London Borough of Barking & Dagenham

PENSION FUND

ANNUAL REPORT

2012/13

Contents

1. Executive Summary

Welcome to the London Borough of Barking and Dagenham Pension Fund ("the Fund") Annual Report for 2012/13. This report provides information for employers and members of the Fund and other interested parties on how the Fund has performed and been managed during the year ended 31 March 2013.

The Fund is overseen by a Pension Panel, which is a Committee of the London Borough of Barking and Dagenham, who are the sponsoring employer for the Fund. The Pension Panel consists of six Councillors, with two nonvoting observers representing the Unions and members of the Fund.

Local Government Pension scheme (LGPS) 2014

From 1 April 2014 a new LGPS will be implemented, which will result in a number of changes to the scheme. The key changes and how the new scheme will differ from the current scheme are outlined in the main body of this report.

As a brief summary, the changes will result in pensions being linked to career average rather than final salary, which will typically reward the average member of staff rather than the more highly paid. Benefits will accrue according to years of service, in 49ths rather than 60ths. This means that for every year a person works for an employer within the LGPS, the pension they can expect to receive will be a 49th of their salary for that year rather than the current accrual rate of a 60th.

Although there are number of changes to the LGPS, there will still remain a significant employer contribution, plus tax relief from the Government for the contribution paid in by the employee.

Strategy Changes

The year was a particularly busy one for the Fund, with the implementation of a revised investment strategy and with a number of contracts being reviewed, renegotiated or retendered. As a result of these changes the Fund was able to save money from reduced fund manager and custodian fees, while moving to a more diversified asset allocation, which should enable the Fund to be better placed to meet the economic challenges ahead.

The investment strategy changes have resulted in the Fund being invested in a number of new asset classes, with a passive equity manager, an infrastructure manager and two absolute return managers being appointed. The management of the Fund's property mandate was also replaced by a larger property manager, allowing the Fund to hold a more diversified portfolio of property investments.

The extent of the changes can be seen in the difference between the asset allocation as at 31 March 2012 (table 1) and as at 31 March 2013 (table 2)

Table 1: Fund Asset Allocation as at 31 March 2012

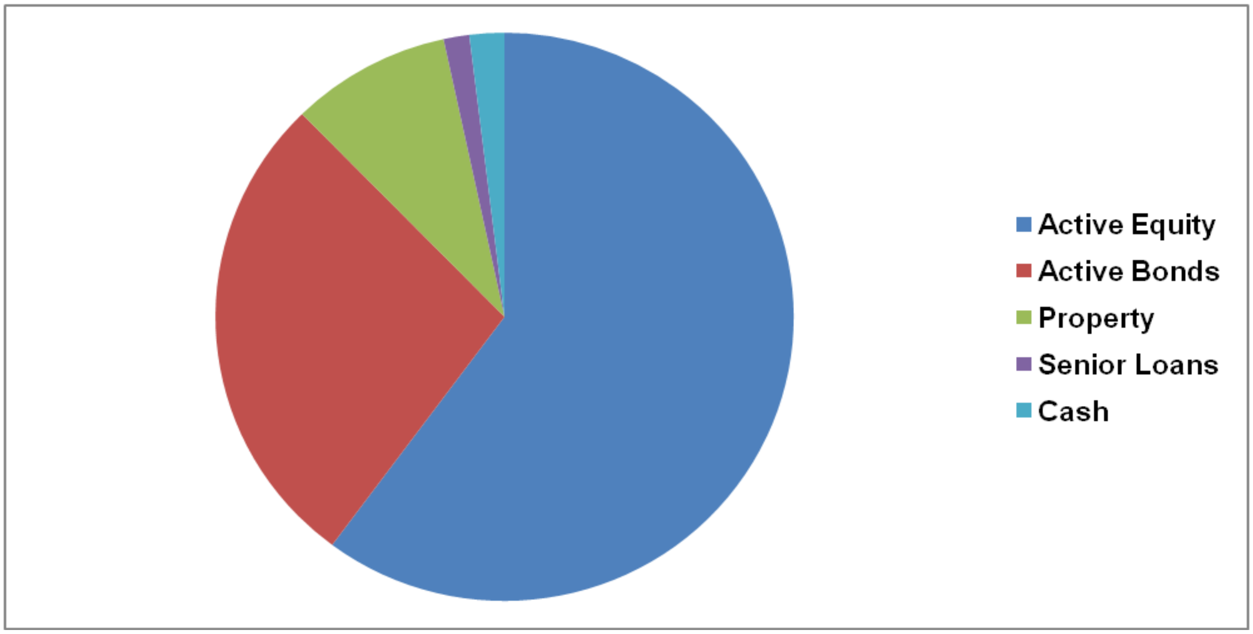
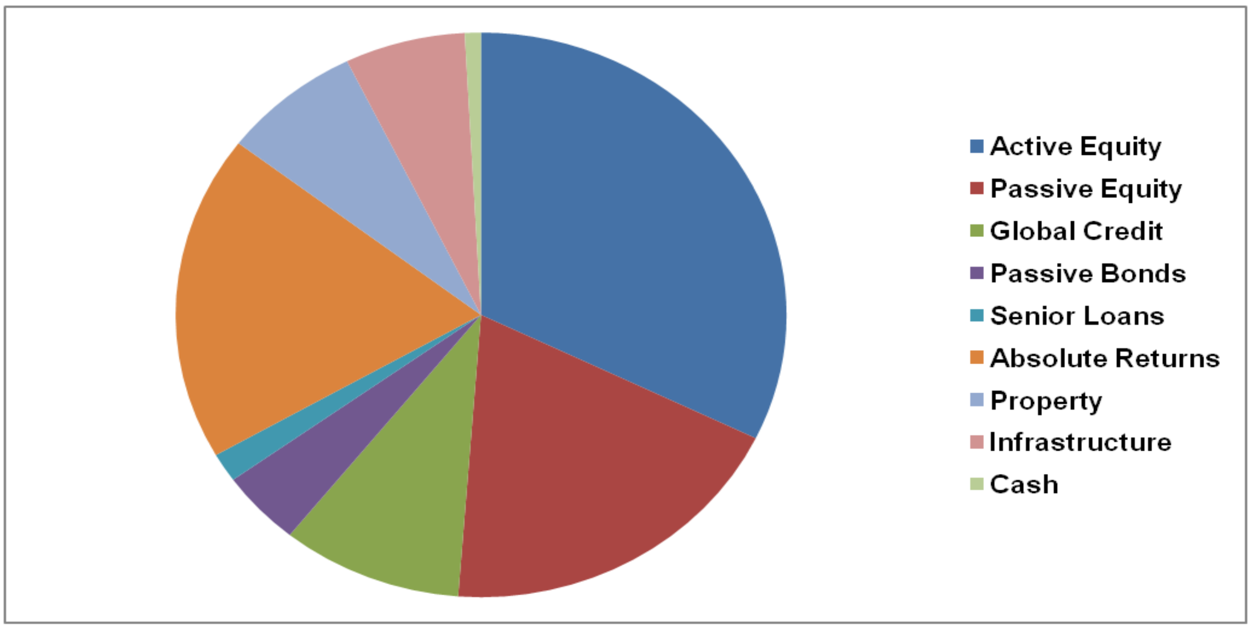


Table 2: Fund Asset Allocation as at 31 March 2013



Fund Performance

During the year the market value of the Fund's assets increased by £51.7m to £636.3m. The overall investment return for the year was 9.6%, compared to the Pension Fund's combined benchmark return of 10.8%.

The underperformance can be attributed to the cost to transition between managers, which resulted in approximately 0.5% of the underperformance and from poor returns from a number of the Fund's managers. The Fund did end the year with a positive quarter to 31 March 2013, where it outperformed its benchmark by 1.3%.

Fund Employers

At 31 March 2013, there were 18 employers participating in the Fund of which 15 have active members, totalling 5,129 active members contributing to the Fund.
The Fund is overseen by the Fund's Pension Panel, which is a Committee of LBBD.

In September 2012 Thames View Infants School, became the Fund's first Academy, which resulted in it being recorded separately from the Council as a scheduled body. Three new admitted bodies joined the scheme, bringing the total number of active and closed employers within the fund to eighteen.

2. Fund Governance and Administration

2.1 Statutory Background and Legal Framework

The Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972.

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 enrols 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

2.2 Scheme Funding and Administration

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

i. 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.

ii. 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.

iii. Myners principles

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

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

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

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

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

iv. The Pensions Panel

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

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

- determining the investment policy objectives;
- ensuring appropriate investment management arrangements are in place;
- appointment of investment managers 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 2012/13 the Pension Panel consisted of the following Members (the number of Panel Meetings and training sessions attended by each is in brackets):

Pension Panel:

Councillor Rocky Gill (Chair) (5)

Councillor Robert Douglas (Deputy Chair) (5)

Councillor James Ogungbose (6)

Councillor Jeff Wade (5)

Councillor Nirmal Gill (4)

Councillor Emmanuel Obasohan (5)

Union Representative:

Miles Dowdell (GMB)

Member Representative:

Bernie Hanreck

v. Conflicts of Interest

Conflicts of interest are managed as follows:

a) When new Members join the Panel they are given training on their duties. It is emphasised that Members are required to act in the interests of the Fund members and should put aside personal interests and considerations.

b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Panel meeting.

c) An adviser is available to the Panel to provide strategy advice. The actuary advises on the Fund's solvency and employer contribution rates, with officers available to give independent advice. Employee groups are represented on the Panel, with quarterly Pensions Panel meetings open to the public and with minutes and reports published.

