Pension Fund Annual Report 2011-12

London Borough of Harrow Pension Fund

CONTENTS

1 Introduction

The purpose of this report is to account for the income, expenditure and net assets of the Harrow Council Pension Fund ('the Pension Fund') for the financial year to 31 March 2012.

Information about the economic resources controlled by the Pension Fund is provided by the net assets statement. The actuarial funding level is reported on page 10 and in the Statement of the Consulting Actuary.

Major stock markets remained broadly flat albeit with high volatility following the advances of 2010 and 2011 with gilts benefiting from default concerns within the Eurozone. Growth in the UK, Eurozone and worldwide has faltered as indebted governments seek to reduce expenditure. Inflation in the UK has subdued but still exceeds the Bank of England target. The market value of the Fund as at 31 March 2012 was £488.9m compared to £476.5m as at 31 March 2011. The London Borough of Harrow Pension was ranked in the 64th percentile in the Local Authority Annual League Table of investment returns for the year ended March 2012.

Julie Alderson
Corporate Director, Resources
XX September, 2012

2 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Management and Investment of Funds) Regulations 2009. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria. The London Borough of Harrow is the administrating employer.

Scheduled Employers

This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment).

Admitted Employers

There are two types of admission body:

Community Admission Body – These are typically charities or other not-for-profit public sector bodies providing a public service which has sufficient links with the Scheme Employer to be regarded as having a community of interest.

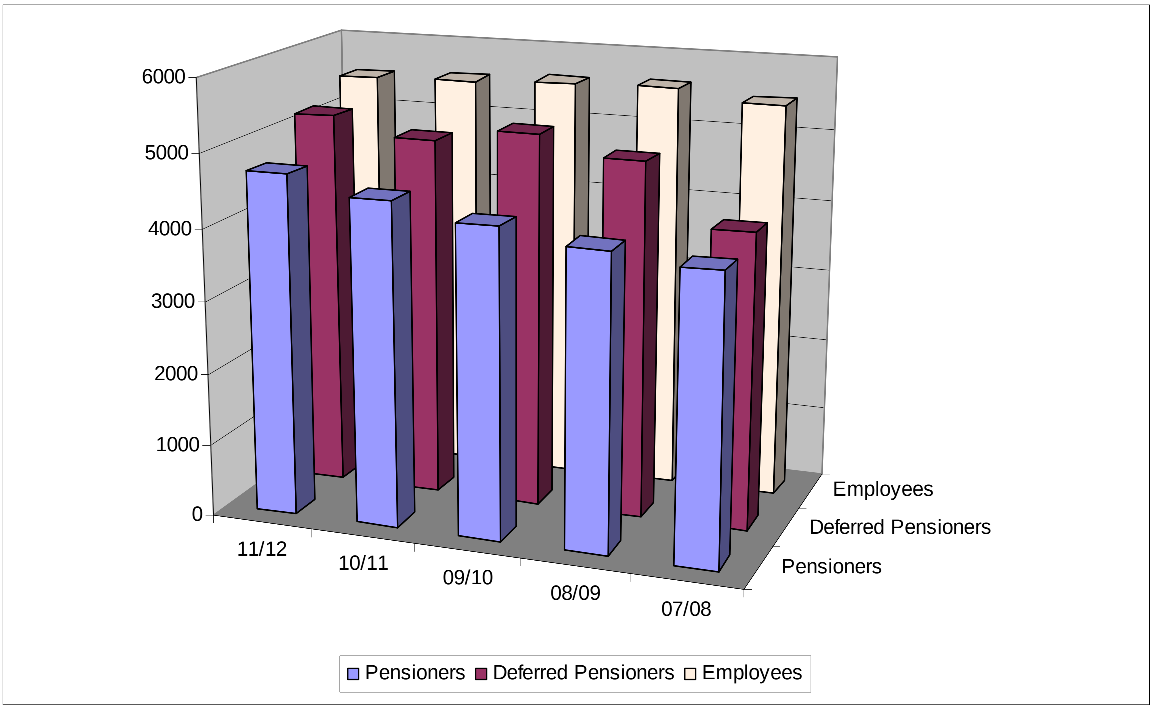
Transferee Admission Body – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

The scheduled and admitted employers to the fund are listed in the table on the following page.

Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation and who have a contract of more than three months are brought into the Fund automatically, but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership. Contributors to the Fund are contracted out of the State Second Pension.

The Fund is financed by accumulated contributions paid by employees and their employers together with returns from the investment of fund monies. The pension benefits payable out of the Fund are primarily determined by legislation and not by the local authority.

