Pension Fund Investments Panel

AGENDA

DATE: Monday 25 July 2011

TIME: 6.30 pm

VENUE: Committee Room 5, Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chairman: Councillor Mano Dharmarajah

Councillors:

Thaya Idaikkadar (VC)	Tony Ferrari
	Richard Romain

(Non-voting Co-optee): Mr H Bluston

Trade Union Observer(s): Mr R Thomas - UNISON
Mr T Thornton - GMB

Reserve Members:

1. Keith Ferry	1. Stephen Wright
2. Asad Omar	2. Kam Chana

Contact: Lysandra Dwyer, Democratic Services Officer
Tel 020 8424 1264 E-mail: lysandra.dwyer@harrow.gov.uk

Harrow COUNCIL LONDON

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of personal or prejudicial interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Panel;
(b) all other Members present.

3. MINUTES (Pages 1 - 4)

That the minutes of the meeting held on 24 May 2011 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS

To receive questions (if any) from local residents/organisations under the provisions of Committee Procedure Rule 17 (Part 4B of the Constitution).

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. INVESTMENT STRATEGY OPTIONS (Pages 5 - 20)

Report of the Interim Director Finance

8. INFORMATION REPORT - ANNUAL PENSION SCHEME ACCOUNTS (Pages 21 - 54)

Report of the Interim Director Finance.

9. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

10. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
11.	INFORMATION REPORT – Presentation by WM	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
12.	Investment Manager Review	
13.	INFORMATION REPORT – Update Report and Action Points from Previous Meetings	
14.	INFORMATION REPORT – Pension Fund Valuation	

AGENDA - PART II

11. INFORMATION REPORT - PRESENTATION BY WM PERFORMANCE SERVICES (Pages 55 - 80)

Report of the Interim Director Finance.

12. INVESTMENT MANAGER REVIEW (Pages 81 - 120)

Report of the Interim Director Finance

13. INFORMATION REPORT - UPDATE REPORT & ACTION POINTS FROM THE PREVIOUS MEETINGS (Pages 121 - 126)

Report of the Interim Director Finance

14. INFORMATION REPORT - PENSION FUND VALUATION (Pages 127 - 130)

Report of the Interim Director Finance

[Please note that Aon Hewitt, Advisers to the Fund, will be attending this meeting.]

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PENSION FUND INVESTMENTS PANEL

MINUTES

24 MAY 2011

Chairman:	* Councillor Mano Dharmarajah	
Councillors:	* Tony Ferrari * Thaya Idaikkadar	* Richard Romain
Co-optee (Non-voting):	* Howard Bluston	
In attendance: (Councillors)	Ajay Maru	

[Note: Other Attendance: Robert Thomas and T Thornton attended in an observer role, as the representative of Harrow UNISON and GMB]

* Denotes Member present

89. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance at this meeting.

90. Appointment of Vice-Chairman

RESOLVED: To appoint Councillor Thaya Idaikkadar as Vice-Chairman of the Pension Fund Investment Panel for the 2011/2012 Municipal Year.

91. Appointment of Non-Voting Co-optee

RESOLVED: To note the appointment of Howard Bluston as a non-voting co-optee to the Pension Fund Investment Panel for the Municipal Year 2011/12 at the Licensing and General Purposes Committee on 12 May 2011.

92. Declarations of Interest

RESOLVED: To note that the following interests were declared:

Agenda Item 11 – Tender for Invesment Consulting Services
Mr Howard Bluston declared a personal interest in that he had worked closely with the Aon Hewitt team based in St. Albans and as a Member of the North London Local Authority Pension Fund Committee.

93. Minutes

RESOLVED: That the minutes of the meeting held on 5 April 2011 and the special meeting on 3 May 2011, be taken as read and signed as correct records.

94. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were put, or petitions or deputations received at this meeting.

95. Exclusion of the Press & Public

RESOLVED: That the press and public be excluded from the meeting for the following item for the reasons set out below:

Item	Title	Reason
11.	Tender for Investment Consulting Services	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

RESOLVED ITEMS

96. Tender for Investment Consulting Services

The Panel received a report of the Interim Director Finance that set out the process the appointment of an investment adviser that had taken place.

The Panel had discussed the suitability of appointing Aon Hewitt as an Investment Advisor at the PFIP meetings on 5 April and 3 May. At the 3 May 2011 meeting, the Panel agreed to submit questions for the proposed lead consultant in advance of the meeting and meet with representatives of Aon Hewitt to have an informal discussion.

An officer advised that the Panel had the option to appoint one of the two consultants from Aon Hewitt who were in attendance at the meeting. It was agreed that Aon Hewitt would be advised of the consultant chosen subsequent to the meeting.

The representatives from Aon Hewitt answered questions raised by the Panel to which they responded to as follows:

- Aon Hewitt appointed experienced staff from a broad range of consulting and investing backgrounds. This provided the opportunity for clients to receive robust investment advice;

- the number of clients managed by investment consultants at Aon Hewitt varied according to the complexity of the client investment portfolio. Lead consultants had an average total of ten to twelve clients;

- officers were the main point of contact for investment consultants. Key issues relating to investment decisions would be presented and discussed with the Panel;

- a good client/consultant relationship existed where both parties had agreed a defined set of objectives and the client considered the advice provided by the investment consultant that would maximise the performance potential of individual pension fund portfolios.

RESOLVED: That

1) Aon Hewitt be appointed as Investment Advisor to the Panel;

2) the Panel's preferred lead consultant was John Harrison;

3) the s151 or deputy s151 officer be authorised to sign any documentation necessary or desirable to formalise the appointment.

(Note: The meeting, having commenced at 6.39 pm, closed at 8.52 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH
Chairman

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REPORT FOR: PENSION FUND INVESTMENT PANEL

Date of Meeting:	25 July 2011
Subject:	Investment Strategy Options
Responsible Officer:	Julie Alderson, Interim Director Finance
Exempt:	No
Enclosures:	Aon Hewitt Strategy Options Paper

Section 1 – Summary

Aon Hewitt will lead a discussion on the development of the current investment strategy and will set out areas in which further investigation is proposed.