2.3 Scheme Governance

2.3.1 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.

2.3.2 Publicity

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

2.3.3 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

2.4 Fund Fraud / National Fraud Initiative

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

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. In 2006 the Audit Commission published a Code of Data Matching Practise, which, for the 2008/09 NFI exercise, has been updated to take account of new legislation as a result of the Serious Crime Act 2007.

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

The Council is committed to the NFI process and undertook the data matching exercise in early 2013. Any cases where fraud is suspected will be pursued and where necessary, legal action taken.

2.4 Scheme Features

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

Benefit Type	Details of Benefit
Member Contributions	Ranging from 5.5% to 7.5% depending on salary
Normal retirement Age	Age 65 but benefits can be taken at 60 subject to possible reductions
Early Retirement	Immediate payment of benefits on efficiency/ redundancy grounds from the age of 55. Voluntary retirement with employer consent and flexible retirement from the age of 55.
Ill Health Retirement	A three-tier ill health arrangement has been introduced that pays benefits to members based on the member's prospect of returning to gainful employment.
Pension	1/60th of salary for each year of membership from 01/04/08. Service prior to this date will be calculated at 1/80th plus lump sum.
Tax Free Lump Sum	Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.
Death in Service	Lump sum of three times salary at date of death.
Death Benefits after Retirement	Death on pension lump sum of ten times pension less pension paid.
Dependents Benefits	Long-term pension benefits payable to the member's spouse, civil partner or nominated cohabiting partner. Long-term children's pension.
Benefits on Leaving Service	Members who leave service are entitled to either a refund of contributions, if service is less than three months, or preserved pension payable from normal retirement date, or a transfer payment to another scheme or insurance company.

3. Changes Affecting the LGPS

LGPS 2014

From the 1 April 2014 the current LGPS will end and a new scheme will be implemented. The key elements of the 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)	1/49th (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.

4. Fund Management Details

4.1 Investment Managers:

The Fund balance is invested in stocks and shares, fixed interest investments, and property, both in the United Kingdom and overseas. In 2012/13, these funds were managed by six external fund managers including:

Aberdeen Asset Management
Bow Bells House, 1 Bread Street,
London, EC4M 9HH

Alliance Bernstein Institutional Investments

Devonshire House, One Mayfair Place
London, W1J 8AJ

Baillie Gifford & Co
Calton Square, 1 Greenside Row,
Edinburgh EH1 3AN

BlackRock
12 Throgmorton Avenue
London EC2N 2DL

Goldman Sachs Asset Management
Christchurch Court, 10-15 Newgate Street
London, EC1A 7HD

Hermes GPE
1 Portsoken Street,
London E1 8HZ, United Kingdom

Kempen International
Beethovenstraat 300, 1077 WZ Amsterdam
PO Box 75666, 1070 AR Amsterdam

Newton Investment Management Ltd
160 Queen Victoria Street
London, EC4V 4LA

Prudential/M&G
Governor's House, Laurence Pountney Hill
London, EC4R 0HH

Pyrford International
79 Grosvenor Street,
London W1K 3JU

RREEF
1 Appold Street,
London, EC2A 2UU

Schroders
31 Gresham Street,
London, EC2V 7QA

UBS
21 Lombard Street, London,
EC3V 9AH, United Kingdom

4.2 Additional Voluntary Contribution (AVC) Provider:

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

4.3 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

4.4 Investment Advisor:

Hymans Robertson LLP
One London Wall
London, EC2Y 5EA

4.5 Actuary:

Hymans Robertson LLP
20 Waterloo Street
Glasgow, G2 6DB

4.6 Auditor:

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

4.7 Performance Measurement:

WM Markets
525 Ferry Road,
Edinburgh, EH5 2AW

4.8 Legal Advisors:

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

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

5. Investment Policy, Performance and Developments

5.1 Powers of Investment

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

5.2 Investment Strategy

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

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

5.3 Asset Allocation and Structure

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

Table 3 below shows the Fund's investment portfolio by type, weighting and benchmark:

Table 3: Fund Asset Allocation and Benchmarks as at 31 March 2013

Fund Manager	Asset %	Benchmark
Aberdeen Asset Management	21	85% Merrill Lynch Sterling Broad Index; 15% Barclays Capital Global Aggregate
Baillie Gifford	14	MSCI AC World Index
Hermes GPE	7	Target yield 5.9% per annum
Kempen	14	MSCI World Index
M&G / Prudential	2	LIBID 7 Day index
Newton Real Return	5	One month Libor plus 4%
RREEF	0.5	IPD PPF All Balanced Property Funds
Schroders	2	IPD PPF All Balanced Property Funds
BlackRock	6.5	IPD PPF All Balanced Property Funds
Pyrford International	9	RPI plus 5%
UBS	19	FTSE AW Developed NDR
Total Fund	100	

5.5 Monitoring the Investment Managers

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

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

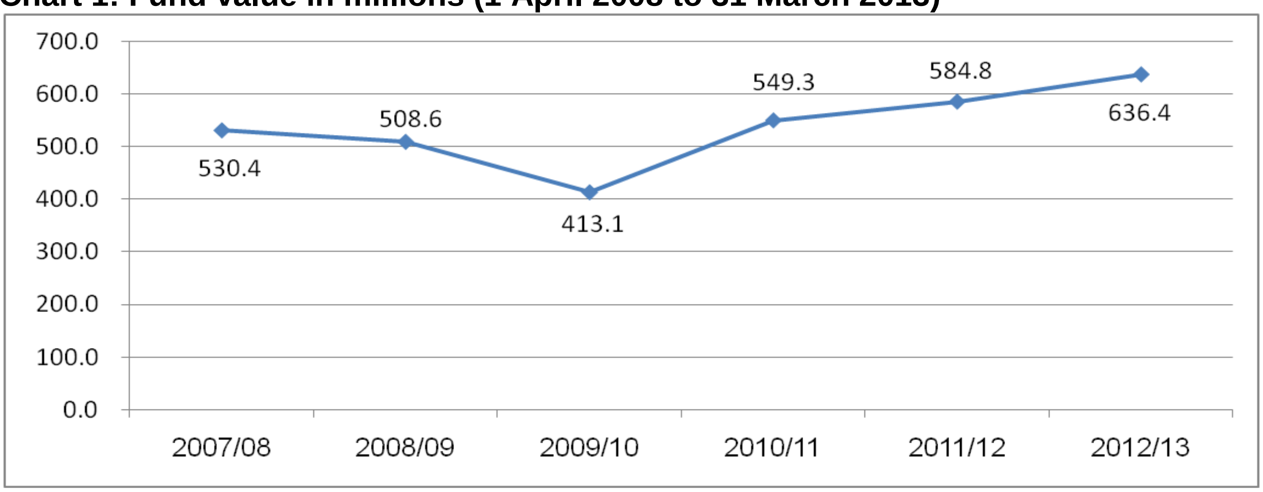
5.6 Fund Investment performance

For the twelve months to 31 March 2013 the Fund returned 9.6% against a benchmark return of 10.8%, representing an underperformance of 1.2%. An actual negative return came from the Fund's property manager, RREEF, with underperformance relative to benchmarks from Alliance Bernstein.

As a number of fund managers were either appointed or funds were withdrawn during the year, it is not possible to obtain annual performance figures for these managers. However since being appointed all new manager either matched their benchmark or outperformed their benchmarks by between 1.4% and 4.3%.

During the year the market value of the Fund's assets increased by £51.7m to £636.4m. The Fund's value since 1 April 2008 is shown in Chart 1 below:

Chart 1: Fund value in millions (1 April 2008 to 31 March 2013)



5.7 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.

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 2013	3 Years to 31 March 2013	5 Years to 31 March 2013
	% per annum	**% per annum**	**% per annum**
Fund	9.6	5.5	4.3
Benchmark	10.8	7.4	6.9
Relative Return	**(1.2)**	**(1.9)**	**(2.4)**

Source: WM Company Performance Report

5.8 Summary of Significant Strategy Changes in 2012/13

5.8.1 Due to the poor performance of the past two years 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 45% - 51% of the total fund;
- Absolute return representing 18% - 24% of the total fund;
- Property representing 7% - 10% of the total fund;
- Infrastructure representing 5% - 9% of the total fund, with the higher end investment level occurring in the medium term;
- UK Fixed Income Government Bonds representing 4% - 8% of the total fund;
- UK Index-linked Government Bonds representing 0% - 4% of the total fund; and
- Global Credit representing 6% - 10% of the total fund.

5.8.2 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 charts 3 and 4.

