

# Pension Fund Annual Report 2009-10

## London Borough of Harrow Pension Fund

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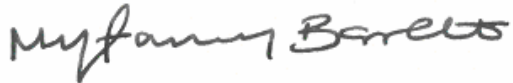
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## 1 Introduction

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 2010.

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. The triennial valuation as at 31 March 2010 is currently underway.

The financial markets gained confidence over the year and resulted in a strong recovery in both the UK and Global equity markets. The market value of the Fund as at 31 March 2010 was £435.9m compared to £307.4m as at 31 March 2009. The London Borough of Harrow Pension was ranked 11<sup>th</sup> highest out of 99 in the Local Authority Annual League Table of investment returns for the year ended March 2010.



Myfanwy Barrett  
CPFA  
Corporate Director of Finance

## 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:

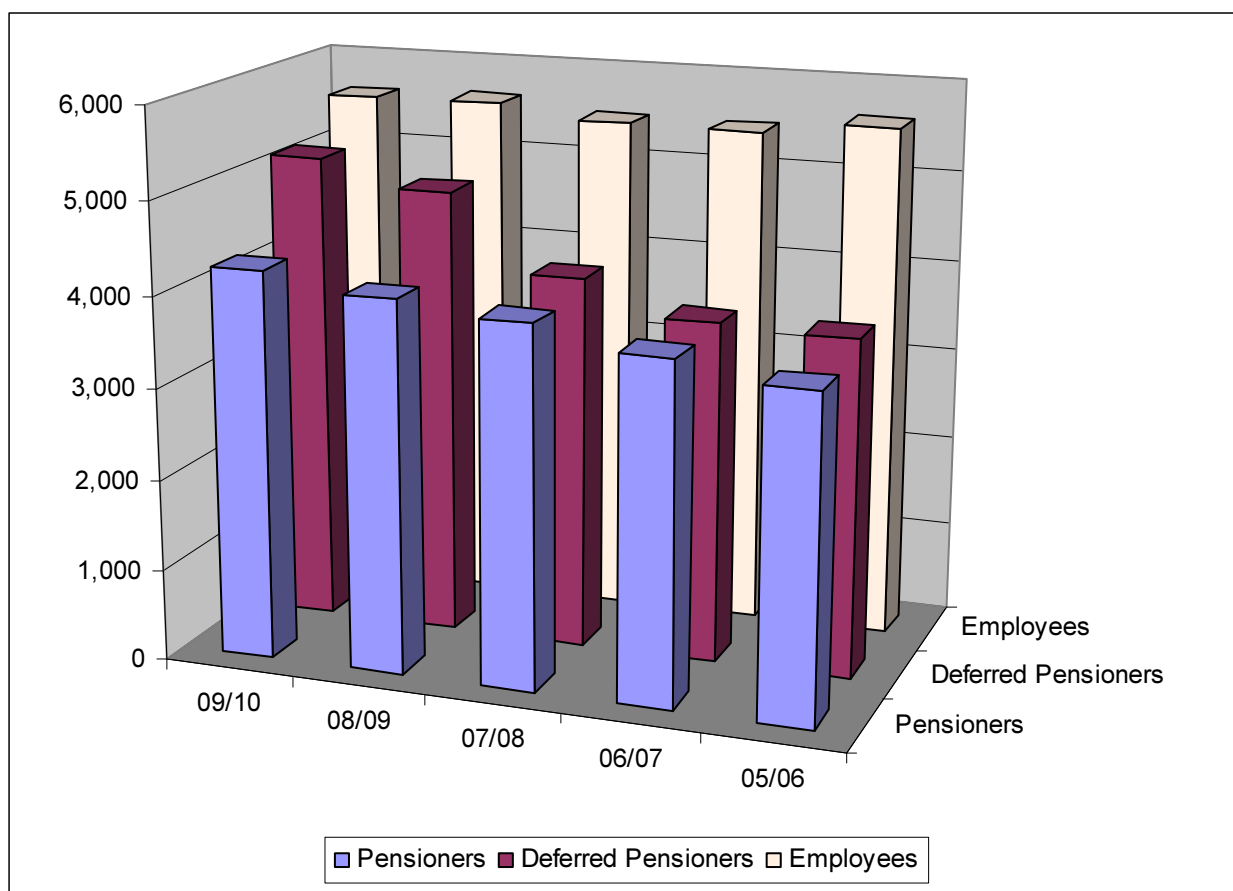
- Care UK;
- Harrison Catering;
- Haywards Services;
- Hughes Gardner;
- Kier;
- North London Collegiate School; and
- Supporta Care.