Recommendation:

The Panel is invited to ask Aon to develop proposals to improve the current investment strategy through enhancing returns or reducing volatility including the wider use of alternative assets.

Harrow COUNCIL LONDON

Section 2 – Report

1. At the January 2011 meeting the Panel received a presentation from Hymans Robertson on alternative proposals to update the investments strategy. Discussion was deferred pending the completion of the investor advisor review.

2. Following their appointment, Aon Hewitt have been asked to review the current strategy in light of the actuarial position, the status of the Scheme as an LGPS and current / projected developments in financial markets and to set out preferred areas in which the strategy can be enhanced. Aon Hewitt will not be bringing proposed solutions, rather recommendations for detailed investigation. No modelling work e.g. asset liability modelling, has been undertaken and the Panel will wish to discuss with Aon Hewitt the extent to which the strategy work undertaken by Hymans can be used to support any new proposals.

3. The initial conclusion from the Aon review is that the current strategy has a high probability of achieving the returns required to pay the pension liabilities. Pages 4 and 9 of the Appendix set out areas in which additional work is suggested to develop proposals to improve the current investment strategy.

Section 3 – Further Information

N/A

Section 4 – Financial Implications

4. The strategic allocations of the pension fund have the greatest impact on fund returns and required future contribution levels.

Section 5 – Corporate Priorities

5. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

Name: Julie Alderson Date: 13 July 2011	√	Chief Financial Officer
Name: Matthew Adams Date: 15 July 2011	√	on behalf of the Monitoring Officer

Section 6 - Contact Details and Background Papers

Contact: George Bruce (Treasury and Pension Scheme Manager)
Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: Review of Pension Fund's Investment Strategy (paper to PFIP 17 January 2011).

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Initial Review of Investment Arrangements

11 July 2011

Prepared for

London Borough of Harrow Pension Fund

Prepared by

John Harrison

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Table of Contents

Introduction

Introduction

This is the first report we have produced for the London Borough of Harrow Pension Fund since our appointment as Investment Adviser earlier this year. The objectives of this report are:

- To provide initial comments about the suitability of the existing strategic asset allocation in the context of the long term funding requirements of the Fund.
- To assess the suitability of the existing investment managers in the context of the mandates they have been awarded.
- To identify the priorities for further advisory work over the coming year and in doing so highlight potential training needs for the Panel.

Executive Summary

- The current **strategic asset allocation** has a high probability of achieving the long term returns assumed by the actuary in assessing the long term funding of the pension fund. The expected return relative to a reasonable proxy for the scheme's liabilities is about 5.2% pa and the estimated probability of achieving the discount rate of 'gilts +1.6% pa' is over 70%.
- Replacing the passive equity mandate with an active approach and increasing the performance targets of the global equity managers would result in a higher expected return and improve the probability of achieving the required discount rate, but at a cost of increased volatility. Removing the currency hedge would also increase volatility, but would make very little difference to long term returns.
- The current strategic asset allocation implies a high level of volatility relative to liabilities. If the Panel wished to damp down volatility modestly to make future contributions more stable there is scope to do so without reducing the current discount rate.
- A detailed assessment of the existing **manager capabilities** is contained in the separate Manager Monitoring Report that accompanies this review document. The results are shown in the table below.

Asset category	**Manager**	**Allocation**	**Rating**
		%	
Passive UK equities	State Street	26	Buy
Active global equities	Fidelity	19	*Not rated*
	Longview	7	Buy
	Wellington	21	Hold
Active bonds	Blackrock	12	Buy
Private equity	Pantheon	5	Buy
Property	Aviva Fund of Funds	9	*Not rated*
	UBS	0	Hold
Currency	BNY Mellon	1	*Not rated*

- There are no existing capabilities which are rated Sell. Capabilities rated Buy account for 50% of the portfolio, with a further 21% in capabilities rated Hold.
- The remaining 29% is allocated to capabilities not currently rated by our manager research team. Each of the managers offers similar products which are rated. The Aviva real estate products are rated Hold or Buy, the Mellon currency product is rated Hold and the

Fidelity global equity products are rated Hold or Sell. Within the Pantheon range, while we do rate the Europe and USA funds as Buy, we do not have a current rating for the Secondary fund. In due course we will want to spend time with the managers for these specific products – the priority will be to assess the Fidelity capability.

- The priorities for **future advisory work** subject to cost are as follows:
  - Considering what steps could be taken to reduce volatility without changing the current actuarial discount rate.
  - Completing the coverage of the manager capabilities so that all the mandates are monitored and included in quarterly reports, undertaking complementarity analysis to assess the effectiveness of the mix of global equity managers in particular and assessing the manager fee charges to ensure that they remain competitive.
  - Widening the range of alternative asset choices to provide better strategic diversification and potentially more explicit protection against inflation and other risks and looking at the most effective way to gain exposure in each asset type.
  - Improving implementation through the timing of asset allocation moves in the context of medium term views on relative valuations.
  - Reviewing the governance arrangements both for the Panel's decision making processes and for monitoring the engagement activities of the appointed managers.
- The priorities for **future training** are as follows:
  - How the strategic asset allocation and the liabilities interact – how the liabilities are calculated, the potential costs of aligning strategy to liabilities and the potential consequences of not doing so.
  - How diversification can help smooth returns and how to decide which asset types to invest in and which to avoid.
  - The different ways to invest in alternative asset classes, including the asset types currently used by the pension fund (property, private equity and active currency).

AON Hewitt

Strategic Asset Allocation

Background

Strategic asset allocation is critically important to the ability of any pension fund to meet its long term funding needs. Different asset classes have different investment characteristics in terms of potential future returns, the volatility (or risk) associated with generating these returns and the correlation of these returns with those generated by different asset types. A strategic asset allocation determines a combination of assets that can be expected to generate a sufficiently high long term return with a sufficiently low degree of risk. The impact of strategic asset allocation decisions is likely to be far greater than the choice of different managers within each asset class.

Investment markets are inherently uncertain, so any strategic asset allocation is based upon carefully analysed and historically justified 'best guesses' about the future. The output of this analysis is usually three important numbers – the expected long term return, the expected volatility of returns and the expected probability of achieving the return required to meet the pension fund's funding needs.