Chart 3: Fund Asset Allocation as at 30 June 2012

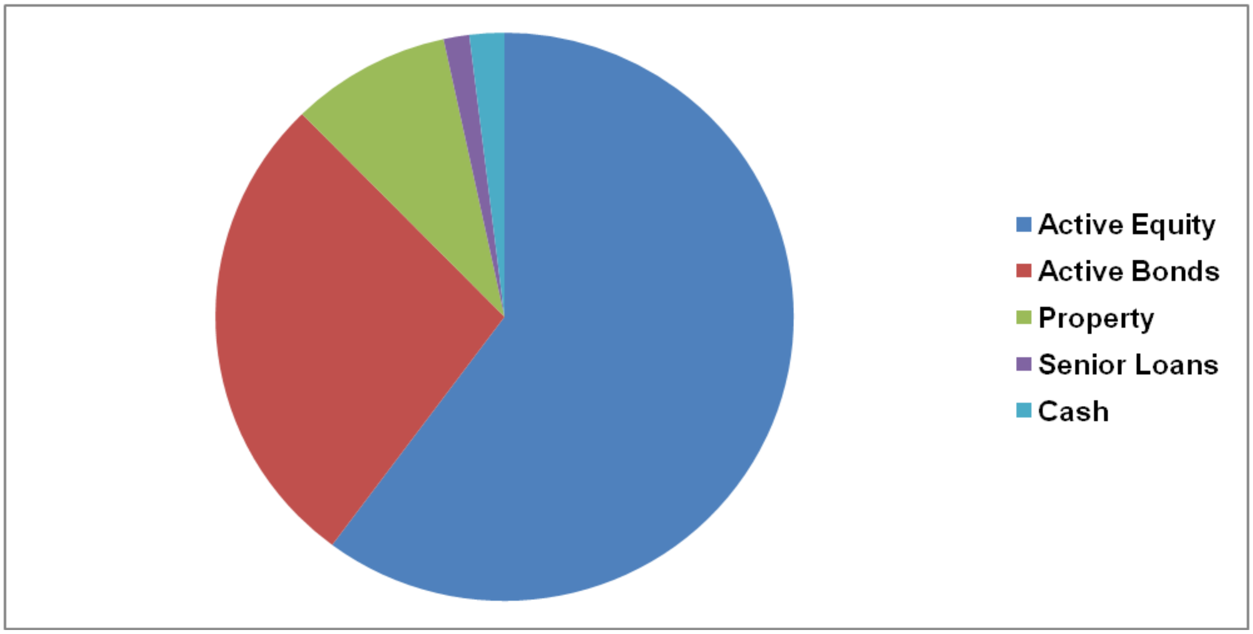
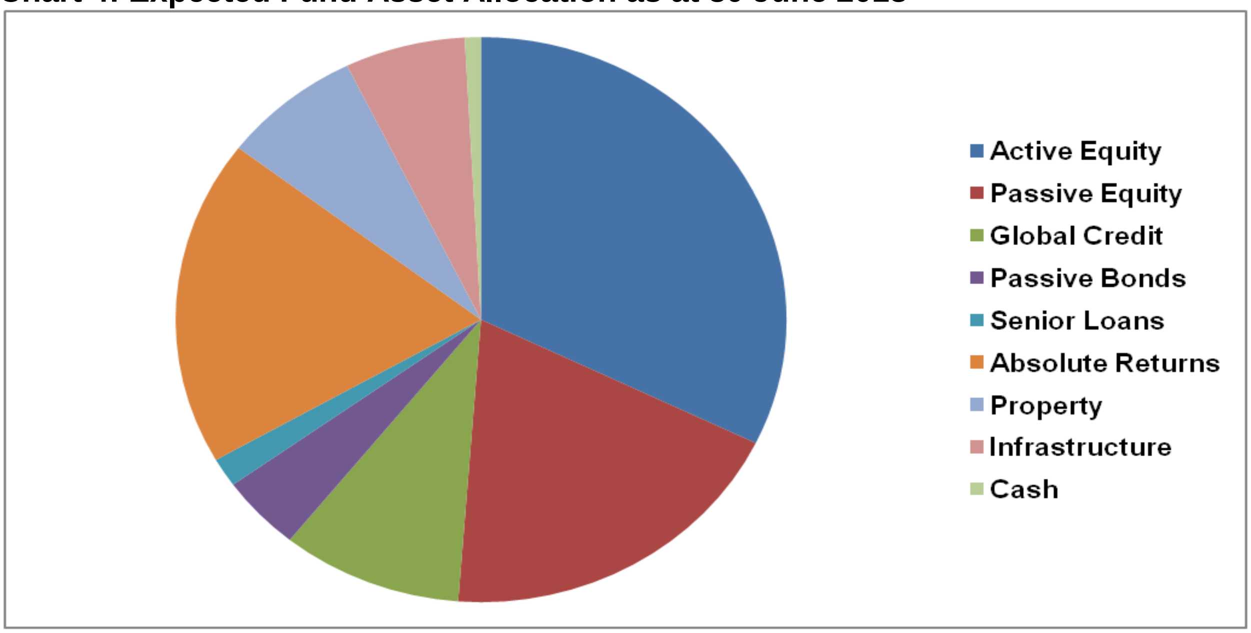


Chart 4: Expected Fund Asset Allocation as at 30 June 2013



5.8.3 Other key developments in 2012/13 included:

- Auto-enrolment;
- Preparation for the new LGPS 2014 scheme; and
- Preparation for the triennial valuation.

6. Member Training and Development

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

5.2 The framework provides a framework for the training and development of officers and members involved in the management and administration of public pension funds. CIPFA now requires a commitment for LGP schemes to adopt the key principles of the Knowledge and Skills Framework (KSF) and report on how they have implemented the requirement of the code in the 2012/13 Annual Report.

5.3 This KSF is intended as:

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

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

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

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

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

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

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

5.7 **Summary of training provided to Members and Officer**

1. Members were requested to complete a questionnaire in order to enable an assessment of their level of competency in the key technical areas and identify the skills gap to ensure more targeted collective of individual training;

2. Training was provided on the following Knowledge and Skills areas including:

    1. Asset classes and investment strategies, including:
        - Infrastructure (1 June 2012);
        - Absolute Return (1 June 2012);
        - Passive Equities (1 June 2012);
        - Global Equity (26 November 2012)
        - Global Credit (25 February 2013);

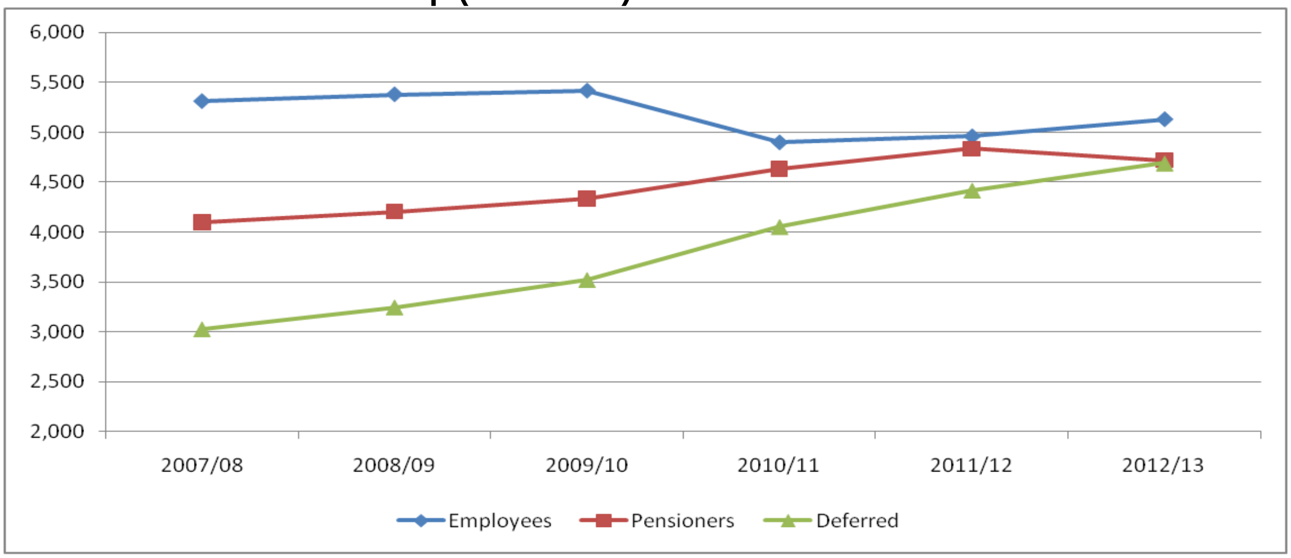
    2. Triennial Valuation (11 September 2012);
    3. Governance, Cash flow and performance reporting (21 November 2012); and
    4. Legislation and governance at every Pension Panel.

6. Fund Membership Details

6.1 Scheme Membership

The chart below shows the membership of the fund over 6 years. All of the Council's employees, except those covered by the Teachers Pension Scheme Regulations, can join the Council's Pension Scheme. The LGPS regulations also provide for specified bodies (employers) to be admitted in to the Fund.