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 2010

	Status	Actives	Deffereds	Pensioners	Total	%
<b>LB Harrow</b>	Scheduled	5,082	4,834	4,073	<b>13,989</b>	93.02
<b>Harrow College</b>	Scheduled	190	216	95	<b>501</b>	3.33
<b>Stanmore College</b>	Scheduled	120	80	34	<b>234</b>	1.56
<b>St Dominic's Sixth Form College</b>	Scheduled	44	21	17	<b>82</b>	0.55
<b>Care UK</b>	Admitted	43	6	6	<b>55</b>	0.37
<b>Harrisons Catering</b>	Admitted	14	-	-	<b>14</b>	0.09
<b>Hayward Services</b>	Admitted	4	2	1	<b>7</b>	0.05
<b>Hughes Gardner</b>	Admitted	3	-	1	<b>4</b>	0.03
<b>Kier</b>	Admitted	7	2	1	<b>10</b>	0.07
<b>North London Collegiate School</b>	Admitted	51	16	26	<b>93</b>	0.62
<b>Supporta Care</b>	Admitted	42	2	6	<b>50</b>	0.33
<b>Total</b>		<b>5,600</b>	<b>5,179</b>	<b>4,260</b>	<b>15,039</b>	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 as shown below:

WTE Pensionable Pay	Contribution Rate
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	7.5%

Employees previously paying a protected rate of 5% paid the contribution rate of 5.50% in 2009/10. The rate will be increased on a phased basis, bringing it into line with all other Fund members by 1 April 2011.

**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 (other than those with protection at age 50 until 31 March 2010) 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 (other than those with protection at age 50 until 31 March 2010) 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 Retail 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** – Income earned from investments in stocks and shares and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong, whereby investment income is transmitted to Britain, gross of foreign income tax. Taxation arrangements exist between Britain and certain EC and other European Countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

**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](http://www.harrow.gov.uk) - Advice & Benefits - Local Government Pension Scheme.

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](mailto: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 2009/10 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](mailto: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 every two months. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2010, the membership of the Pension Fund Investment Panel was as follows:

Councillor Romain (Chairman)  
Councillor Ferrari  
Councillor Dharmarajah  
Councillor Idaikkadar

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 2010 was carried out by the following nine external managers:

### **Managers**

BlackRock Investment Management (UK) Limited  
Fidelity International  
Longview Partners Investments  
BNY Mellon Asset Management  
Pantheon Private Equity  
Record Currency Management Limited  
State Street Global Advisors Limited  
UBS Global Asset Management (UK) Limited  
Wellington Management International Limited

### **Mandate**

Global Bonds and Property  
Global Equities  
Global Equities  
Active Currency  
Private Equity  
Active and Passive Currency  
UK Equities Passive  
Property  
Global Equities

The UK and Global equities mandate with Baillie Gifford was terminated during November 2009. 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 2007. The market value of the Fund's assets at the valuation date was £435m and the total accrued liabilities of the Fund were £503m. The Fund deficit was therefore £68m producing a funding level of 87% (compared to 82% at 31 March 2004, 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 19.4% 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 2007 are detailed below:

<b>Assumption</b>	<b>Nominal</b>
Price Inflation (RPI)	3.2%
Pay Increases	4.7%
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 2010. The results will be known in November 2010 and the employer's contribution rate will be adjusted in the light of this.

## Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 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](http://www.harrow.gov.uk) – Advice & Benefits - Local Government Pension Scheme – Pension Fund Policies / Statements.