In the long term a pension fund's liabilities can be met from one of two sources – investment returns or contributions. If investment returns are higher, contribution levels can be lower and vice versa. When the fund's actuary recommends the appropriate level of future contributions as part of the triennial actuarial review, a future level of investment returns is assumed in the rate at which future pension liabilities are discounted back to the present. Typically the discount rate will be expressed as 'gilts +x%' or 'liabilities +x%'. In setting a discount rate the actuary will usually take a prudent view of the likely future returns achievable given the strategic asset allocation. Typically the actuary will want the probability of the strategic asset allocation achieving the assumed investment return to be at least 60%.

When considering a strategic asset allocation we can look at the outcomes in one of two ways. The first is to consider the absolute level of returns and volatility. This is the approach that is most often used when reporting pension fund returns in the annual accounts. The second way is to consider the returns and risks relative to the scheme's liabilities. This is the approach that will best express the potential changes to the funding position of the scheme, so it is a key determinant of the potential future size of the funding deficit.

The funding position of a pension fund at the outset is an important component of establishing a suitable strategic asset allocation. A fully funded pension fund will need to generate returns similar to the future growth in liabilities, which is broadly determined by the future returns from long dated bonds. By contrast, a fund with large deficit relative to its liabilities has to generate much higher long term returns both to catch up with growth of the larger liability base and to close the funding gap. This requires a strategic asset allocation that seeks much higher investment returns and consequently takes much greater investment risk.

Current Position

The London Borough of Harrow is broadly typical of most LGPS funds in having a large funding deficit – at end March 2010, the pension fund was 73.5% funded on an ongoing basis. The investment objective for the strategic asset allocation is therefore highly skewed towards return generation rather than risk reduction.

The current strategic asset allocation is shown in the table.

	%
Equities	**71**
UK (passive)	26
Global	45
Bonds	**13**
Alternatives	**16**
Property	10
Private equity	3
Active Currency	3

Initial High Level Modelling Results

Our modelling suggests the current strategic asset allocation is capable of generating a high investment return in the long term. The bulk of the assets are in assets that we believe will generate long term returns in excess of 8% pa – this includes equities, private equity and property. By contrast, bonds are likely to generate much lower returns at about 4% pa.

In addition to the choice of asset classes, the bulk of the assets are in actively managed mandates seeking returns above their respective market indices – the only passive (or index tracking) component is UK equities. Within equity markets the emphasis is on global markets rather than the UK both to diversify exposure to global economic growth and to maximise the opportunity set for the active managers. In order to limit the currency risk of the portfolio there is an additional currency mandate not included in the strategic asset allocation above that hedges 50% of the currency exposure back to sterling.

Based on the current strategy and taking into account the out-performance targets of the existing managers, we would expect the strategic asset allocation to generate a long term total return of about 9.6% pa, with a volatility of 15.9%. It would be possible to adopt an even more active approach to equity management to boost the return further – a fully unconstrained approach in all markets would increase the 'expected' return to 10.5% pa – but at a cost of increasing the volatility to 16.5%. If instead we remove the currency hedge we would increase risk (to 16.2%) and not gain much extra return (9.7% pa).

These figures are all based on absolute measures and take no account of the scheme's liabilities. As such they do not fully express the potential volatility of the scheme's funding position. The scheme's liabilities are a mix of nominal and inflation linked future cash payments, with most being linked to inflation through wages. A detailed analysis of the liabilities would take many months, but a good approximation for LGPS funds generally is to consider a basket of 80% long dated index linked gilts and 20% long dated conventional gilts as a proxy for the liabilities.

Using this proxy we can establish that the existing strategic asset allocation and manager mandates are expected to generate a return of about 5.2% pa above the liabilities, but with a volatility of 18.2%. This is an approach designed to close the deficit quite quickly over time, but with a high level of volatility along the way. Tweaking the structure either to increase the performance objectives of the equity mandates or remove the currency hedges would have relatively little effect (see table below).

In calculating the current contribution rates the actuary used a discount rate of 'gilts +1.6% pa'. Our modelling suggests the current strategic asset allocation has a probability of achieving this return in excess of 70%.

	Current %	Unconstrained equities %	Currency hedges removed %
Absolute basis			
Expected annual return	**9.6**	10.5	9.7
Expected volatility	**15.9**	16.5	16.2
Relative to liabilities*			
Expected annual return	**5.2**	5.9	5.1
Expected volatility	**18.2**	18.8	18.5
Probability of achieving gilts +1.6% pa	**72**	76	73

* based 80% index linked gilts/20% conventional gilts

Overall, we believe the current strategic asset allocation is capable of achieving the long term returns required to maintain the funding of the pension fund, albeit with a high degree of volatility both in absolute terms and more importantly relative to liabilities. The implication of high volatility is that the funding position could either improve or deteriorate significantly between each triennial valuation, which in turn means future employer contribution rates will be less stable. It is not possible to eliminate this volatility entirely while maintaining sufficient investment return to satisfy the current funding assumptions.

Having said this, the discount rate currently used is conservative and there is scope to dampen down volatility modestly while not reducing the discount rate assumptions. In other words it should be possible (by reducing volatility relative to the liabilities) to reduce the probability of needing to increase contribution rates in future while (by retaining the same the actuarial discount rate) maintaining the current contribution rate.

Manager Assessment

Aon Hewitt has a well resourced manager research capability comprising over 70 investment professionals with expertise in all the main asset categories used by our clients. We currently monitor over 11,000 products offered by over 4,000 managers and undertake over 2,000 manager visits each year.

Our research team is familiar with all the managers currently employed by the pension fund, but in three cases we have not researched the specific product relevant to the mandate you have awarded - the Fidelity global equity mandate, the Aviva property fund of funds and the BNY Mellon active currency capability.

A detailed Manager Monitoring Report accompanies this review and provides in-depth analysis of the manager capabilities that have been rated fully by the team.

The table below summarises our overall ratings for the managers.