Chart 6: Scheme Membership (2008-2013)



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 (2007-2013)

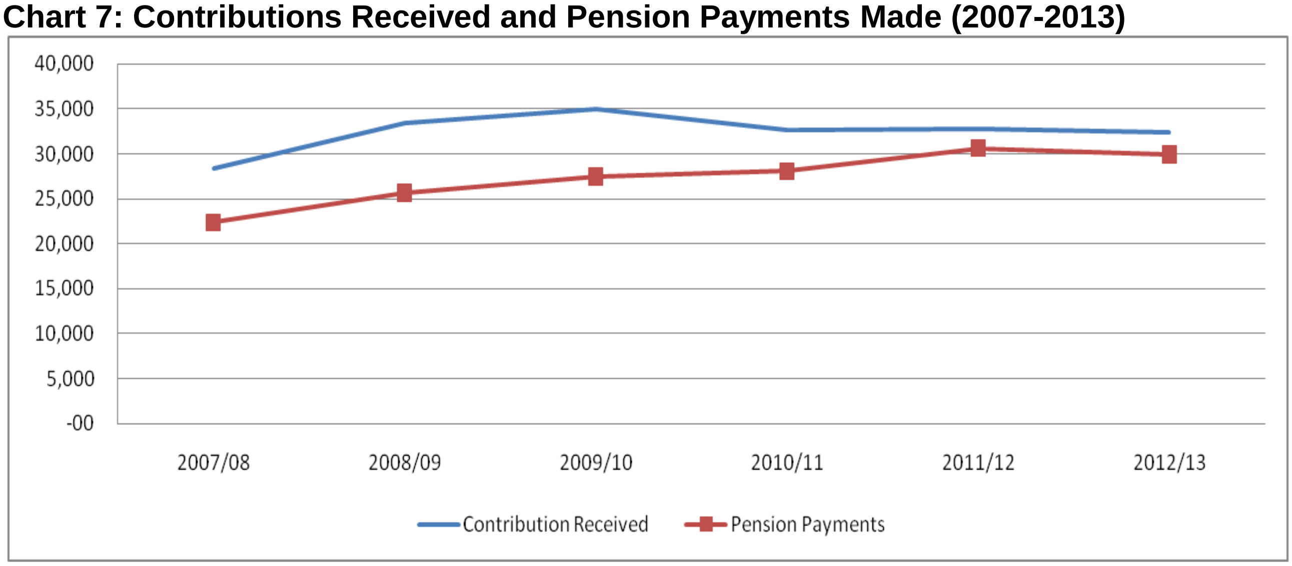


Chart 7 illustrates that the level of benefits paid out of the Fund. During 2012/13 the trend line for pension payments, which include lump sum payments, dropped as a result of a significant decrease in the amount paid out in lump sums.

6.3 Employee Contributions in 2012/13

The rates and salary bandings applicable during 2012/13 are shown in the table below:

Table 8: Rates and Salary bandings 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.

6.4 Employers

The Scheme had nineteen employers as at 31 March 2013, 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:

Scheduled bodies

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

Admitted Bodies

Age UK (previously Age Concern)
Abbeyfield Barking Society
Barking & Dagenham Citizen's Advice Bureau
Council for Voluntary Service
CRI (from 1 April 2012)
Disablement Assoc. of Barking and Dagenham
East London E-Learning
Laing O'Rourke
Elevate East London LLP
May Gurney
Laing O'Rourke (from 1 April 2012)
London Riverside
RM Education (from 1 April 2012)
Enterprise (Thames Accord)

6.5 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.

6.6 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.

6.7 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 included as appendix 8 of this report. 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. A further 34% was paid as a final settlement payment in early September 2012.

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 2012/13

Summary of Fund Accounts 2012/13

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

- The number of contributors (active members) to the Scheme increased by 171, 3.45% to 5,129;
- The number of pensioners paid decreased by 115, 2.38% to 4,720;
- Contributions (Employers and Members) decreased by £419k (1.28%) to £32.33m;
- Investment income decreased by £3.1m (23.5%) to £10.1m. This decrease was mainly due to investment income being reinvested directly within a passively invested fund rather than being paid directly to the Fund;
- Payments made out of the Fund decreased by £1.6m, 4.36% to £35.3m; and
- The Fund value increased by £51.7m, 8.84% in the year to £636.4m.

Explanatory Foreword

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

The 2012/13 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.

London Borough of Barking & Dagenham

Pension Fund Accounts

for the year ended

31 March 2013

London Borough of Barking and Dagenham
Pension Fund Account

	Note	2011/12 £000	**2012/13 £000**
Dealings with members, employers and others directly involved in the scheme			
Contributions	**6**	32,747	**32,328**
Transfers in from other pension funds	**7**	2,562	**2,733**
		35,309	**35,061**
Benefits	**8**	(30,632)	**(29,900)**
Payments to and on account of leavers	**9**	(5,528)	**(4,551)**
Administrative expenses	**10**	(726)	**(828)**
		(36,886)	**(35,279)**
Net additions for dealings with members		(1,577)	**(218)**
Returns on Investments			
Investment Income	**11**	13,150	**10,063**
Taxes on income			
Profit (losses) on disposal of investments and changes in the market value of investments	**13**	(9,318)	**43,827**
Investment management expenses	**12**	(2,365)	**(1,983)**
Net returns on investments		1,467	**51,907**
Net increase (decrease) in the net assets available for benefits during the year		(110)	**51,689**

Net Assets Statement as at 31 March 2013

	Note	2011/12 £000	**2012/13 £000**
Investment Assets	**14**	586,654	**631,288**
Investment Liabilities	**14**	(9,057)	**(989)**
Current Assets	**15**	8,298	**6,326**
Current Liabilities	**15**	(1,182)	**(223)**
		584,713	**636,402**

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

Notes to the Pension Fund Accounts for the year ended 31 March 2013

1. Introduction

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

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

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

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

During 2012/13 a revised investment strategy was implemented, which resulted in six new managers being funded, replacing the Fund’s two global equity managers and reducing the Fund’s bond exposure. In addition the Fund’s properties, managed by RREEF, were taken over by BlackRock, bringing the total number of property managers the Fund has to three.

The investment strategy change resulted in a number of new asset classes being invested in, with a passive equity manager, an infrastructure manager and two absolute return managers appointed.

In September 2012 Thames View Infants School, became the Fund’s first Academy, which resulted in it being recorded separately from the Council as a scheduled body. Three new admitted bodies joined the scheme, bringing the total number of active and closed employers within the fund to eighteen.

2. Format of the Pension Fund Statement of Accounts

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

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2012/13, which can be found at obtained from the Council’s website www.lbbd.gov.uk.

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

a) Membership

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

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

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

	2011/12	**2012/13**
Number of Employers with active members	15	**18**
Number of Employees in scheme		
London Borough of Barking and Dagenham		
Active members*	3,786	**4,016**
Pensioners	3,985	**3,855**
Deferred pensioners	3,453	**3,646**
Undecided and other members	261	**276**
	11,485	**11,793**
Admitted and Scheduled Bodies		
Active members	1,172	**1,113**
Pensioners	850	**865**
Deferred pensioners	967	**1,046**
Undecided and other members	87	**111**
	3,076	**3,135**

**Active member numbers increased significantly in 2012/13 due to casual workers being brought into the scheme from 1 October 2012.*

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

Scheduled bodies

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

Admitted Bodies

Age UK (previously Age Concern)
Abbeyfield Barking Society
Barking and Dagenham Citizen's Advice Bureau
Council for Voluntary Service
CRI (from 1 April 2012)
Disablement Assoc. of Barking and Dagenham
East London E-Learning
Elevate LLP
May Gurney (previously Translinc Ltd)
Laing O'Rourke (from 1 April 2012)
London Riverside
RM Education (from 1 April 2012)
Enterprise (Thames Accord)

b) 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. From 1 April 2011 the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

c) Changes to the Local Government Pension Scheme 2014

The new regulations setting out details of LGPS 2014 will be laid out towards the later part of 2013, with a start date of 1 April 2014. The key changes are summarised below:

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

Transitional protection will be available in respect of:

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

2. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2012/13 financial year and its position as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2012/13.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2013. Such items are reported separately in the Actuary's Report provided in note 18 to the Fund's accounts.

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

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. Transfer Values to/from other funds, for individuals, are included in the accounts on the basis of the actual amounts received and paid in the year.

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

2.2 Investment income

i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.

ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

2.3 Investments in the Net Assets Statement at market value on the following basis:

i) Quoted investments are valued at bid price at the close of business on 31 March 2013;

ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;

iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;

iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2013. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange;

v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

2.4 Administration

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

2.5 Taxation

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

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

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

2.6 Investment management expenses

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

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

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

Some investment management expenses within pooled investments are contained within the pricing mechanism. These are disclosed in Note 12.

2.7 Foreign currency transactions

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

2.8 Derivatives

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

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

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

The Fund has no holdings in exchange traded or over-the-counter options.

2.9 Cash and cash equivalents

Cash comprises cash in hand and on-demand deposits.

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

2.10 Present Value of Liabilities

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

2.11 Actuarial present value of promised retirement benefits

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

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

2.12 Contingent assets and liabilities

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

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

3 Critical Judgements in applying accounting policies

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

- The Pension Fund liability is calculated every three years by the appointed Actuary, with quarterly updates in the intervening years. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

4 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There were no items in the Statement of Accounts 2012/13 for which there is a significant risk of material adjustment in the forthcoming financial years.

5 Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBD employees during the year amounted to **£274k** (2011/12 £301k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

AVCs were valued by Prudential at a market value of **£4.7m** (2011/12 £4.8m).

6 Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employer 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%.

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

Following a separate modelling exercise carried out by the Fund's actuary, Hymans Robertson, LBBD have had their contribution rates stabilised. The primary contribution rate used during the financial year ending 31 March 2012 was 19.5%, increasing to 20.0% for the year ending 31 March 2013.