Membership of the Fund



Membership Data as at 31 March 2012

	Status	Actives	Deferreds	Pensioners	Total	%
LB Harrow	Scheduled	4,388	4,811	4,469	**13,668**	88.49
Bentley Wood	Scheduled	48	3	-	**51**	0.33
Canons High	Scheduled	73	2	-	**75**	0.49
Harrow College	Scheduled	154	220	114	**488**	3.16
Harrow High	Scheduled	77	1	-	**78**	0.50
Hatch End	Scheduled	120	6	1	**127**	0.82
Nower Hill	Scheduled	116	6	-	**122**	0.79
Park High	Scheduled	69	2	1	**72**	0.47
Rooks Heath	Scheduled	100	3	-	**103**	0.67
Stanmore College	Scheduled	88	100	49	**237**	1.53
St Dominic's Sixth Form College	Scheduled	38	18	21	**77**	0.50
Capita IT	Admitted				**-**	0.00
Care UK	Admitted	35	8	12	**55**	0.36
ContinYou	Admitted	2	-	-	**2**	0.01
Granary Kids	Admitted	2	1	-	**3**	0.02
Harrison Catering	Admitted	23	2	-	**25**	0.16
Hayward	Admitted	3	1	-	**4**	0.03
Julius Rutherfoord	Admitted	2	1	-	**3**	0.02
KGB Cleaning	Admitted	12	3	5	**20**	0.13
Kier	Admitted	7	2	1	**10**	0.06
Mears	Admitted	37	3	10	**50**	0.32
North London Collegiate School	Admitted	60	19	25	**104**	0.67
Schools Crossing	Admitted	-	3	1	**4**	0.03
Vaughan	Admitted	52	12	4	**68**	0.44
Total		**5,506**	**5,227**	**4,713**	**15,446**	100.00

Key Elements of the Fund

The current structure of the fund as it impacts on members is outlined below. A consultant exercise is currently underway concerning a revised contribution and benefits structure that is expected to apply from 1st April 2014. Benefits accrued up to that date will be protected.

Eligibility for Membership - Virtually all employees of relevant employers (who have a contract of more than 3 months) aged under 75 can join the Fund, other than those covered by other statutory schemes (for example, teachers, police officers and fire-fighters). Membership is automatic for all employees (including those of scheduled bodies) other than employees of admitted bodies and those who have opted out in the past.

Employee Contributions – Fund changes effective from 1 April 2008 saw the introduction of banded employee contribution rates according to an employee full time equivalent (FTE) pensionable pay. The bandings effective during the year are shown below:

FTE Pensionable Pay	Contribution Rate
Up to £12,900	5.5%
More than £12,901 and up to £15,100	5.8%
More than £15,101 and up to £19,400	5.9%
More than £19,401 and up to £32,400	6.5%
More than £32,401 and up to £43,300	6.8%
More than £43,301 and up to £81,100	7.2%
More than £81,100	7.5%

Benefits on Retirement – From April 2008 the payment of a pension is calculated at 1/60th of the final year's pay multiplied by the number of years of service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable service is based on the accrual rate of 1/80th of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active members' number of years of service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.

Age of Retirement - Normal retirement date for Fund members is at age 65, subject to:

1. Pension benefits are payable at any age if retirement results from ill health.
2. Members may retire with full accrued benefits from age 55 onwards if their retirement is on redundancy or efficiency grounds.
3. Members who have not reached normal retirement date and to whom ill health or redundancy/efficiency retirement does not apply may elect from age 55 onwards to draw their accrued benefits. Employer consent is required for elections made before age 60, however, benefits may be actuarially reduced.

Benefits on Death in Service - A lump sum death grant is payable, normally equivalent to three years pay. Harrow Pension Fund, as administering authority, has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

Benefits on Death after Retirement - In some circumstances a lump sum death grant is payable, normally equivalent to ten times annual pension less pension paid (post April 2008 retirements). If so, Harrow Pension Fund has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

Cost of Living Increases - Pensions payable to members who retire on ill health grounds and to members' spouses and children are increased in line with the Consumer Price Index. Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing. Where a pensioner has a Guaranteed Minimum Pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions.

Extra Benefits - The Fund offers several ways for members to improve benefits.

- Payment of additional periodical payments to increase annual pension;
- A money purchase AVC Fund which is operated with Equitable Life (closed to new members), Clerical Medical or Prudential.

Taxation

UK Tax - The Fund is an exempt approved fund and is therefore not liable to UK tax on capital gains and investment income. Where a taxation agreement exists between this country and another, whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another.

Overseas Tax – Tax arrangements outside the UK vary country by country. The Council works with fund managers and custodians to ensure advantage is taken of tax exemption rules and where tax has been deducted that reclaims are filed where permitted. The proportion reclaimable and the timescale involved is country specific.

Transfer Value Calculations -The methodology used in calculating the transfer values is in accordance with the Local Government Pensions Scheme Regulations and is also in line with the guidance received from the Government Actuarial Department.

More Information

All publications relating to the Fund, such as Harrow's Pension Communications Policy, Fund Guides and Governance Compliance Statement, can be found on the Council website at www.harrow.gov.uk/pensions

For information on joining / leaving the Fund and Fund benefits, please contact the Pensions department, Shared Services at Harrow Council.