Asset category	Manager	Allocation %	Rating
Passive UK equities	State Street	26	Buy
Active global equities	Fidelity	19	*Not rated*
	Longview	7	Buy
	Wellington	21	Hold
Active bonds	Blackrock	12	Buy
Private equity	Pantheon	5	Buy
Property	Aviva Fund of Funds	9	*Not rated*
	UBS	0	Hold
Currency	BNY Mellon	1	*Not rated*

There are no existing capabilities which are rated Sell. Capabilities rated Buy account for 50% of the portfolio, with a further 21% in capabilities rated Hold.

The remaining 29% is allocated to capabilities not currently rated by our manager research team. Each of the managers offers similar products which are rated. The Aviva real estate products are rated Hold or Buy, the Mellon currency product is rated Hold and the Fidelity global equity products are rated Hold or Sell. In due course we will want to spend time with the managers for these specific products – the priority will be to assess the Fidelity capability first.

Priorities for further advisory work and training

The existing strategic asset allocation is geared to generating high investment returns, but with high volatility relative to the liabilities. This strategy is essentially one focused on narrowing the deficit as quickly as possible. While there is some strategic diversification through the allocations to real estate and other alternatives, the biggest concentrations of risk arise from investing heavily in equity markets and from having very little protection against some of the most important drivers of pension cost – notably inflation.

Looking forward there is scope to hone the investment arrangements to better suit your needs. Specifically we would suggest further work in the following areas:

- Considering what steps could be taken to reduce volatility without changing the current actuarial discount rate. This would involve understanding better the relationship between the liabilities and the investment strategy.
- Completing the coverage of the manager capabilities so that all the mandates are monitored and included in quarterly reports, undertaking complementarity analysis to assess the effectiveness of the mix of global equity managers in particular and assessing the manager fee charges to ensure that they remain competitive.
- Widening the range of alternative asset choices to provide better strategic diversification and potentially more explicit protection against inflation and other risks and looking at the most effective way to gain exposure in each asset type.
- Improving implementation through the timing of asset allocation moves in the context of medium term views on relative valuations.
- Reviewing the governance arrangements both for the Panel's decision making processes and for monitoring the engagement activities of the appointed managers – the Panel's time is usually very limited, so in order to ensure it is used most effectively it is important periodically to review and prioritise the issues that should be considered by Panel, the scope for delegation and the information required to ensure effective direction and control.

Some of these issues will involve investment concepts and techniques that are not straightforward. To enable the Panel to fully understand, direct and monitor progress, we anticipate some training will be required. The exact format of the training will need to be discussed in due course, but the areas we think are most likely to be needed are as follows:

- How the liabilities are calculated, the potential costs of aligning strategy to liabilities and the potential consequences of not doing so.
- How diversification can help smooth returns and how to decide which asset types to invest in and which to avoid.
- The different ways to invest in alternative asset classes, including the asset types currently used by the pension fund (property, private equity and active currency).

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Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events

REPORT FOR: PENSION FUND INVESTMENT PANEL

Date of Meeting:	25 July 2011
Subject:	INFORMATION REPORT – Annual Pension Scheme Accounts
Responsible Officer:	Julie Alderson, Interim Director Finance
Exempt:	No
Enclosures:	Appendix A - Pension Fund Annual Report Appendix B - Expense Summary

Section 1 – Summary

The draft pension fund accounts are attached. The audit is in progress and a verbal report will be given on any issues raised by the Auditor.

FOR INFORMATION

Harrow COUNCIL LONDON

Section 2 – Report

1. The draft Pension Scheme Accounts to 31st March 2011 are attached at Appendix A. The audit of the Accounts by Deloitte is underway, although a report on their findings and recommendations is not available and will be presented at the next Panel meeting. A verbal report will be given on any interim audit findings.

2. The contents of the Accounts are governed by regulations although additional disclosures are permitted. The format follows that used in prior years. The Accounts and Auditors Report will be considered at the September meeting of Governance Audit & Risk Management Committee.

3. Also attached at Appendix B is a schedule of expenses incurred by the pension fund in the year. Aggregate expenses are estimated at £3,374,000 with fund manager fees (£2.5 million) being the largest component. Fund manager fees are mainly charged direct to the pooled fund, and Harrow's share of such fees has been estimated taking into account any rebates

4. The investments in private equity and property are through fund of funds and incur two layers of fees. For these asset classes, the underlying manager fees have been estimated. The aggregate costs represent around 0.74% of the Scheme value.

5. No provision is shown for private equity and property performance related fees. These are almost impossible to estimate although in the light of performance to date are not thought to be significant.

6. Within the annual Accounts, pooled fund manager fees are shown within the change in market value of investments. For this reason, the value of expenses shown in the annual Accounts is considerably lower at £573,000.

7. Currently, no expense benchmarking information is available. In future years we will seek to compare these costs with industry average expense levels.

Section 3 – Further Information

N/A

Section 4 – Financial Implications

8. The level of costs incurred will have a significant impact on the net returns earned by the fund.

Section 5 – Corporate Priorities

9. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

Name: Julie Alderson Date:13 July 2011	√	Chief Financial Officer
Name: Matthew Adams Date: 15 July 2011	√	on behalf of the Monitoring Officer

Section 6 - Contact Details and Background Papers

Contact: George Bruce (Treasury and Pension Scheme Manager)
Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: None

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Appendix A

Pension Fund Annual Report 2010-11

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 2011.

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 continued the advances of 2010 into 2011 supported by improvements in the global economy and robust corporate earnings. Inflationary pressures and government action to tackle deficits in the developed economies are likely to act as a constraint on growth. The market value of the Fund as at 31 March 2011 was £475.8m compared to £435.9m as at 31 March 2010. The London Borough of Harrow Pension was ranked in the 22nd percentile in the Local Authority Annual League Table of investment returns for the year ended March 2011.

Julie Alderson
Corporate Director of Finance
XX September, 2011

2 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2008. 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:

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). The scheduled employers within the Fund are:

- Harrow Council;
- St Dominic's Sixth Form College:
- Stanmore College; and
- Harrow College.

Admitted:

There are two types of admission body:

Community Admission Body – These are typically charities or other public sector bodies providing a public service otherwise than for profit and 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.