For the year ending 31 March 2014 LBBD's contribution rate will be 21.5%. Contributions shown in the revenue statement may be categorised as follows:

Contributions	2011/12	**2012/13**
	£000	**£000**
Members normal contributions		
Council	5,449	**5,150**
Admitted bodies	762	**781**
Scheduled bodies	1,712	**1,781**
Total contributions from members	7,923	**7,712**
Employers normal contributions		
Council	15,936	**15,707**
Admitted bodies	2,187	**2,498**
Scheduled bodies	5,718	**5,634**
Additional retirement contribution	113	**-**
Capitalised Redundancy costs	870	**777**
Total contributions from employers	24,824	**24,616**
Total Contributions	32,747	**32,328**

7 Transfers in from other pension funds

	2011/12	**2012/13**
	£000	**£000**
Individual Transfers	2,562	**2,733**
Group Transfers	-	**-**
	2,562	**2,733**

8 Benefits

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

	2011/12				**2012/13**			
	Council	Admitted Bodies	Scheduled Bodies	Total	**Council**	**Admitted Bodies**	**Scheduled Bodies**	**Total**
	£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**
Pensions	19,789	690	3,175	23,654	**21,104**	**824**	**3,676**	**25,604**
Lump sums	4,268	658	1,578	6,504	**2,595**	**522**	**890**	**4,007**
Death grants	328	-	146	474	**264**	**-**	**22**	**286**
Interest	-	-	-	-	**3**	**-**	**-**	**3**
	24,385	1,348	4,899	30,632	**23,966**	**1,346**	**4,588**	**29,900**

9 Payments to and on account of leavers

	2011/12	**2012/13**
	£000	**£000**
Individual Transfers	5,528	**4,539**
Refunds	-	**12**
Group Transfers	-	**-**
	5,528	**4,551**

10 Administrative expenses

	2011/12	**2012/13**
	£000	**£000**
Administration and Processing	489	**550**
Audit Fee	27	**21**
Actuarial Fees	91	**87**
Legal and Other Professional Fees	119	**170**
	726	**828**

11 Investment Income

	2011/12	**2012/13**
	£000	**£000**
Fixed Interest Securities	2,794	2,860
Equity Dividends	10,912	7,661
Pooled Property Income	1,997	1,755
Interest - Manager's Cash	121	3
Interest - LBBD balance*	142	79
Currency Gain/(Loss)	(2,956)	(2,481)
Stock Lending fees	137	121
Other Income	-	65
Commission Recapture	3	-
	13,150	10,063

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

12 Investment management expenses

	2011/12	**2012/13**
	£000	**£000**
Management Fees	2,164	**1,868**
Custody Fees	201	**115**
	2,365	**1,983**

13 Investments

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

	Value 31/03/2012 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2013 £000
Fixed Interest Securities	98,013	104,778	(131,046)	717	-	72,462
Equities	327,094	828,297	(1,166,080)	10,689	-	0
Pooled Unit Trusts	82,365	425,886	(158,613)	34,808	-	384,446
Property Unit Trusts	51,876	39,190	(39,203)	(7,336)	-	44,527
Pooled Absolute Return	0	74,995	-	3,583	-	78,578
Infrastructure	0	34,536	-	1,914	-	36,450
Other Investments	8,317	1,426	-	(15)		9,728
Derivative Contracts						
Futures	16	-	-	(30)	-	(14)
Cash Deposits	11,274	-	-	(503)	(8,100)	2,671
Total	578,955	1,509,300	(1,494,942)	43,827	(8,100)	628,848

	Value 31/03/2011 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2012 £000
Fixed Interest Securities	84,923	83,267	(81,158)	10,981	-	98,013
Equities	335,808	405,661	(393,839)	(20,536)	-	327,094
Pooled Unit Trusts	87,316	4,312	(10,016)	753	-	82,365
Property Unit Trusts	47,967	4,869	(356)	(604)	-	51,876
Other Investments	4,013	4,216	0	88	-	8,317
Derivative Contracts						
Futures	-				16	16
Cash Deposit	9,275				1,999	11,274
Total	**569,302**	**502,325**	**(485,369)**	**(9,318)**	**2,015**	**578,955**

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

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

Purchases and sales are high for 2012/13 as a result of transitioning to the new fund managers appointed during the year. The purchases and sales amounts include in-specie transfers, which is where an asset is transferred from one manager to another without the actual sale of the asset. Purchases and sales costs are also higher as they include transitions from one manager to another through a transition account.

The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. The managers as at 31 March 2013 are highlighted below:

Investment Manager	Mandate	Investment Area
Aberdeen Asset Management	Active	Fixed Income
Baillie Gifford	Active	Global Equity (Pooled)
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Newton	Active	Absolute Return
Prudential/M&G	Active	Alternatives - UK Companies Financing
Pyrford	Active	Absolute Return
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)

The value of the Fund, by manager, as at 31 March 2013 was as follows:

Fund by Investment Manager	2011/12		**2012/13**	
	£000	%	**£000**	**%**
Aberdeen Asset Management	163,653	28.3	**135,651**	**21.5**
Alliance Bernstein	165,112	28.5	**-**	**0.0**
Goldman Sachs	187,410	32.4	**-**	**0.0**
UBS	-	0.0	**118,457**	**18.8**
Baillie Gifford	-	0.0	**102,147**	**16.2**
Kempen	-	0.0	**101,076**	**16.1**
Pyrford	-	0.0	**52,309**	**8.3**
Hermes	-	0.0	**36,450**	**5.8**
BlackRock	-	0.0	**29,520**	**4.7**
Newton	-	0.0	**26,269**	**4.2**
Schroders	14,038	2.4	**13,828**	**2.2**
Prudential/M&G	8,558	1.5	**10,403**	**1.7**
RREEF	40,184	6.9	**2,305**	**0.4**
Other Cash Balances	0	0.0	**433**	**0.1**
	578,955	100.0	**628,848**	**100.0**

14 Securities

	2011/12 £000's	**2012/13 £000's**
Investment Assets		
Fixed interest securities		
UK		
Index Linked	26,352	**-**
Fixed Interest Public Sector	60,646	**66,347**
Fixed Interest Private Sector	-	**6,115**
Overseas		
Overseas Fixed Interest - Public Sector	11,015	**-**
Overseas fixed Income Unit Trust	25,149	**24,645**
Equities		
Overseas Equities	175,363	**-**
UK Equities	151,732	**-**
Pooled funds		
UK		
UK fixed Income Unit Trust	35,992	**38,119**
UK Equity Unit Trust	3,316	**220,604**
UK Absolute Return	-	**26,269**
UK Property Unit Trust	51,877	**15,008**
UK Unit Trust	8,317	**9,728**
Overseas		
Overseas Absolute Return	-	**52,309**
Overseas Equity Unit Trust	17,908	**101,076**
Overseas Property Unit Trust	-	**29,520**
Other Investment - Infrastructure	-	**36,450**
Other Investment	7,698	**2,441**
Cash	11,274	**2,671**
Futures	16	**(14)**
Total Investment Assets	586,654	**631,288**
Investment Liabilities	(9,057)	**(989)**
Current Assets		
Debtors	8,298	**6,326**
Current Liabilities	(1,182)	**(223)**
Total Net Assets	584,713	**636,402**

15 Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2013:

Debtors	2011/12 £000	**2012/13 £000**
Other Investment Balances		
Investment sales	4,815	**969**
Dividends receivable	2,019	**497**
Stock lending	15	**5**
Tax recoverable	841	**970**
Other Debtors	8	**-**
	7,698	**2,441**
Current Assets		
Other local authorities (LBBD)	7,969	**6,000**
Public corporations and trading funds	-	**-**
Other entities and individuals	329	**326**
Total Debtors	8,298	**6,326**
Net Debtors	15,996	**8,767**

Creditors	2011/12 £000	**2012/13 £000**
Other Investment balances		
Investment purchases	9,057	**989**
Current Liabilities		
Central Government bodies	3	**-**
Other local authorities	-	**-**
NHS Bodies	-	**-**
Public corporations and trading funds	-	**-**
Other entities and individuals	1,179	**223**
Total Current Liabilities	1,182	**223**
Total Creditors	10,239	**1,212**
Net Debtors	5,757	**7,555**

16 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.

17 Cash

The cash balance held at 31 March 2013 is made up as follows:

Cash balances held by Investment Managers	2011/12	**2012/13**
	£000	**£000**
Aberdeen	4,501	**439**
Alliance Bernstein	2,655	**4**
Goldman Sachs	1,548	**-**
RREEF	1,845	**515**
Prudential / M&G	241	**674**
Schroders	500	**611**
Other	-	**428**
Total Cash	11,290	**2,671**

18 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; and
- The use of an appropriate Asset Outperformance Assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The 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**

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%

Funding level

The table below shows the detailed 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)**
	(605)	**(729)**
Market Value of Assets	530	**549**
Funding Deficit	(75)	**(180)**
Funding Level	87.6%	**75.4%**

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 Funding Basis (% p.a.)	**2010 Funding Basis (% p.a.)**	**2010 Gilts Basis (% 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 actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be £1,072m (2012: £892m).

This figure is used for statutory accounting purposes by the London Borough of Barking and Dagenham Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is only prepared for the purposes of IAS 26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis, with the next valuation scheduled to be completed in 2013.

19 Related parties

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

- Cash investments of **£6.0m** (2011/12; £8.0m) are managed on behalf of the Fund; and
- Pension administration costs of **£605k** (2011/12; £489k) are charged by the Council.

20 Contingent liabilities

None

21 Contingent assets

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

The Fund holds a bond of £321k with Enterprise. This bond will be paid if the organisation were to go into administration.