The Council office is open from 9:00am to 5:00pm, Monday to Friday. The address is:

Shared Services – Pensions
Harrow Council
3rd Floor South Wing
Civic Centre
Station Road
Harrow
HA1 2XF

Email address: Pension@harrow.gov.uk
Telephone Number: 020 8424 1186.

For pension investments matters please contact the Corporate Finance Section, Treasury and Pensions on 020 8424 1172.

Audit Responsibilities

The Audit Commission is responsible for appointing the auditors to the London Borough of Harrow Pension Fund. For the audit of the 2011/12 accounts, Deloitte LLP have been reappointed.

Custodian

The Custodians for the Pension Fund are JP Morgan and Bank of New York Mellon. Most investments are held within pooled funds who appoint their own custodians.

The Pensions Ombudsman

The Pensions Ombudsman can investigate complaints of maladministration as well as disputes about decisions which have been made about your pension rights at the address below:

The Pensions Ombudsman
11 Belgrave Road
London SW1V 1RV

Tel No. 0207 834 9144
Fax No. 0207 821 0065
Email: enquiries@pensions-ombudsman.org.uk

3 Management and Investments

The Authority has delegated its responsibility for the determining of investment policy and the monitoring of investment performance to the Pension Fund Investment Panel which meets approximately six times a year. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2012, the membership of the Pension Fund Investment Panel was as follows:

Councillor Dharmarajah (Chairman)
Councillor Idaikkadar
Councillor Romain
Councillor Ferrari

The membership of the panel is determined at the Annual Council meeting each May, at the start of the Council's municipal year. A change in the membership of the panel can only be made with the agreement of the Leaders of all political parties or by full Council.

The Pension Fund Investment Panel has the following powers and duties:

- To administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- To establish a strategy for the disposition of the Council's Investment in accordance with the law and Council policy; and
- To determine the managers' delegation of powers of management of the Fund.

The Pension Fund Investment Panel receives a quarterly update report on the Fund and individual fund manager's performance.

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The day-to-day management of the Fund's investments as at 31 March 2012 was carried out by the following nine external managers:

Managers	Mandate
BlackRock Investment Management (UK) Limited	Corporate and Index linked Bonds
State Street Global Advisors Limited	UK Equities Passive
Fidelity International	Global Equities
Wellington Management International Limited	Global Equities
Longview Partners Investments	Global Equities
Pantheon Private Equity	Private Equity
Record Currency Management Limited	Passive Currency
Aviva Investors Global Services Limited	UK Property
UBS Global Asset Management (UK) Limited	Property

The active currency mandate with BNY Mellon Asset Management was terminated during the year. Manager fees are paid as a percentage of the value of each mandate.

Investment Adviser

The Panel is advised by independent adviser, Aon Hewitt, who were appointed during the year to replace Hymans Robertson LLP.

Actuary

The actuarial service is provided by Lorna Tonner of Hymans Robertson LLP.

Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £436m and the total accrued liabilities of the Fund were £593m. The Fund deficit was therefore £157m producing a funding level of 73.5%.

To reach the funding level of 100% over a period of 20 years, the common employers' contribution rate is 25.7% of pensionable pay. The Projected Unit method is used to determine this rate. Adjustments have been made to the common rate of employers' contributions to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used at 31 March 2010 are detailed below:

Assumption	Nominal
Price Inflation (RPI)	3.3%
Pay Increases	4.8% [1% until 31.3.2013]
Gilt based discount rate	4.5%
Funding basis discount rate	6.1%

The next triennial actuarial valuation will be carried out as at 31 March 2013.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, maintain and publish a written statement of principles governing their decisions about investments. The Pension Fund has adopted a formal Statement of Investment Principles which is published on the Council website at www.harrow.gov.uk – Advice & Benefits - Local Government Pension Scheme – Pension Fund Policies / Statements.

The Pension Fund Investment Panel monitor's actual against strategic asset allocations and takes action when appropriate.

Funding Strategy Statement

The 'Funding Strategy Statement' (FSS) is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. 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;
- support the regulatory framework to maintain stable employer contribution rates where possible; and
- take a prudent longer-term view of funding those liabilities.

The Pension Fund's 'Funding Strategy Statement' can be found on the Council website at www.harrow.gov.uk - Advice & Benefits - Local Government Pension Scheme - Pension Fund Policies/Statements.

Funding Policy

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

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To maximise investment returns for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue; and
- To minimise the degree of short-term change in the level of each employer's contributions.

4 Market performance

Financial markets suffered a volatile year in 2011/12 as concern with a slowing global economy combined with the debt crisis affecting the peripheral Eurozone countries dominated investment markets. Fears of sovereign defaults persisted and actions by Governments were seen as slow and inadequate. The optimism that followed the agreement to restructure Greek debt was short-lived and post year end the ability of a number of Eurozone countries to maintain agreed austerity programmes was questioned. Following the election of the new French president a greater focus on growth to address debt levels rather than austerity appears likely. Unfortunately, the impact of the debt crisis is spreading globally with major emerging markets e.g. China and India facing slowing economies. Quantitative easing in the US and UK appeared to give at best only temporary support to growth.