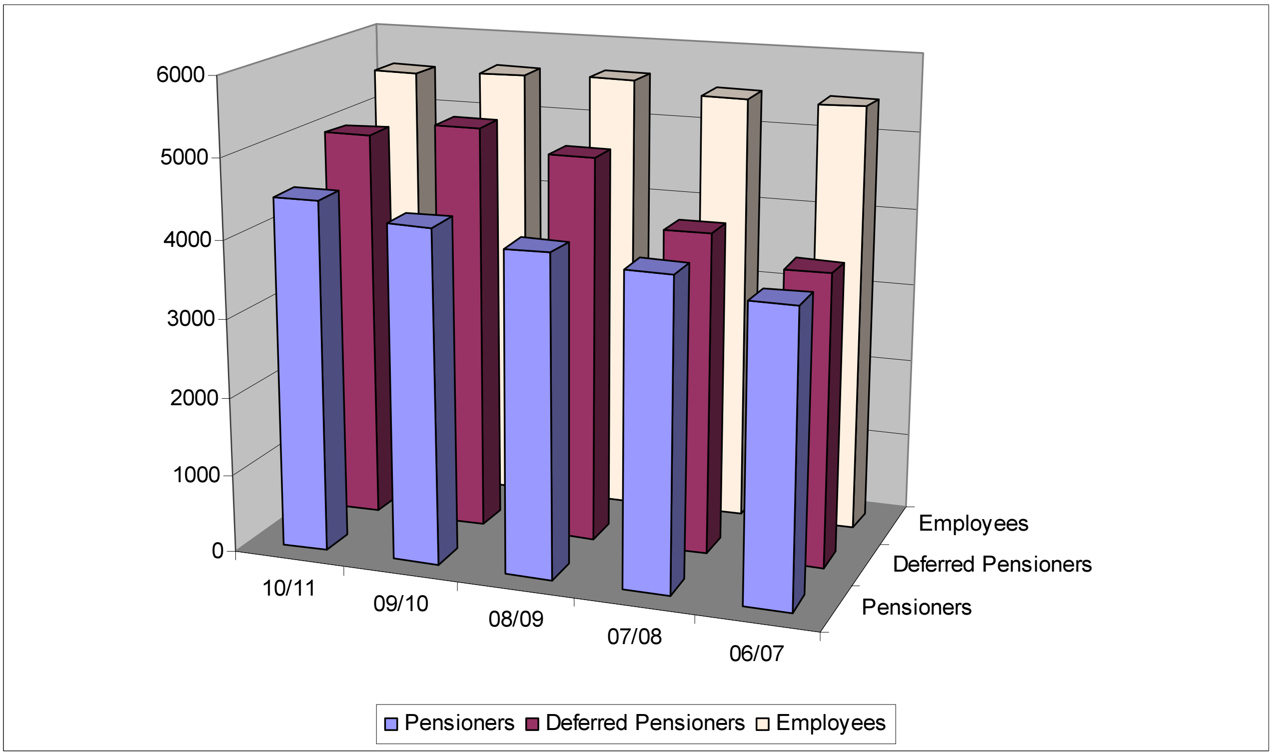
The organisations listed below have been admitted to the fund:

- Capita IT;
- Care UK;
- Harrison Catering;
- Julius Rutherfood;
- KGB Cleaning;
- Kier;
- North London Collegiate School; and
- Supporta Care.

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 2011

	Status	Actives	Deferreds	Pensioners	Total	%
LB Harrow	Scheduled	5,061	4,629	4,259	**13,949**	92.95
Harrow College	Scheduled	176	209	104	**489**	3.26
Stanmore College	Scheduled	93	93	42	**228**	1.52
St Dominic's Sixth Form College	Scheduled	38	19	19	**76**	0.51
Capita IT	Admitted	12	4	5	**21**	0.14
Care UK	Admitted	38	8	9	**55**	0.37
Harrison Catering	Admitted	23	2	-	**25**	0.17
Julius Rutherfood	Admitted	3	1	-	**4**	0.03
KGB Cleaning	Admitted	2	1	-	**3**	0.02
Kier	Admitted	7	2	1	**10**	0.07
North London Collegiate School	Admitted	55	16	26	**97**	0.65
Supporta Care	Admitted	39	3	8	**50**	0.33
Total		**5,547**	**4,987**	**4,473**	**15,007**	100.00

Key Elements of the Fund

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 whole time equivalent (WTE) pensionable pay. The bandings effective from 1 April 2011 are shown below:

WTE 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 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 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 Section 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 2010/11 accounts, Deloitte LLP have been reappointed. In future years the Council will be responsible for the selection and appointment of auditors.

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 at least six times a year. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2011, 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 by a Non-Executive (agreed by 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 2011 was carried out by the following ten 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
BNY Mellon Asset Management	Active Currency
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

Aviva was appointed during the year to manage a property portfolio previously managed by BlackRock. Manager fees are paid as a percentage of the value of each mandate.

Investment Adviser

The Panel is advised by independent adviser, 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% (compared to 87% at 31 March 2007, the date of the last valuation).

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 take 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 as nearly constant employer contribution rates as 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 ensured a less dramatic year in 2010/11 than the three earlier years. Global equity markets continued their recovery from the lows of March 2009 supported by continued improvements in the global economy (in particular emerging markets), robust corporate results and heightened merger and acquisition activity. However, sentiment remains fragile and markets react strongly to new economic signals. The focus of concern shifted to sovereign debt issues. The Euro zone peripheral sovereign debt crisis caused considerable concerns in financial market as Greece, Ireland and Portugal were required to accept assistance from a combined EU / IMF rescue package. The US continued its quantitative easing programme which supported modest economic growth. In the UK rising inflation mainly due to commodity prices and government spending cuts both impacted on consumer spending.