22 Holdings

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

Security	Market Value as at 31 March 2013 £000	% of total Fund %
UBS Life World Equity Mutual Fund	118,457	18.84
Baillie Gifford Global Alpha	102,147	16.24
Kempen International High Dividend Fund	101,076	16.07
BMO Investments Ireland (Pyrford)	52,309	8.32
Aberdeen Global II Sterling	38,119	6.06

23 Valuation of financial instruments carried at fair value

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

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

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the Fund at Level 1 were £554.6m.

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

The total financial instruments held by the Fund at Level 2 were £37.8m.

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

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

The values of the investment in infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at Level 2 were £36.5m

24 Post balance sheet events

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

25 Compensation of key management personnel

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

	2011/12 £000	**2012/13** **£000**
Short Term employee benefits	123.0	**138.0**
Post-employment benefits	-	**-**
Other Long-term benefits	-	**-**
Termination benefits	-	**-**
Share-based benefits	-	**-**
Total	123.0	**138.0**

26 Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Financial assets	Fair Value through profit and loss 2011/12 £000	Loan and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit and loss 2012/13 £000	Loan and receivables £000	Financial liabilities at amortised cost £000
Fixed interest securities	98,013	-	-	**97,299**	**-**	**-**
Equities	327,095	-	-	**-**	**-**	**-**
Property Unit Trusts	51,877	-	-	**44,528**	**-**	**-**
Cash	-	11,290	-	**-**	**2,479**	**-**
Other investments	98,379	-	-	**486,981**	**-**	**-**
Total Financial Assets	575,364	11,290	-	**628,808**	**2,479**	**-**
Financial Assets						
Debtors	-	8,298	-	**-**	**6,326**	**-**
Financial liabilities						
Creditors	-	-	(10,239)	**-**	**-**	**(1,212)**
Borrowings	-	-	-	**-**	**-**	**-**
Total Net Assets	575,364	19,588	(10,239)	**628,808**	**8,805**	**(1,212)**

27 Nature and extent of risks arising from Financial Instruments

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

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

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

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

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

Risk and risk management

Market risk

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

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

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

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

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

Asset Class	**1 Year Expected Volatility (%)**
Fixed Interest Securities	4.8
Equities	14.2
Infrastructure	4.5
Absolute Return	4.5
Property and other	4.5
Derivatives	0.0
Cash	0.0

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

Asset Type 2012/13	**Value as at 31 March 2013 £000**	**% Change**	**Value on Increase £000**	**Value on Decrease £000**
Fixed Interest Securities	**72,654**	4.9	76,214	69,094
Pooled Investments	**384,446**	14.2	439,037	329,855
Pooled Property	**44,527**	4.5	46,531	42,523
Pooled Absolute Return	**78,578**	4.5	82,114	75,042
Infrastructure	**36,450**	4.5	38,090	34,810
Other Investments	**9,728**	4.5	10,166	9,290
Futures	**(14)**	0	(14)	(14)
Cash	**2,479**	0	2,479	2,479
Total	**628,848**		694,617	563,079

Asset Type 2011/12	Value as at 31 March 2012 £000	% Change	Value on Increase £000	Value on Decrease £000
Equities	327,094	16.3	380,410	273,778
Fixed Interest Securities	98,013	4.9	102,816	93,210
Pooled Unit Trusts	82,365	6.1	87,389	77,341
Property Unit Trusts	51,876	6.1	55,040	48,712
Other Investments	8,317	6.1	8,824	7,810
Futures	16	0.0	16	16
Cash Deposits	11,274	0.0	11,274	11,274
Total Assets	578,955		645,769	512,141

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 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value and includes Fund cash held with the Council with a value of £6.02m (2011/12: £7.97m):

Asset type	As at 31 March 2012 £000	**As at 31 March 2013 £000**
Cash and cash equivalent	19,259	**2,479**
Fixed interest securities	98,013	**72,654**
Total change in assets available	117,272	**75,133**

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

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
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)

Currency risk

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

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

Liquidity risk

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

All financial liabilities at 31 March 2013 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 general trend of a reduction in Fund current members and an increase in pension payments as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

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

Credit Risk

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

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

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

London Borough of Barking and Dagenham

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

The Council incurred costs of **£0.60m** in 2012/13 (2011/12: £0.49m) 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 **£15.7m** to the Fund in 2012/13 (2011/12:£15.9m). All monies owing to and due from the Fund were paid in year.

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 david.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.

[1] **See regulation 36(4) of the 2008 Regulations)**

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

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

Employer contribution rates differ due to:

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

Appendix A contains a breakdown of each employer's contributions following the 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.

[2] **See regulation 36(7) of the 2008 Regulations)**

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

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.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 90 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

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)	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the DCLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.*

5.5 Governance

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

Administering Authority not advised of an employer closing to new entrants.	*The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Appendix A).*
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.	*The Administering Authority monitors membership movements on a quarterly basis.*

An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Offering lower risk investment strategies – with higher employer contributions - for Best Value Admission Bodies to reduce the risk of volatile contributions and a significant debt crystallising on termination.*

5.6 Longevity (mortality)

Members live longer than expected due to improved health care and standard of living	The risk is mitigated by: • *Seeking detailed monitoring of longevity profile of the fund over the*

	valuation period • *Bringing to the attention of all employers the risk involved and the need to make provision.*

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

London Borough of Barking & Dagenham

PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

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

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

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

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

The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the administrating 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 *Chief Finance Officer*, 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 (Chair);
- Councillor Robert Douglas (Deputy Chair);
- Councillor Emmanuel Obasohan
- Councillor James Ogungbose;
- Councillor Jeff Wade;

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

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

4. Fund Objective

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

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

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

5. Investment Strategy

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

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

6. Funding Strategy Statement

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

7. Types of investment to be held

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

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

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

8. *Statutory Investment Limits*

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

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

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

9. *Investments in Limited Liability Partnerships*

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

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

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

The infrastructure investment is accessed via two partnerships, with a limit of 7%. The allocation was agreed by the pension panel on 19 June 2012, with an investment period limited to 18 years. The initial review period will be one year after the completion of the implementation, which occurred in October 2012.

10. Balance between different kinds of investments

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

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

11. Risk

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

Funding risks:

- Financial mismatch

  1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities.
  2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

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

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

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

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

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

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

Other provider risk

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

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

12. Expected return on investments

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

13. Realisation of investments

The majority of each Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. A small proportion of each Fund's investments, including property with a 9% benchmark allocation and infrastructure with a 7% benchmark allocation, would take longer to be realised.

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

14. Social, Environmental and Ethical Considerations

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

15. Exercise of Voting Rights

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

16. Stock Lending

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

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

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

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

17. *Safekeeping of Assets*

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

18. *Performance measurement*

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

19. Stewardship Code

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

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

20. Additional Voluntary Contributions (AVCs)

The Panel gives members the opportunity to invest in a range of vehicles at the members' discretion. Currently AVC is managed by Prudential Plc.
Signed For and on Behalf of the Pension Panel of the London Borough of Barking and Dagenham Pension Fund

Jonathan Bunt	Chief Finance Officer

Appendix A: Myners Principles

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

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

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

Principles	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • 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.	**Compliant** Decisions are taken by the Pension Panel, which is responsible for the management of the Fund. 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. 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.

Principle 2 Clear objectives: • 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.	**Compliant** 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. 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.
Principle 3 Risk and liabilities: • 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.	**Compliant** 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. 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.
Principle 4 Performance assessment: • 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 scheme members.	**Compliant** The performance of the Fund and its individual managers are monitored on a regular basis, *with a report produced by an independent external advisor.* The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. *The Fund's contracts with its advisers are regularly market tested.* *The Pension Panel will carry out a formal process to measure its own effectiveness and*

	will report this to the Pensions Panel on a regular basis. *Training and attendance of members of the Pensions Panel are monitored and reported on annually.*
Principle 5 Responsible Ownership: Administering authorities should • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Panel 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.	***Compliant*** 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. This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership. *Details of the Fund's voting and engagements will be reported to the Pensions Panel on a quarterly basis from June 2013.*
Principle 6 Transparency and Reporting: Administering authorities should • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Pension Panel maintains minutes of meetings which are available on the Council website. The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Panel meetings. The Statement of Investment Principles is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.

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 Strategy Control Range %***	***Benchmark Index***
UK Equities	*4*	*0*	*-*	*-*
Global Equities (including UK Equities)	*43*	*47*	*45.0–51.0*	*MSCI AC World Index*
TOTAL EQUITIES	***47***	***47***	***45.0–51.0***	*MSCI AC World Index*
UK Bonds	*18*	*7*	*4.0-8.0*	*Merrill Lynch Sterling Broad Market*
Overseas Bonds	*3*	*0*		*Barclays Capital Global Aggregate*
Index-linked Gilts	*0*	*0*	*0.0-4.0*	*FTSE–A Index Linked Gilts All Stocks*
Global Credit		***9***	***6.0-10.0***	*Target Return 6%*
- *Non-investment grade bonds*			*Up to 75%*	
- *Emerging markets debt*			*Up to 30%*	
- *Non-rated debt (rated internally)*			*Up to 10%*	
- *Securitised Debt*			*Up to 25%*	
TOTAL BONDS	***21***	***16***	***12.0–18.0***	
Absolute Return	***14***	***19***	***18.0–24.0***	*Pyrford:1 mth LIBOR +5% p.a. Newton: 1 mth LIBOR +4% p.a*
Property	***9***	***9***	***7.0–10.0***	*IPD UK Property Fund Indices All Balanced Property Funds*
Infrastructure	***7***	***7***	***5.0–9.0***	*Target yield 5.9% per annum*
Alternatives: Senior Loans	***2***	***2***	***1.0-3.0***	*Target Return 5-6%*

Cash	***0***	***0***	***0.0–3.0***	
TOTAL ASSETS	***100***	***100***	***-***	

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.