In the UK, the Government maintained its tight fiscal policy, which contributed to GDP growth of only 0.4% in the year. The slowing economy helped to combat stubborn inflation, with CPI falling to 3.0% in April 2012, still above its target. The outlook continues to be one of slow growth at best and persistent deficits.

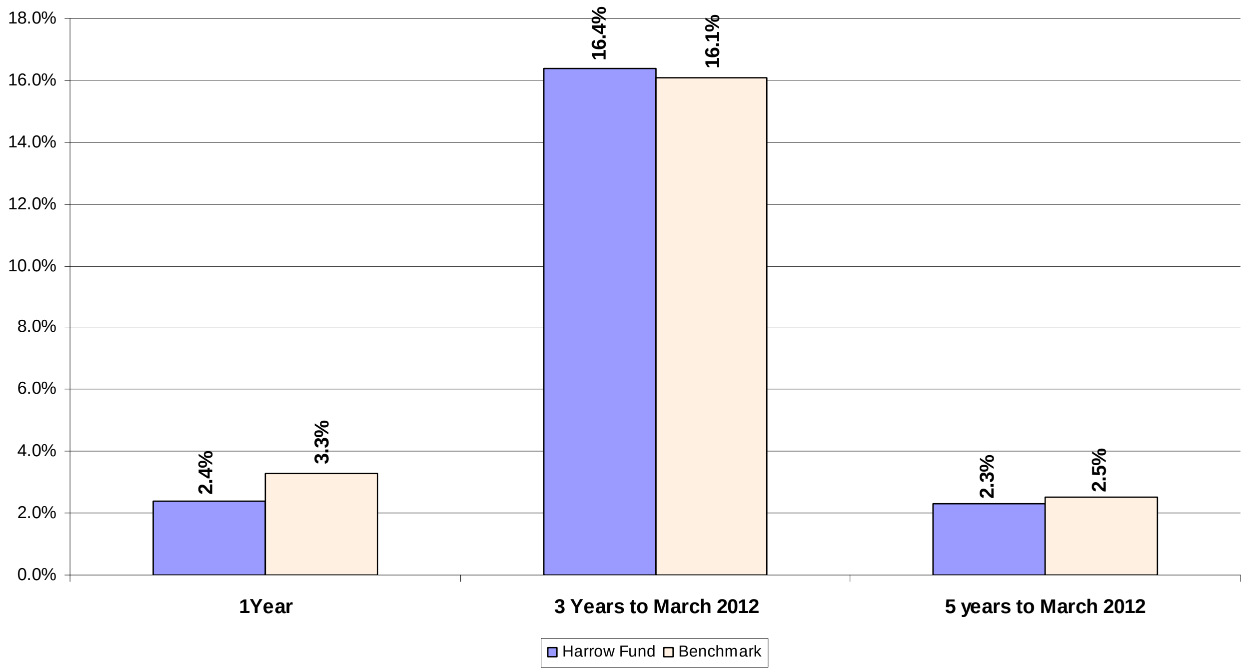
Equity markets struggled to make positive returns while investors seeking a safe haven from the market turmoil pushed government bond yields in ‘safe havens’ e.g. Germany, Switzerland and even the heavily indebted countries of the US, Japan and the UK to record lows. The US was the best performing major equity market, followed by the UK and Japan returning 6%, 2% and 1% respectively. Europe and emerging markets suffered, returning -9% and -8%.

Gilt yields continued to fall and the 10 year gilt reached lows of 1.47% not seen since records began in 1703. In Germany, short dated bond yields turned negative. The impact was that UK government bonds returned an average of 16% for the year, whilst index-linked bonds returned 20%. Longer dated bonds out-performed shorter durations.

Alternative asset classes had a mixed year with UK investors seeing average property and private equity returns of 5% to 6%, while hedge fund returns averaged -0.1%.

5 Fund performance

The Committee uses WM Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years is shown below.



Source: WM Performance Services

The Fund high equity allocation detracted from performance during a year when bonds benefited from risk aversion. The annual return of 2.4% is 0.9% below the benchmark. Over the three year period during which equities performed strongly the fund outperformed its benchmark by 0.3% p.a. The five year returns include the financial crash of 2008 and represent a period of bond markets out-performance.

The average fund in the local authority universe (as per WM performance services) returned 2.6% in the year. Harrow was ranked in the 64th percentile in the Local Authority universe as measured by WM, due mainly to the fund's higher than average equity allocation.

