC World Index |
| Fixed interest Gilts | 11.5 | TBC | TBC | Merrill Lynch Sterling Broad Market |
| Index-linked Gilts | 4.0 | TBC | TBC | FTSE–A Index Linked Gilts All Stocks |
| Corporate bonds | 5.5 | TBC | TBC | Merrill Lynch Sterling Broad Market |
| Other bonds | 4.0 | TBC | TBC | - |
| TOTAL BONDS | 25.0 | 23.0 | 18.0–28.0 | |
| Absolute Return | 0.0 | 14.0 | 12.0–16.0 | Pyrford: RPI, Newton: 1 Month LIBOR |
| Property | 10.0 | 10.0 | 8.0–12.0 | IPD UK Property Fund Indices All Balanced Property Funds |
| Infrastructure | 0.0 | 7.0 | 5.0–9.0 | RPI |
| Other asset classes | 0.0 | 0.0 | - | - |
| Cash | 0.0 | 0.0 | 0.0–5.0 | - |
| TOTAL ASSETS | 100.0 | 100.0 | - | |

For the purpose of measuring performance, the appropriate benchmark index is used. Where this is not possible or appropriate, for example, where an asset is illiquid or is not reflected in a measurable index, the Pension Panel has considered and adopted an appropriate performance benchmark.

Appendix 6: Communications Policy Statement

1. Introduction

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

The Fund liaises with over 10 employers and approximately 5000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful. It is effective from 1 April 2006.

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

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

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

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

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*
- (b) the format, frequency and method of distributing such information or publicity;*
- and*
- (c) the promotion of the Scheme to prospective members and their employing authorities.”*

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

The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a “*reasonable period*”. The draft Code of Practice¹ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for

failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met.

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

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

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

2. Communication with key audience groups

2.1 Our audience

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

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

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

2.2 How we communicate

- **General communication** - We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by use of electronic means such as our intranet. We will accept communications electronically, for example, by e-mail and, where we do so, we will respond electronically where possible. Our pension section staff are responsible for all pension related queries. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person;
- **Branding** - as the Fund is administered by London Borough of Barking & Dagenham Council, all literature and communications will conform with the branding of the Council; and
- **Accessibility** - we recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically, however, these are available on request.

2.3 Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

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

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

The communications (Active,Deferred, Pensioner or All) are explained in more detail in the table below:

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

2.4 Explanation of communications

- **Scheme booklet** – A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits;
- **Newsletters** – An ad hoc newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, a summary of the accounts for the year, contact details, etc;
- **Fund Report and Accounts** – Details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed;
- **Fund Report and Accounts Summary** – provides a handy summary of the position of the Fund during the financial year, income and expenditure as well as other related details;
- **Estimated Benefit Statements** – For active members these include the current value of benefits as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the

current value of the deferred benefits and the earliest payment date of the benefits;

- **Face to face education sessions** – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights; and
- **Joiner packs** – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

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

Our objectives with regard to communication with prospective members are:

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

As we, in the Pension Fund office, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

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

2.6 Explanation of communications

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

2.7 Policy on promotion of the scheme with Employing Authorities

Our objectives with regard to communication with employers are to:

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

Our objectives will be met by providing the following communications:

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

2.8 Explanation of communications

- **Employers' Guide** – a detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members;
- **Newsletters** – a technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date;
- **Employers meeting** – a formal seminar style event covering topical LGPS issues;
- **Pension Fund Report and Accounts** – details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

2.9 Policy on communication with Senior Managers

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

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

Our objectives will be met by providing the following communications:

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

2.10 Explanation of communications

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

2.11 Policy on communication with union representatives

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

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

Our objectives will be met by providing the following communications:

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

2.12 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues and developments relating to the LGPS and the Fund;
- **Face to face education sessions** – these are education sessions that are available on request for union representatives and activists, for example to

improve their understanding of the basic principles of the scheme, or to explain possible changes to policies;

- **Pension Panel meetings** – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

2.13 Policy on communication with elected members/the Pensions Panel

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

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

Our objectives will be met by providing the following communications:

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

2.14 Explanation of communications

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

2.15 Policy on communication with pension section staff

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

- ensure they are aware of changes and proposed changes to the scheme;

- provide on the job training to new staff;
- develop improvements to services, and changes to processes as required;
- agree and monitor service standards.