Investment Management Structure at 28 February 2013

- *2 Global Equity Managers (Baillie Gifford and Kempen)*
- *1 Passive Equity Manager (UBS)*
- *1 Bond Manager (Aberdeen Asset Management)*
- *1 Infrastructure Manager (Hermes)*
- *2 Absolute Return Managers (Newton and Pyrford)*
- *3 Property Managers (Schroders, BlackRock and RREEF)*
- *1 Alternatives Manager (M&G / Prudential)*

Appendix C: Statement of Compliance with UK Stewardship Code

Principle 1 *Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.*	*Stewardship is seen as part of the responsibilities of share ownership, and is therefore an integral part of the Fund's investment strategy.* *The Pension Panel actively monitor the fund manager through quarterly performance analysis, annual and periodic meetings with the fund manager and through direct monitoring by the officers, which includes monitoring and reporting on:* • *Fund manager performance;* • *Investment Process compliance and changes;* • *Changes in personnel (joiners and leavers);* • *Significant portfolio developments;* • *Breaches of the IMA / Restrictions;* • *Business wins and losses; and* • *Corporate and other issues.* *Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).* *Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.* *Details are available on their websites at* *www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernaceSRI.aspx* *http://www.ubs.com/global/en/about_ubs/corporate_covernance.htm* *http://www.kempen.nl/over_kempen.aspx?id=27770 _*
Principle 2 *Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.*	*We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.* *In respect of conflicts of interest within the Fund, Pension Panel members are required to make declarations of interest prior to Panel meetings.* *The Funds' overriding obligation is to act in the best financial interests of the members.*

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

Principle 6 *Institutional investors should have a clear policy on voting and disclosure of voting activity.*	*The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held.* *Our preference is for managers to vote on the Funds behalf and for responsible stewardship to be integral to the investment decision making process.* *We are comfortable with delegation of voting to Baillie Gifford and Kempen for the funds they manage.UBS vote on our behalf because the investment is in a passive pooled fund. The managers' voting policies can be found at the websites mentioned above.*
Principle 7 *Institutional investors should report periodically on their stewardship and voting activities.*	*We will seek to report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website.* *We also report annually on stewardship issues to the Pension Panel.*

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 5100 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 2013.

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:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience Group***
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:

Method of Communication	***Media***	***Frequency of Issue***	***Method of Distribution***	***Audience 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	Via email or post	Scheme member, their representatives, the Pensions Advisory

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

2.26 Quality

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: London Borough of Barking and Dagenham Pension Fund ("the Fund") Actuarial Statement for 2012/13

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 2012/13.

Description of funding policy

The funding policy is set out in the London Borough of Barking and Dagenham Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 31 March 2011. In summary, the key funding principles are as follows:

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

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 follows:

	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 London Borough of Barking and Dagenham, 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 20 August 2012. It showed that the funding level (excluding the effect of any membership movements) deteriorated in the period to 20 August 2012.

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

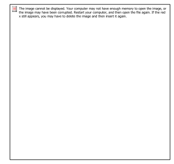
Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

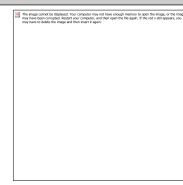
27 August 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

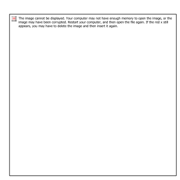
Appendix 8: Pension Fund Risk Register

1 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information leading to qualification of accounts and inaccurate valuations with financial and reputational impact	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Underlying financial information is incorrect: Monitoring Reconciliations of key financial transactions.	Quarterly & annual reconciliations of all accounting data. Monthly reconciliation of cash book, bank accounts.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - controls ongoing

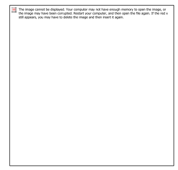
2 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor stakeholder engagement	Poor communication with stakeholders giving rise to disaffection and actions against Council	Finance		January 2013 - ongoing, score increased due to auto enrolment occurring in April 2013.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Poor stakeholder engagement and Poor communication with stakeholders giving rise to disaffection and actions against Council	Annual Newsletter on Pension Fund, updates to any changes to scheme Website, presentations. Employer meetings, communications strategy AGM	David Dickinson, Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - ongoing

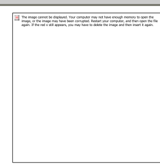
3 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Reliance on External Systems	Heavy reliance on external systems in all aspects of Treasury and Pensions which includes Lloyds Link, State Street, Fund Managers, Heywood, Logotech. Failure of systems could result in significant issues, such as an inability to make payments, process claims, etc.	Finance		Updated January 2013 - risk merged with a number of separate risks which dealt with risks to the individual systems. Systems failure is an overall issue which could impact on all areas of Treasury and Pensions so should be considered as such, with appropriate controls.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note

BCP and manual processes	Business Continuity Plans includes use of manual process in emergency, backing up of records, working from home etc.	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - updated.

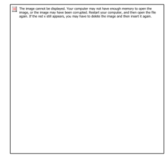
4 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Recruitment and retention of experienced Treasury and Pensions staff	The Authority is unable to recruit or retain experienced or suitably qualified staff because the salaries offered are not competitive, the working environment is unattractive or the authority has a bad reputation as an employer.	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Continuity of team and ability to cover different roles plus appropriate pay levels	Ensure continuity by having other members of the team able to cover essential functions. Benchmarking of salaries for the section both against other local authorities and private sector.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	April 2013 - ongoing with controls in place
Detailed policies and procedures in place to enable others to take on key tasks	Ensure there are detailed policies and procedure notes which enable others to take on key roles. Involvement of different team members to ensure that specialist knowledge is not confined to one or two individuals	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	April 2013 ongoing with controls in place

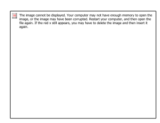
5 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Overpayments	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Pension Fraud : NFI	Management of NFI matches and follow up. NFI exercises to identify checks. Checks through other companies that carry out data checks.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - ongoing

6 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note

Management of Third Party Contracts – lack of control could result in financial and reputational risks	Treasury and Pensions manage in excess of 20 external contracts, which carry significant financial and reputational risks if not managed appropriately -for example leading to higher costs or legal challenges,	Finance		Reviewed April 2013 - ongoing

7 Control Title	**Control Description**	**Responsible Officer**	**Manager**	**Due Date**	**Control - Latest Note**
Contract Monitoring and Service Level Agreements	Regular monitoring of key contracts, including performance monitoring, service level agreements, reviewing internal controls reports	David Dickinson	Jonathan Bunt	31-Mar-2013	Updated April 2013
Market Testing of contracts and benchmarking	Market testing of contracts through procurement exercises and/or benchmarking of costs regularly	David Dickinson	Jonathan Bunt	31-Mar-2013	Updated April 2013
Market Intelligence gathering	Regular reviews of developments in the market place to ensure the section maintains up to date knowledge and can act on market intelligence such as changes to financial standing	David Dickinson	Jonathan Bunt	31-Mar-2013	Updated April 2013

8 Risk Title	**Description of Risk**	**Directorate**	**Current Risk Matrix**	**Risk - Latest Note**
Increased Longevity	Pensioners living longer, drawing pensions for longer than accounted for within the funding position leading to increasing liabilities giving rise to higher costs and major financial implications. Longevity Risk.	Finance		Reviewed April 2013 - ongoing

Control Title	**Control Description**	**Responsible Officer**	**Manager**	**Due Date**	**Control - Latest Note**
Monitoring of Pension Fund position	Controls in place to monitor developments with Fund Actuary and Triennial valuations, targeting increased funding level to manage increased longevity.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Updated April 2013
Raising retirement ages to match increasing longevity	Scheme retirement age of 65, State Pension Age changes Retirement and a linking of future increases in longevity with increasing retirement age, then it would be possible to downgrade this risk rating.	David Dickinson	Jonathan Bunt	30-Jun-2013	Updated April 2013
Fund profiling to monitor specific experience	Club Vita membership to annually monitor the LBH specific fund longevity profile	David Dickinson	Jonathan Bunt	30-Jun-2013	Updated April 2013

9 Risk Title	**Description of Risk**	**Directorate**	**Current Risk Matrix**	**Risk - Latest Note**

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

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Asset allocation reviews	Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - ongoing
Use of external advisers	Actuarial and investment advisor advise the Fund on how to manage the asset/liability mismatch	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - ongoing
Strategic goal Setting	Set strategic goals to achieve full funding, set targets to make changes to the assets when appropriate.	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - ongoing

10 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Investment Performance	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Finance		Jan 2013 - Risk reviewed and ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Set aside reserves	Rebuilding Pensions reserve to buffer against future valuations variations.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Performance Monitoring	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Appropriate levels of knowledge and skills to make decisions	Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

11 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note

Poor Membership Data	Poor administration by the Pension Fund, employers and payroll providers participating in the Fund giving rise to inaccurate data – causing financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment etc	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of membership data	Controls – annual monitoring of membership records, valuation checks, external data validations	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2012	January 2012 - ongoing
Contributions monitoring	Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2012	January 2012 - ongoing