Investment strategy

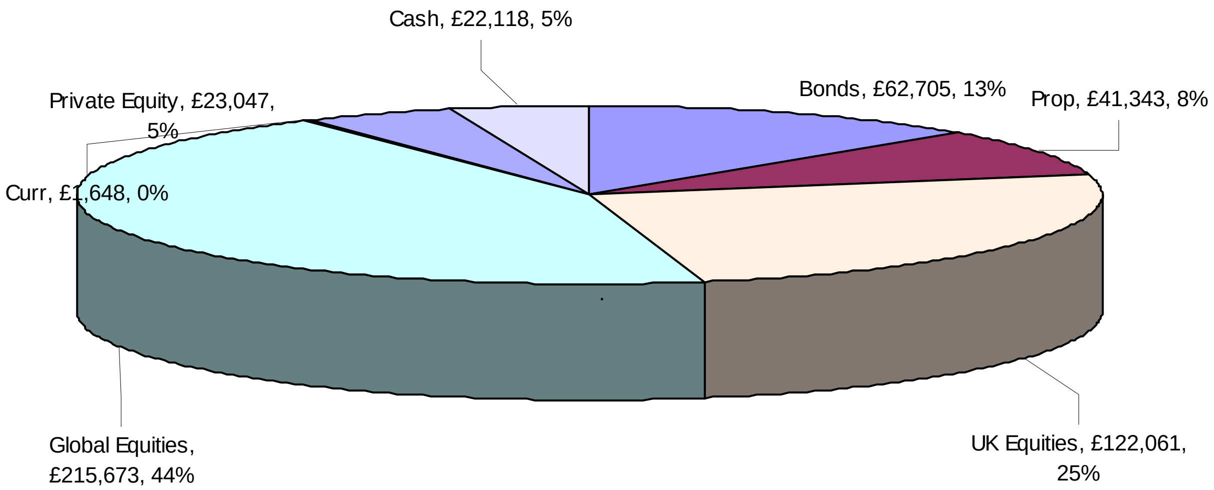
The strategic allocations approved in 2008 and reported in the Statement of Investment Principles are shown in the table below. The strategy was fully implemented in the year following the completion of a review of the manager structure.

The Panel aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the fund and the projected asset class returns and volatility.

The Panel monitors the continued appropriateness of the strategic allocations with the next formal review currently in progress.

Strategic Asset Allocations 31 March 2012	**%**
UK Equities	26
Global Equities	45
Fixed and Index Linked Bonds	13
Property	10
Private Equity	3
Active currency	3
Total	**100**

The actual allocations to asset classes (£'000) are shown in the chart below. The Panel monitors any divergence from strategy and rebalances when appropriate.



Total Value £488,595,000

Investments held by Fund Managers

	2011-12		2010-11		
	£000	%	£000	%	
State Street Global Advisors	**122,061**	**26%**	120,397	26%	UK Equities
Longview Partners	**33,941**	**7%**	32,041	7%	Global Equities
Fidelity International	**84,747**	**18%**	86,232	19%	Global Equities
Wellington Management	**96,985**	**21%**	97,834	21%	Global Equities
Black Rock	**63,492**	**14%**	55,130	12%	Bonds
UBS	**318**	**0%**	585	0%	Cash
Aviva	**41,343**	**9%**	40,314	9%	Property
Pantheon	**23,047**	**5%**	21,635	5%	Private Equity
Mellon	**0**	**0%**	3,020	1%	Active Currency
Record Currency	**1,648**	**0%**	900	0%	Currency hedge
Total Fund	**467,582**	**100%**	458,088	100%	

The above amounts include the investment assets, cash deposits and forward currency contracts included in each mandate.

There was one change to the fund manager line-up, with the termination of the active currency mandate previously managed by BNY Mellon. The funds realised from the termination are being held in cash awaiting completion of the strategy review.

The Panel believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Following the completion of the UBS transition, the Fund had nine investment managers to give diversification of investment style and spread of risk. The Panel will continue to monitor the ability of their Investment Managers to achieve their target returns.

The Record balance comprises net derivative assets of £1.648m shown under assets (£2.014m) and liabilities (£0.366m), being the value of forward currency contracts comprising the 50% currency hedge on non-sterling investments. The hedge is designed to reduce volatility due to currency movements.

6 Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Chief Financial Officer, i.e., the Corporate Director, Resources;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the statement of accounts.

The Corporate Director, Resources Responsibilities

The Corporate Director, Resources is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Corporate Director, Resources has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2012 and its income and expenditure for the year then ended.

Julie Alderson

Corporate Director, Resources
xxth September, 2012

7 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2012

2010-11 £000		Notes	2011-12 £000
	Contributions and Benefits		
25,496	Contributions receivable	8.2	24,725
5,199	Individual Transfers in from other schemes		2,527
31	Other Income (including Capital cost)		88
	Less:		
-24,581	Benefits Payable	8.3	-25,103
-2,455	Leavers	8.4	-1,076
-775	Administrative expenses	8.5	-789
2,915	**Net additions from dealings with members**		**372**
	Returns on Investments		
3,338	Investment Income	8.6	4,948
34,160	Change in market value of investments	8.7	6,951
202	Investment management expenses	8.5	133
37,700	**Net returns on investments**		12,032
40,615	Net (Increase)/decrease in Fund during the year		12,404
435,923	Net assets at start of year		476,538
476,538	**Net assets at end of year**		488,942

Net Assets Statement

2010-11 £000		Notes	2011-12 £000
	Investment Assets		
455,438	Pooled investment vehicles	8.9	**464,829**
1,527	Derivative contracts	8.10	**2,014**
456,965			**466,843**
	Investment Liabilities		
-627	Derivative contracts	8.10	**-366**
456,338			**466,477**
1,750	Cash deposits	8.7	**22,118**
458,088	**Net Investment Assets**		**488,595**
18,881	Current assets	8.12	**674**
-431	Current liabilities	8.12	**-327**
476,538	**Net assets of the scheme at 31 March 2012**		**488,942**

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 28 and 29 and these accounts should be read in conjunction with it.