Our objectives will be met by providing the following communications:

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

2.16 Explanation of communications

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

2.17 Policy on communication with tax payers

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

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

Our objectives will be met by providing the following communications:

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

2.18 Explanation of communications

- **Pension Fund Report and Accounts** – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related

details, for example, the current employing authorities and scheme membership numbers;

- **Fund Committee Papers** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

2.19 Policy on communication with the media

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

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

Our objectives will be met by providing the following communications:

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

2.20 Explanation of communications

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

2.21 Policy on communication with other stakeholders/interested parties

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

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

Our objectives will be met by providing the following communications:

| <i>Method of</i> | <i>Media</i> | <i>Frequency</i> | <i>Method of</i> | <i>Audience</i> |
|------------------|--------------|------------------|------------------|-----------------|
|------------------|--------------|------------------|------------------|-----------------|

| Communication | | of Issue | Distribution | Group |
|--|-------------------------|--|---------------------|--|
| Pension Fund valuation reports R&A certificates Revised R&A certificates Cessation valuations | Electronic | Every three years | Via email | Her Majesty's Revenue and Customs (HMRC)/all scheme employers |
| Details of new employers entered into the Fund | Hard copy | As new employers are entered into the Fund | Post | HMRC |
| Formal resolution of pension disputes | Hard copy or electronic | As and when a dispute requires resolution | Via email or post | Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman |
| Completion of questionnaires | Electronic or hard copy | As and when required | Via email or post | HMRC/the Pensions Regulator |

2.22 Explanation of communications

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

2.23 Performance Measurement

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

2.24 Review Process

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

2.25 Timeliness

We will measure against the following target delivery timescales:

| Communication | Audience | Statutory delivery period | Target delivery period |
|---|---------------------------------------|----------------------------------|---|
| Scheme booklet / Brief Guide to the scheme | New joiners to the LGPS | Within two months of joining | Included with new joiner pack / on day of joining the Council / LGPS |
| Estimated Benefit Statements as at 31 March | Active members | On request | 31 October of each year |
| Telephone calls | All | Not applicable | 95% of phone calls to be answered within 30 seconds |
| Issue of retirement benefits | Active and deferred members retiring | Within two months of retirement | 95% of retirement benefits to be issued with 5 working days of retirement |
| Issue of deferred benefits | Leavers | Within two months of withdrawal | Within one month |
| Transfers in | Joiners/active members | Within two months of request | Within one month |
| Issue of forms i.e. expression of wish | Active/Deferred members | N/A | Included within new joiner pack or upon request within five working days |
| Changes to scheme rules | Active/Deferred and pensioner members | as required | Within two months of the change coming into effect |
| Annual Pension Fund Report and Accounts | All | Within two months of request | Within five working days |

2.26 Quality

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

2.27 Results

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

Appendix 7: Statement

Actuarial Valuation and Solvency of the Fund

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

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

- the funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- future levels of price inflation are based on the Consumer Price Index (CPI) (previously Retail Price Index) and future levels of real pay increases are assumed to be 2.0% per annum in excess of CPI;
- the discount rate is based on Asset Outperformance target of 1.6% above the yield of fixed interest and index linked government Bonds;
- the market value of the pension scheme's assets at 31 March 2010 was £549m; and
- assumptions made were prudent and based on available evidence.

8.2 Actuarial Statement

The Actuarial Statement for the Fund has been produced by the Fund Actuary, Hymans Robertson LLP. This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of funding policy

The funding policy is set out in the Fund's Funding Strategy Statement (FSS), dated 31 March 2012. In summary, the key funding principles are as follows:

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

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

Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £549 million, were sufficient to meet 75.4% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £180 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 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 my valuation report dated 31 March 2011.

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 2010 valuation are found in Table 1 below:

Table 1: Triennial Valuation Assumptions

| Financial assumptions | 31 March 2010 | |
|-----------------------------------|---------------------------|------------------------|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 6.1% | 2.8% |
| Pay increases * | 5.3% | 2.0% |
| Price inflation/Pension increases | 3.3% | - |

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund.

Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as summarised in table 2 below:

Table 2: Longevity Assumptions

| | Males | Females |
|--------------------|--------------|----------------|
| Current Pensioners | 21.2 years | 23.1 years |
| Future Pensioners | 22.7 years | 25.0 years |

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from The Council, administering authority to the Fund.

Experience over the period since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 October 2011. It showed that the funding level (excluding the effect of any membership movements) deteriorated in the period to 31 October 2011.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
25 July 2012