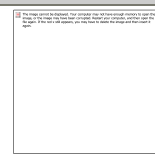
12 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Discretionary Policies	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Risk is where policies are too generous or not robust enough leaving the Pension Fund and employers exposed to higher costs and reputational risks	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Discretionary Policies in place	Controls – Agreed policies and procedures to control such risks.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Awareness of employers	Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

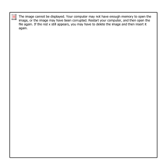
13 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Regulatory Risks	Regulatory Risks encompass both compliance with existing legislation and regulatory changes – this particularly affects LGPS 2014 changes, pension auto-enrolment and Jackson reforms for insurance	Finance		Reviewed April 2013 - ongoing. This is happening and the new demands of auto enrolment promise to have a significant impact which needs to be managed carefully.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Regulatory Changes	Monitor proposed changes and	David	Jonathan	30-	Reviewed Jan 13 -

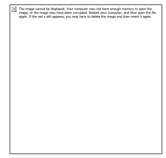
– monitoring developments and responding to changes	respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes	Dickins on Justine Spring	Bunt	Jun-2012	action ongoing
Compliance with regulation policies	Ensure processes and policies in place to meet regulatory compliance	David Dickins on Justine Spring	Jonathan Bunt	30-Jun-2012	Reviewed Jan 13 - action ongoing
Compliance with regulation knowledge and skills	Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance	David Dickins on Justine Spring	Jonathan Bunt	30-Jun-2012	Reviewed Jan 13 - action ongoing

14 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Admission/Scheduled Body failures or deficits on termination	Risk employer goes into default, deficit on termination, change of status, financial risk	Finance		Reviewed April 2013 - ongoing

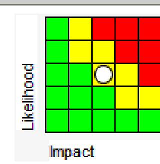
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Admission/Scheduled Body failures or deficits on termination	Controls – valuation and Intervaluation monitoring, monitoring of contributions, employer covenant check, putting bonds/guarantees in place for admission bodies. Ensure funding levels remain high for individual employers.	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

15 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Administration Risk	Risks arising from administration of pensions by employers, the administering authority and the pension administrator. Poor administration could lead to incorrect pension payments, financial and reputational damage	Finance		Reviewed April 2013 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Clear policy and procedures for the administration of pensions	Ensuring there are detailed policies and procedures for all parties involved in administering the pension scheme – Pension Administration Strategy	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Monitoring of Performance	Benchmarking of performance against other authorities	David Dickinson Justine Spring	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

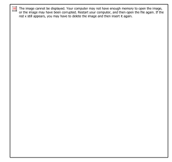
16 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Treasury and Pensions- Lack of adequate professional advice on strategies, projects and decisions	Decisions made in respect of Treasury and Pensions, Treasury and Pensions can have a major financial impact on the Council and Pension Fund. Lack of adequate or inappropriate professional advice on strategies, projects and decisions could give rise to financial and reputational risks.	Finance		Reviewed Jan 2013

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of advice	Controls – monitoring of advice received, risk assessment for procurements, Committee review of recommendations. Also ensure there is a good level of 'in-house expertise'.	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - controls ongoing
Market intelligence gathering	Monitoring wider developments and ensuring that officers and Members are kept informed. Wider networking and collaboration with other authorities where appropriate to ensure best practice.	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - controls ongoing

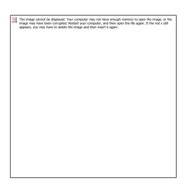
17 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Failure to manage costs	Failure to manage the costs of running the various services within Treasury and Pensions would give rise to significant additional financial costs for the Council along with reputational risks of poor value for money.	Finance		Reviewed Jan 13 - upgrade due to potential additional costs arising from regulatory changes LGPS 2014, Auto-Enrolment

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Budget Monitoring	Controls budget monitoring, performance fees, monthly budget monitoring, financial intelligence, etc	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - action ongoing
Benchmarking	Benchmarking costs with other authorities to ensure costs for LBH are not disproportionate	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - action ongoing
Market Testing	Regular market testing of external costs which includes regular procurement exercises, assessing the market place for both pensions and insurance costs	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - action ongoing
Frameworks/ Collaborative Working	Consider the use of Framework Agreements and other joint working where appropriate to control costs and to work with other authorities to deliver value for money and efficiency savings	David Dickinson	Jonathan Bunt	30-Jun-2013	January 2013 - action ongoing

18 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note

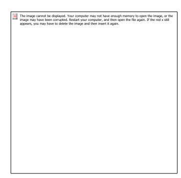
Pension Funding Risk	The fund is unable to meet its liabilities, due to a mismatch of assets/liabilities. The Funding position as at March 2010 showed 74% funding position. Further deterioration of the funding position from poor asset returns or increasing liabilities could result in the Council and other employers being required to make significant additional employer contributions.	Finance		Reviewed Jan 2013

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations. Rebuilding Pensions reserve to buffer against future valuations variations. The current financial strategy ensures that the base budget anticipates changes to contribution levels.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Pens - Valuation Monitoring	Triennial Valuation assesses the funding position, Intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Identifying the external risk factors that affect the funding position	Identifying the various risk factors, asset/liability, investment, longevity, interest rates, inflation, liquidity, etc and how the interaction of these impacts on the funding position and adapting the strategy and business plans to manage these risk where feasible.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Knowledge and Skills	Ensuring those charged with governance of the Fund and for managing the day to day operations have the requisite knowledge and skills to make informed decisions when managing the funding position	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Cash flow Monitoring	Quarterly monitoring of Pension Fund cashflows to ensure that there is sufficient cash inflows from contributions and income to meet the cash outflows from benefit and cost payments. This will also provide early warning of potential cashflow mismatch and possible changes to investment strategy. Longer term cash flow monitoring in conjunction with the Fund Actuary to establish trigger points for the Fund becoming cashflow negative.	David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

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

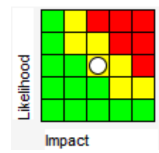
	and have adequate monitoring in place. Significant financial (including Regulator Fines) and reputational risks			

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Auto Enrolment Risk Communications	Use of different forms of communications to reach wider possible audience to understand what A-E means for individuals and employers within the Pension Fund. Use of individual letters, presentations, internet, etc. Communications strategy to feed into project plan	Justine Spring, David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Auto Enrolment Risk System Enhancements	Review of existing systems both payroll and pension to ensure that they are able to cope with the implementation of A-E and to ensure that they are adequate to cope with the ongoing monitoring requirements.	Justine Spring, David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing
Auto Enrolment Risk Monitoring	Monthly monitoring of A-E to ensure all new employees are auto-enrolled and to ensure that any existing employees who were previously not eligible or who had previously opted out are auto-enrolled should their circumstances change. Use of payroll/ pension to ensure compliance with legislation.	Justine Spring, David Dickinson	Jonathan Bunt	30-Jun-2013	Reviewed April 2013 - action ongoing

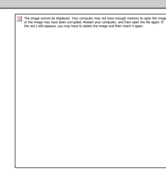
20 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Governance Risk	Governance is important in both the Treasury function and the Pension Fund as both carry significant financial and reputational risks. It is therefore crucial that those charged with governance understand the full implications of the decisions which are being taken in these areas. Membership turnover on Committees poses risks due to lack of understanding of the responsibilities.	Finance		Risk added January 2013

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Governance Risk A – Knowledge and Skills Training Programme	Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before them to make high level strategic decisions.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013
Governance Risk B – Assessment	Committees to undertake assessment to ensure that their level of understanding is adequate for the decisions being made.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013

Governance Risk C – S141 Responsibilities	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The DDF will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013
Governance Risk D – Succession Planning for Panel	Succession planning to ensure some continuity of Membership and the introduction of substitute members with access to suitable training will help to ensure that the knowledge base is maintained within Committees.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013

21 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Procurement Risk	Treasury and Pensions is heavily reliant on the use of external contractors in all areas. All the contracts have to be tendered on a regular basis which brings procurement risks in terms of both timetables for procurement (often several procurements having to take place at the same time) and potential challenges to procurements.	Finance		Risk created Jan 2013

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Ensuring adequate resources	The Council will look to use external advisers to supplement internal resources when undertaking procurement exercises.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013
Timing of Procurements	Where feasible, procurement exercises will be spread across different time periods, although this is not always feasible.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013
Collaborate with other authorities	Where the timing and scope of procurement exercises are likely to coincide with other authorities and where practical to do, joint exercises including Frameworks will be undertaken.	David Dickinson	Jonathan Bunt	21-Dec-2013	Reviewed April 2013

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

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Internal Fraud A – Policies and Procedures	Detailed policies and procedures and internal controls to ensure segregation of duties for key roles	David Dickinson	Jonathan Bunt	21-Dec-2013	Added April 2013
Internal	Treasury and Pensions is subject to internal		Jonathan Bunt	21-	Added April

Fraud B – Internal Audit	audit scrutiny on an annual basis with different areas being tested to ensure compliance.	David Dickinson		Dec-2013	2013
Internal Fraud C – External Audit	All aspects of the work of Treasury and Pensions are subject to annual external audit covered by the audit of the Financial Statements with the Pension Fund also being subject to a separate audit opinion	David Dickinson	Jonathan Bunt	21-Dec-2013	Added April 2013