Julie Alderson
Corporate Director, Resources
xx September, 2012

8 Notes to the Pension Fund Accounts

8.1 Accounting Policies, Judgements and Uncertainties

The accounts have been compiled in accordance with chapter Two of the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007) (“the SORP”) and the CIPFA code of practice on local authority accounting in the United Kingdom 2011/12. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

Basis of Preparation - Except where otherwise stated, the accounts have been prepared on an accruals basis.

Investments - These are shown in the accounts at market value, which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values, currency rates and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2012;
- Investments in pooled investment vehicles are stated at the bid value (or single price if relevant) of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments, including derivatives, held at any time during the year, including profits and losses realised on sales of investments during the year. Most investments are in pooled funds where the change in market value will reflect investment income earned by the fund and fees and expenses charged to the fund.

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year. Investment transactions and income in foreign currencies are accounted for at the spot rate of exchange at the date of transaction.

Cash deposits include highly liquid investments that are readily realisable for known amounts of cash and that are subject to minimal risk of changes in value.

Benefits, Refunds of Contributions and Transfer Values - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

Investment Income - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into sterling at the date of the transaction.

Investment Management and Administration - Regulations permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements. All expenses are accounted for on an accruals basis.

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

The items in the Net Assets Statement as at 31 March 2012 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Unquoted property & private equity investments	There are no publicly listed prices for the Fund's investments in property and private equity and therefore there is a degree of estimation and judgement involved in the valuations used based on recognised professional guidance.	Total property and private equity investments disclosed in the accounts amount to £64.4 million. The Fund's performance measurement service provider, WM Company, estimates potential volatility consistent with a one standard deviation movement in the change in value of private equity as an asset class over the latest three years of 4.2% for property and 9.7% for private equity. This equates to a tolerance of +/- £4 million.
Actuarial present value of promised retirement benefits (Appendix 3)	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	A decrease of 0.5% in the discount rate assumption would increase the pension liability by approximately £62 million. An increase of 0.5% in assumed salary or pension inflation would increase the pension liability by approximately £14 million and £47 million respectively. A one year increase in assumed life expectancy would increase the pension liability by approximately £21 million.

Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

Unquoted private equity investments

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in, using guidelines issued by the Private Equity Industry Guidelines Group in the USA (known as the Private equity Valuation Guidelines) and the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by thirty-seven venture capital associations, including the BVCA.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in note 8.14, is prepared by the Fund's actuary, adopting prescribed assumptions as set out in IAS19. These assumptions may differ from those used by the actuary at formal triennial valuations to determine the level of contributions payable by employers. The liability disclosed in note 8.14 is subject to significant variances depending on the assumptions adopted.

8.2 Contributions

2010-11 £000		**2011-12 £000**
	Employers - normal	
16,905	London Borough of Harrow	**15,563**
1,336	Scheduled Bodies	**2,117**
575	Admitted Bodies	**660**
	Members - normal	
6,025	London Borough of Harrow	**5,484**
463	Scheduled Bodies	**686**
192	Admitted Bodies	**215**
25,496		**24,725**

8.3 Benefits

2010-11 £000		**2011-12 £000**
	Pensions	
-18,286	London Borough of Harrow	**-19,648**
-419	Scheduled Bodies	**-522**
-134	Admitted Bodies	**-196**
-18,839		**-20,366**
	Commutation of Pensions and Lump Sum Retirement Benefits	
-4,847	London Borough of Harrow	**-3,807**
-350	Scheduled Bodies	**-394**
-253	Admitted Bodies	**-64**
-5,450		**-4,265**
	Lump Sum Death Benefits	
-292	London Borough of Harrow	**-439**
	Scheduled Bodies	**-33**
-292		**-472**
-24,581		**-25,103**

8.4 Leavers

2010-11 £000		2011-12 £000
-4	Refunds to members	**-4**
-2,451	Individual transfers to other schemes	**-1,072**
-2,455		**-1,076**

8.5 Investment Management and Administration Expenses

2010-11 £000		2011-12 £000
202	Investment management expenses	**133**
	Scheme administration	
-639	Harrow Council	**-676**
-136	Misc. (including Actuary Fees)	**-113**
-775	**Total Administration Expenses**	**-789**
-573	**Total Expenses**	**-656**

External audit fees of £35,000 (2011: £35,000) were charged in the year.