In the UK, growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although it slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

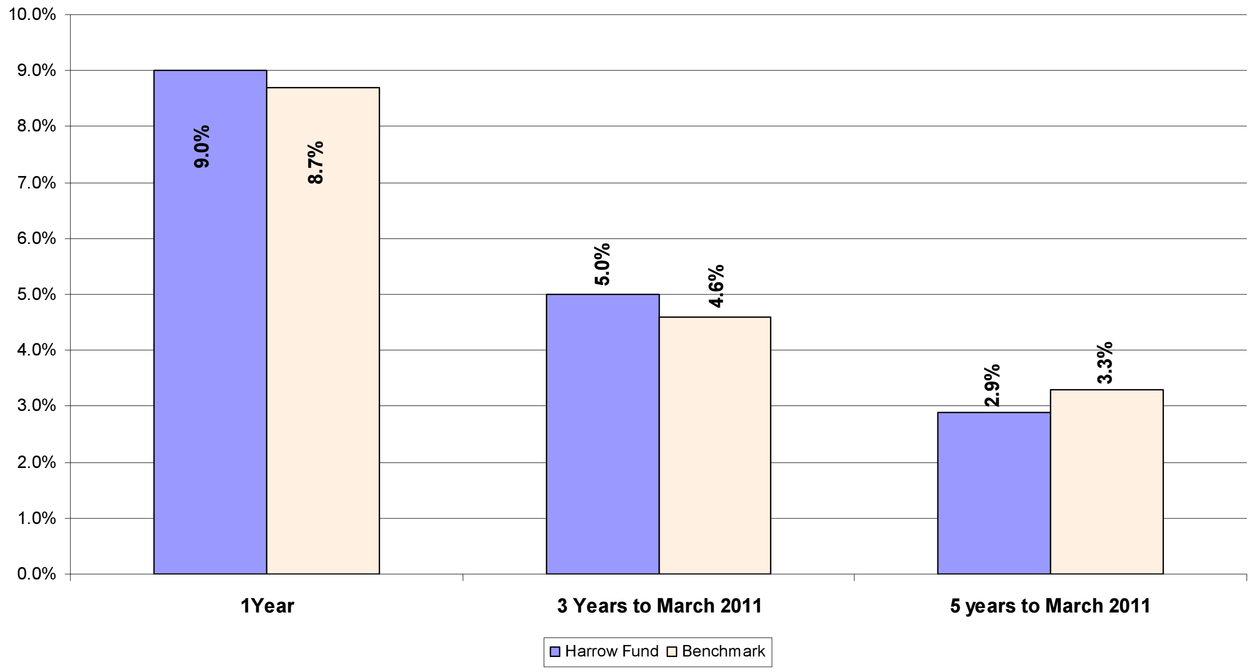
Global equity markets benefited from the accommodative economic policy and returned 8.4%. In the UK equity markets returned 8.7%, while those in the US and Europe (ex-UK) returned 9.6% and 7.5% respectively in sterling. Superior growth prospects in emerging markets helped them add 11.9% in the year.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected. UK gilts, index linked and corporate bonds returned 5.2%, 6.5% and 5.3% respectively. Property returned 10.7% as capital values continued to recover.

The economic outlook remains uncertain with concern that the level of economic growth will fall as monetary policy is tightened to suppress inflation and fiscal policy is tightened to address government budget deficits in developed countries. The outlook for equity markets as a whole is uncertain and much less positive than a year ago.

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 benefited from the continued recovery in financial markets described above with its high allocation to equity markets and achieved a return of 9.0% in the year to 31 March 2011, outperforming the benchmark. While stock selection added value this was offset by higher than benchmark allocations to cash and private equity.

The average fund in the local authority universe (as per WM performance services) returned 8.2%, bringing 10 year returns back above inflation. The Fund return of 9.0% compared with the Local Authority Average return of 8.2%, ranking in the 22nd percentile. There were 86 funds included in the Local Authority universe at end March 2011.

The longer term performance continues to disappoint with underperformance of 0.4% over five years. The Panel expect that the changes to the investment manager structure implemented in the prior year will support improved performance.

Investment strategy

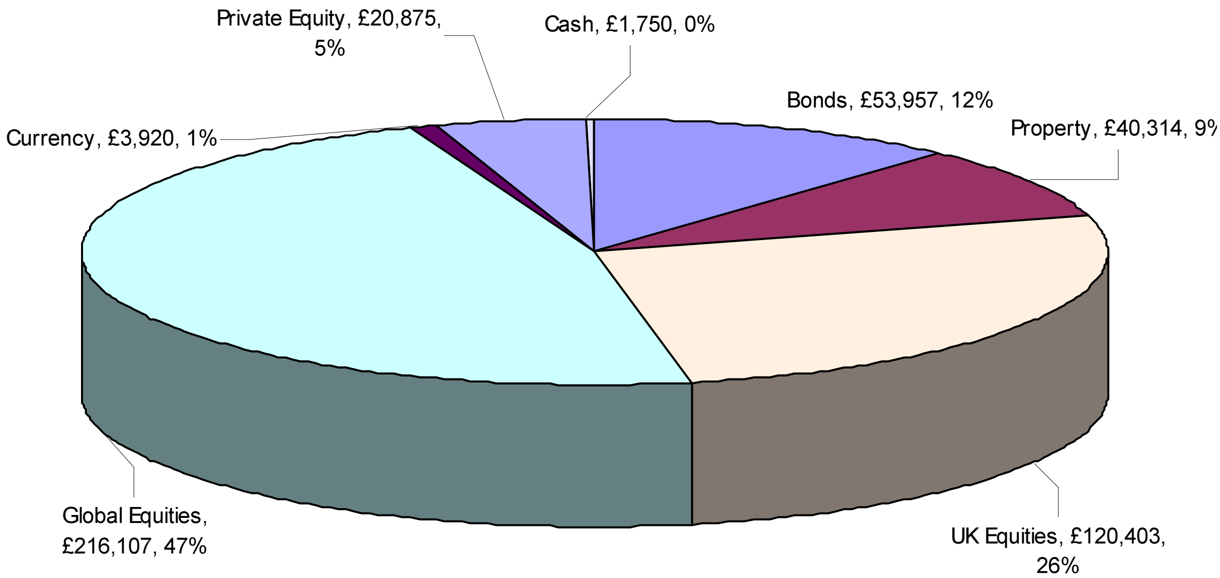
The strategic allocations approved in 2008 and reported in the Statement of Investment Principles are shown in the table below. The strategy was fully implemented in the year following the completion of a review of the manager structure.

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 due to take place following completion of the 2010 actuarial review.