8.6 Investment Income

2010-11 £000		2011-12 £000
3,220	Income from pooled investment	**4,800**
118	Interest on cash deposits	**148**
3,338		**4,948**

All investments other than cash are held in pooled investments and only the income that is distributed is included above. Income retained within in pooled funds is reflected within the change in market value of investments.

8.7 Investments

	Value at 01-Apr-11 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	**Value at 31-Mar-12 £000**
Pooled Investment Vehicles					
Property	40,314	-	-	1,029	**41,343**
Other	415,124	9,165	-6,279	5,476	**423,486**
Derivatives	900	766	-464	446	**1,648**
	456,338	**9,931**	**-6,743**	**6,951**	**466,477**
Cash Deposits	1,750				22,118
	458,088				**488,595**

The change in market values is mainly due to the increase in bond values as yields fell in response to concerns over global growth and sovereign default. Equities were volatile but ended the year much where they started (see page 12). £7,043,000 of the change in market value was in respect of unrealised net gains.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

With all investments held through pooled vehicles, the value of sales and purchases is low. No direct transaction costs were incurred during the year. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative payments (£0.8m) and receipts (£0.5m) are in respect of realised losses and profits on forward foreign exchange trades settled during the period.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

8.8 Investments Exceeding 5% of the Total Value of Net Assets

2010-11 £m		2011-12 £m
120.4	SSGA MPF UK Equity Index Sub-Fund	**122.1**
97.8	Wellington Global Pooled Value Equity Portfolio	**97.0**
86.2	Fidelity Institutional Select Global Pooled Equities	**84.7**
43.2	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**50.1**
32.0	Longview Partners Invest - Global Pooled Equities FD K Class	**33.9**
30.8	Aviva Investors UK Real Estate Fund of Funds Open Ended	**31.7**
410.4		**419.5**

8.9 Pooled Investment Vehicles

2010-11 £000		2011-12 £000
40,314	UK Managed Funds - Property	**41,343**
177,382	UK Managed Funds - Other	**184,767**
237,742	Overseas Other	**238,719**
455,438		**464,829**

Details of the nature of the investments held within the pooled vehicles are shown on page 14. No investments were loaned during the year.

8.10 Derivatives

2010-11 £000		2011-12 £000
	Investment Assets	
1,527	Forward Foreign exchange contracts	**2,014**
	Investment Liabilities	
-627	Forward Foreign exchange contracts	**-366**
900	**Net Derivatives**	**1,648**

Counterparty	Duration	No. of Contracts	Value at 31-Mar-12 Assets £000	Value at 31-Mar-12 Liabilities £000
Barclays Bank - London	5 days - 3 mths	**9**	**831**	**-17**
Deutsche Bank - London	5 days - 3 mths	**2**	**4**	**-4**
HSBC Bank - London	5 days	**1**	**-**	**-57**
JP Morgan - London	5 days - 6 mths	**5**	**480**	**-166**
Northern Trust - London	3 mths	**1**	**21**	**-**
Royal Bank of Canada - London	5 days - 6 mths	**6**	**17**	**-78**
State Street - London	5 to 10 days	**3**	**0**	**-7**
Toronto Dominion - Toronto	5 days - 3 mths	**11**	**379**	**-21**
Westpac - Sydney	5 days - 6 mths	**3**	**282**	**-16**
		41	**2,014**	**-366**

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk, and the value of the economic exposure is £142.5m.

8.11 Additional Voluntary Contributions (AVCs)

Members of the Fund can secure additional pension through making AVCs that are invested separately from those of the pension fund. The administering employer has appointed Prudential and Clerical Medical as its AVC provider. These amounts are not included in the Pension Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2010-11 £000		2011-12 £000
2,233	Value of AVC Fund at 1 April	**2,193**
249	Employee contributions	**274**
113	Investment income and change in market value	**81**
125	Transfer Values In	**7**
-527	Benefits paid and transfers out	**-456**
2,193	**Value of AVC Fund at 31 March**	**2,099**

8.12 Current Assets & Liabilities

2010-11 £000		2011-12 £000
	Current Liabilities	
-256	Unpaid Benefits	**-58**
-175	Other Unpaid liabilities	**-269**
-431		**-327**
	Current Assets	
18,750	Cash balances held by London Borough of Harrow	**572**
114	Contributions due from employers	**80**
17	Other Current Assets	**22**
18,881		**674**
18,450	**Net Current Assets**	**347**

8.13 Related Party Transactions

2010-11 £000		**2011-12 £000**
16,905	Employer's pension contribution to the fund	**15,563**
-639	Administration expenses paid to the Council	**-676**
18,750	Cash in hand held by Council	**572**

The fund is required under IAS24 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. Details of total contributions made in the year are set out in note 8.2 to the accounts.

The Pension Fund has operated a separate bank account since 1st April 2011. However, most transactions in the year were processed through the Council's bank account, with balances settled on a monthly basis.