Strategic Asset Allocations 31 March 2011	**%**
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 £457,326,000

Investments held by Fund Managers

	2010-11 £000	2010-11 %	2009-10 £000	2009-10 %	
State Street Global Advisors	**120,397**	**26%**	117,459	27%	UK Equities
Longview Partners	**32,041**	**7%**	32,736	8%	Global Equities
Fidelity International	**86,232**	**19%**	85,927	20%	Global Equities
Wellington Management	**97,834**	**21%**	98,251	23%	Global Equities
Black Rock	**55,130**	**12%**	64,956	15%	Bonds
UBS	**585**	**0%**	12,771	3%	Property
Aviva	**40,314**	**9%**	0	0%	Property
Pantheon	**20,873**	**5%**	15,509	4%	Private Equity
Mellon	**3,020**	**1%**	2,411	1%	Currency
Record Currency	**900**	**0%**	1,499	0%	Currency
Total Fund	**457,326**	**100%**	431,519	100%	

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

One new fund manager was appointed in the year. Aviva Investors now manage the property portfolio previously managed by BlackRock. In addition, the UBS property holdings are being transitioned into management by Aviva, which will result in a single property manager.

The Panel believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Post the completion of the UBS transition, the Fund will have 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 £0.900m shown under assets (£1.527m) and liabilities (£0.627m), 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 of Finance;

- 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 Director of Finance's Responsibilities

The Director of Finance 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 Director of Finance 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 2011 and its income and expenditure for the year then ended.

Julie Alderson

INTERIM CORPORATE DIRECTOR OF FINANCE
xxth September, 2011

7 London Borough of Harrow Pension Fund Account

Pension Fund Account for the year ended 31st March 2011

2009-10 £000		Notes	2010-11 £000
	Contributions and Benefits		
25,170	Contributions receivable	8.2	25,496
4,315	Individual Transfers in from other schemes		5,199
93	Other Income (including Capital cost)		31
	Less:		
-23,526	Benefits Payable	8.3	-24,581
-3,805	Leavers	8.4	-2,455
-816	Administrative expenses	8.5	-775
1,431	**Net additions from dealings with members**		**2,915**
	Returns on Investments		
5,668	Investment Income	8.6	3,338
122,033	Change in market value of investments	8.7	33,398
-630	Investment management expenses	8.5	202
127,071	**Net returns on investments**		36,938
128,502	Net (Increase)/decrease in Fund during the year		39,853
307,421	Net assets at start of year		435,923
435,923	**Net assets at end of year**		475,776

Net Assets Statement

2009-10 £000		Notes	2010-11 £000
	Investment Assets		
432,893	Pooled investment vehicles	8.9	**454,676**
1,354	Derivative contracts	8.10	**1,527**
434,247			**456,203**
	Investment Liabilities		
-3,245	Derivative contracts	8.10	**-627**
431,002			**455,576**
517	Cash deposits	8.7	**1,750**
431,519	**Net Investment Assets**		**457,326**
4,404	**Net current assets and liabilities**	8.12	**18,450**
435,923	**Net assets of the scheme at 31 March 2011**		**475,776**

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 24 and 25 and these accounts should be read in conjunction with it.

Julie Alderson

INTERIM CORPORATE DIRECTOR OF FINANCE
xx September, 2011

8 Notes to the Pension Fund Accounts

8.1 Accounting Policies

The accounts have been compiled in accordance with chapter 2 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 2009. 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 2011;
- Investments in pooled investment vehicles are stated at the bid value 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 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 changed 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.

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 published in 1989 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 administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

8.2 Contributions

2009-10 £000		2010-11 £000
	Employers - normal	
16,623	London Borough of Harrow	**16,905**
1,367	Scheduled Bodies	**1,336**
530	Admitted Bodies	**575**
	Members - normal	
5,977	London Borough of Harrow	**6,025**
500	Scheduled Bodies	**463**
173	Admitted Bodies	**192**
25,170		**25,496**

8.3 Benefits

2009-10 £000		2010-11 £000
	Pensions	
-17,664	London Borough of Harrow	**-18,286**
-348	Scheduled Bodies	**-419**
-108	Admitted Bodies	**-134**
-18,120		**-18,839**
	Commutation of Pensions and Lump Sum Retirement Benefits	
-4,364	London Borough of Harrow	**-4,847**
-331	Scheduled Bodies	**-350**
-82	Admitted Bodies	**-253**
-4,777		**-5,450**
	Lump Sum Death Benefits	
-629	London Borough of Harrow	**-292**
0	Admitted Bodies	**0**
-629		**-292**
-23,526		**-24,581**

8.4 Leavers

2009-10 £000		2010-11
-9	Refunds to members	**-4**
-3,797	Individual transfers to other schemes	**-2,451**
1	NI contributions	**0**
-3,805		**-2,455**

8.5 Investment Management and Administration Expenses

2009-10 £000		2010-11 £000
-630	Investment management expenses	202
	Scheme administration	
-690	Harrow Council	-639
-126	Misc. (including Actuary Fees)	-136
-816	**Total Administration Expenses**	-775
-1,446	**Total Expenses**	-573

8.6 Investment Income

2009-10 £000		2010-11 £000
889	Interest from fixed interest securities	0
3,534	Dividends from equities	0
310	Income from index-linked securities	0
1,371	Income from pooled investment	3,220
168	Interest on cash deposits	118
-604	Foreign exchange	0
5,668		3,338

Income from dividends has been accrued from the point when securities have been quoted ex-dividend.

8.7 Investments

	Value at 01-Apr-10 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	**Value at 31-Mar-11 £000**
Pooled Investment Vehicles					
Property	26,440	14,651	-3,093	2,316	**40,314**
Other	406,453	8,276	-30,421	30,054	**414,362**
Derivatives	-1,891	2,190	-427	1,028	**900**
	431,002	**25,117**	**-33,941**	**33,398**	**455,576**
Cash Deposits	517				1,750
	431,519				**457,326**

The significant change in market values is mainly due to the increase in equity values as the global economic background improved over the last year (see pages 12 & 13). Due to the pooled fund structures in use, it is not possible to separately quantify realised and unrealised gains.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees. There was no brokerage or custodian transaction charges incurred during the year (£0.279m in 2009-10). In addition to brokerage costs, indirect transaction 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 (£2.2m) and receipts (£0.4m) 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

2009-10 £m		**2010-11 £m**
117.6	SSGA MPF UK Equity Index Sub-Fund	**120.4**
98.2	Wellington Global Pooled Value Equity Portfolio	**97.8**
74.9	Fidelity Inst Select Global Pooled Equities	**86.2**
40.4	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	**43.2**
32.7	Longview Partners Invest - Global Pooled Equities FD K Class	**32.0**
0.0	Aviva Investors UK Real Estate Fund of Funds Open Ended	**30.8**
363.8		**410.4**

8.9 Pooled Investment Vehicles

2009-10 £000		**2010-11 £000**
26,440	UK Managed Funds - Property	**40,314**
174,030	UK Managed Funds - Other	**177,382**
232,423	Overseas Other	**236,980**
432,893		**454,676**

8.10 Derivatives

2009-10 £000		**2010-11 £000**
	Investment Assets	
1,354	Forward Foreign exchange contracts	**1,527**
	Investment Liabilities	
-3,245	Forward Foreign exchange contracts	**-627**
-1,891	**Net Derivatives**	**900**

Counterparty	Duration	No. of Contracts	Value at 31-Mar-11 Assets £000	Liabilities £000
Barclays Bank - London	7 days - 6 mths	6	605	-184
HSBC Bank - London	7 days - 3 mths	4	7	-64
Northern Trust - London	7 days - 6 mths	3	304	-4
Royal Bank of Scotland	7 days - 6 mths	4	33	-4
Royal Bank of Canada - London	7 days - 6 mths	1	24	0
Toronto Dominion - Toronto	7 days - 6 mths	7	83	-296
UBS AG - London	7 days - 3 mths	2	22	-22
Westpac - Sydney	7 days - 6 mths	10	448	-54
		37	1,527	-627

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 make AVCs. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5c of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

2009-10 £000		2010-11 £000
2,120	Value of AVC Fund at 1 April	2,233
223	Employee contributions	249
166	Investment income and change in market value	113
0	Transfer Values In	125
-276	Benefits paid and transfers out	-527
2,233	**Value of AVC Fund at 31 March**	2,193

8.12 Current Assets & Liabilities

2009-10 £000		2010-11 £000
	Current Liabilities	
-516	Unpaid Benefits	-256
-202	Other Unpaid liabilities	-175
-718		-431
	Current Assets	
4,378	Cash balances held by London Borough of Harrow	18,750
114	Contributions due from employers	114
630	Other Current Assets	17
5,122		18,881

4,404	**Net Assets**	**18,450**

8.13 Related Party Transactions

2009-10 £000		2010-11 £000
16,623	Employer's pension contribution to the fund	**16,905**
-690	Administration expenses paid to the Council	**-639**
4,378	Cash in hand held by Council	**18,750**

The fund is required under FRS8 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 did not have a separate bank account during the year – rather cash balances are maintained by the Council on the Pension Fund's behalf. Details of the year end cash balances maintained by the London Borough of Harrow on behalf of the Pension Fund are set out above. Separate pension fund bank accounts were implemented from 1 April 2011.

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 require level of contributions and reported on page 23 and 25.

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

2009-10 £m		2010-11 £000
757	Present value of Promised Retirement Benefits	**649**
3.8%	Inflation/ Pension Increase Rate	**2.8%**
5.3%	Salary Increase Rate [1% p.a. until 31 March 2013]	**4.6%**
5.5%	Discount Rate	**5.5%**

The assumed average future life expectancy at age 65 was as shown in the Actuary's statement below.

The value of the fund as at 31st March 2011 represents 73% of the actuarial value of benefits. The deficit is expected to be addressed through a combination of investment returns in excess of the discount rate and additional contributions from Employers.

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.

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

10 Pension Fund Annual Report Opinion

Independent auditor's report to the Members of London Borough of Harrow Pension Fund

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 8.1 to 8.13. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Harrow Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. 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 auditors' 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 Chief Financial Officer and auditor

The Chief Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Management Report for the year ended 31 March 2010.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

10. Pension Fund Annual Report Opinion (continued)

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

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

Appointed Auditor

St Albans, UK

30 September 2010

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Pension Fund Costs - Year to 31st March 2011

State Street	Actual billing		55,256
	First £100 million 0.05% and thereafter 0.04%		
	Aveage assets £115.3 million		
Wellington			
	First £20 million 0.65%	130,000	
	Next £30 million 0.5%	150,000	
	over £50 million 0.45%	216,192	496,192
	[Average assets £98.0 million]		
Fidelity			
	First £50 million 0.59%	295,000	
	Next £50 million 0.5%	180,397	
		475,397	
	10% discount	-47,540	427,857
	[Average assets £86.1 million]		
Longview			
	First £25 million 0.75%	187,500	
	Next £25 million 0.65%	48,026	235,526
	[Average assets £32.4 million]		
BlackRock			101,167
Bond Portfolio	Actual Billing		
	First £10 million 0.35%, thereafter 0.15%		
	average £54.2 million		
	[Note - no property fees]		
UBS			
	UK fund 0.75% of NAV plus 0.25%		92,925
	performance fee if in top quartile		
	Average portfolio value £12.4 million		
Aviva			
	FoF fee of 0.214%		54,359
	Average fund value £25.4 million includes UBS Triton		
	from December 2010		
	Underlying managers - assume 0.75%		161,326
	[average excluding Triton £21.5 million]		
Mellon			
	class C shares - 3% fee		81,527
	[average portfolio value £2.7 million]		
Record			
	passive - £5,000 a quarter	20,000	
	Active 1.7% NAV terminated 6aug11	18,473	
			38,473
Pantheon			
	0.75% of committed capital £35 million	262,500	
	5% performance fee	0	
	Underlying managers		
	2% mgt fee (75% committed)	525,000	
	20% performance fee	0	787,500
			2,532,108
Other			
WM			16,908
Hymans actuarial			56,773
Hymans investment consultancy			68,183
Custody			10,000
Audit			37,300
Other			14,120
Internal - Finance			87,889
Internal - administration			550,796
	Total		**3,374,077**

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