8.14 Actuarial Value of Retirement Benefits

Disclosure of the year end actuarial value of benefits calculated under IAS 19 assumptions is required by CIPFA's Code of Practice on Local Authority Accounting 2010/11. The IAS 19 valuation is based on prescribed assumptions that differ from those used in the tri-annual valuation that determines the required level of contributions. The outcome of the last tri-annual valuation as at 31st March 2010 is reported on pages 28 and 29.

The actuarial value of benefits and the main assumptions used by the actuary are set out below.

2010-11 £m		2011-12 £000
649	Present value of Promised Retirement Benefits	**730**
2.8%	Inflation/ Pension Increase Rate	**2.5%**
4.6%	Salary Increase Rate [1% p.a. until 31 March 2015]	**4.3%**
5.5%	Discount Rate	**4.8%**
	Mortality assumptions:	
	Longevity at age 65 for current pensioners (years):	
21.6	Men	**21.6**
23.6	Women	**23.6**
	Longevity at age 65 for future pensioners (years):	
23.6	Men	**23.6**
25.9	Women	**25.9**

The value of the fund as at 31st March 2012 represents 67% of the value of benefits determined under IAS19 assumptions. The deficit is expected to be addressed through a combination of investment returns in excess of the discount rate and additional deficit contributions from Employers.

8.15 Post Balance Sheet Date Events

There have been no events since 31st March 2012 and up to the date when these accounts were authorised that require any adjustment to these accounts.

8.16 Risk Management

The fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Investment Panel ("PFIP") is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and operating effectively. The aim of risk management is to limit risk to those that are expected to provide opportunities to add value.

The most significant risks faced by the fund and the procedures in place to manage these risks are described below:

(a) Governance and Regulatory Risks

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Regular reviews of the Statement of Investment Principles and Funding Strategy Statement that set out the high level objectives of the fund and how these will be achieved.
- Tailored training for members.
- Reviews of the PFIP agenda and papers by Harrow's Legal Department.

(b) Sponsor Risk

The fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the fund and the Administering Employer, bonds and other forms of security are received from Admitted employers.

(c) Investment Risk

The fund is invested in a range of assets classes as detailed on page 14. The predominant asset class is listed equities, which has both; a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

<u>Pricing Risk</u>

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, in the last five years the value of the fund fell by 31% in the 15 months to March 2009 before increasing by 54% in the next 21 months to December 2010. Most of the price changes related to the global value of equities following the banking crisis. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments to include fixed interest and index linked bonds, property and private equity. The proportion of UK equities has been reduced to 36% of equities to limit exposure to a single country. The investment strategy is reviewed at least once every three years by the PFIP and market conditions are reviewed at each meeting to determine if any strategic of tactical action is required.

- Global equities are managed by three active managers to reduce the risk of underperformance against benchmarks. The Investment Advisor provides quarterly reports on the performance and skills of each fund manager to the PFIP.

- The benefit liabilities are all sterling based and to reduce the currency risk from non sterling investments, 50% of the overseas currency exposures (£196 million in aggregate at the year-end) are hedged to sterling.

Liquidity Risk

Investments in some asset classes e.g. private equity and property can be illiquid in that they cannot be realised at short notice. Around 13% of Harrow's fund is in illiquid assets. This is deemed low for a scheme that continues to have a positive cashflow. All cash balances are currently on overnight deposit and readily accessible.

Counterparty Risk

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

(d) Actuarial risks

The value of the liability for future benefits is impacted by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the PFIP does not currently believe these to be appropriate. Changes to the benefit structure proposed by the Government will reduce some of these risks. All are monitored through the actuarial valuation process and additional contribution required from employers should deficits arise.

(e) Operational Risk

Operational risk relate to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each investment fund together with annual assessments of the control environment including reviews of internal controls reports certified by reporting accountants.

Controls within the administering authority are reviewed by Harrow's internal audit team.

9 Statement of the Consulting Actuary

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 2010/11.

Description of funding policy

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

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers or pool of 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 employer's contributions where the Administering Authority considers it reasonable to do so.

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 £436 million, were sufficient to meet 73.5% 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 £157 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 the valuation report dated 31 March 2011.

9. Statement of the Consulting Actuary (continued)

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 *	4.8%	1.5%
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, 2011/12, and 2012/13 reverting to 4.8% 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 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.6 years
Future Pensioners	23.6 years	25.9 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Harrow, Administering Authority to the Fund.

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

L Tonner

Lorna Tonner FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
14 September 2011

10 Pension Fund Annual Report Opinion

10.1 Independent Auditor's Report to the Members of London Borough of Harrow

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and notes 8.1 to 8.16. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Resources and auditor

As explained more fully in the Statement of the Corporate Director, Resources Responsibilities, the Corporate Director of Resources is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

10.2 Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012*,* other than liabilities to pay pensions and other benefits after the end of the scheme year.; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Paul Schofield (Engagement Lead)
For and on behalf of Deloitte LLP

Appointed Auditor

St Albans, UK

xx September 2012