The Fund's Statement of Investment Principles (SIP) will be updated to include control ranges around the strategic asset allocations and the policy on rebalancing. Pending this update, the Fund is technically not in compliance with the SIP as the impact of market movements has moved actual allocations away from the strategic benchmark. The Pension Fund Investment Panel monitor's actual against strategic 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](http://www.harrow.gov.uk)' can be found on the Council website at [www.harrow.gov.uk](http://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

2009/10 saw a welcome recovery in equity markets from the lows following the credit crisis that began in 2007 and escalated in 2008. Governments around the world provided further support to their respective banking sectors and various initiatives were taken to stimulate economic activity. The actions of policy makers around the world in easing monetary policy and supporting banks directly did much, eventually, to ease the conditions in money markets. The Bank of England and other central banks suspended their quantitative easing programmes in Q1, 2010 as the outlook for a double dip recession receded. However, the economic outlook remains challenging and base interest rates in developed markets remain at historic lows close to 0%, being 0.5% in the UK.

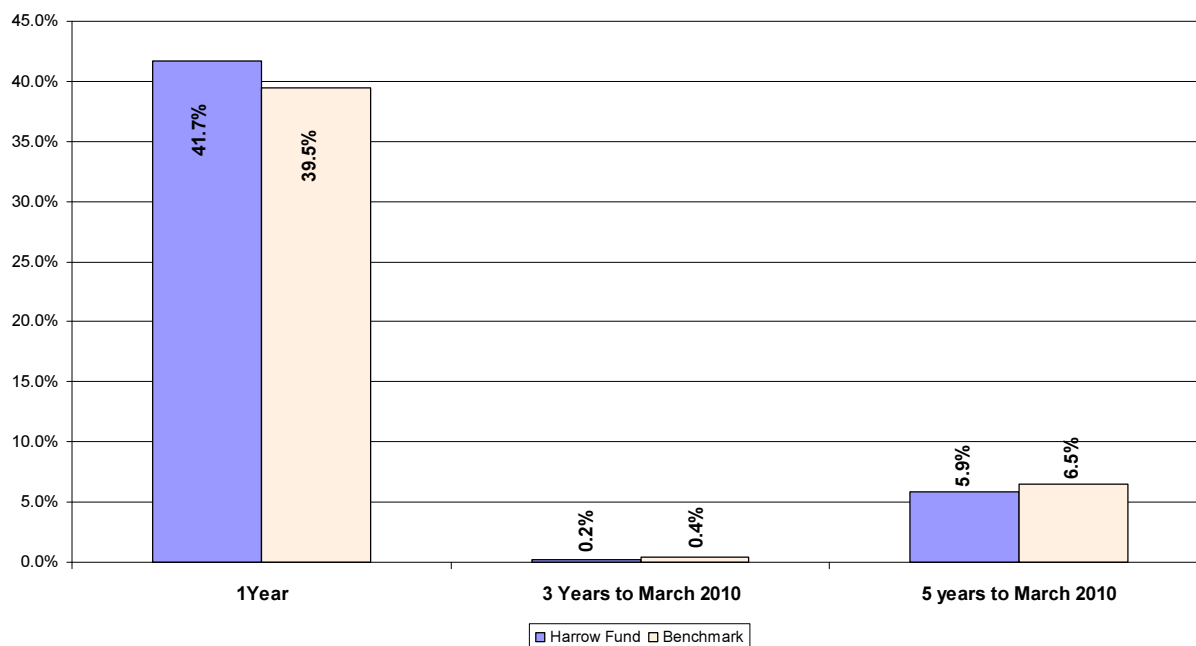
In the UK, after six consecutive quarters of economic contraction, the economy returned to modest growth in Q4, 2009 after a contraction of 6.4% between Q2 of 2008 and Q3 of 2009. Global equity markets, looking forward to improved growth and corporate earnings, responded strongly. In the UK equity markets returned 52%, while those in the US and Europe (ex-UK) returned 49% and 51% respectively in local currency. Japan returned a more modest 30% while emerging markets romped ahead with returns of approximately 70%. In Sterling terms the returns were generally a little lower as Sterling recovered some of its prior year losses.

UK gilts returned less than 1% as yields increased partly due to concern about the massive increase in government borrowing, although yields remain close to historic lows. Corporate bonds returned 31% as credit spreads narrowed due to lower default expectations. Index linked bonds returned 10%. Property also benefited from the improved economic outlook and returned 12%.

The economic outlook remains uncertain with concern shifting between recession and inflation as governments face the problem of addressing debt levels. Volatility in markets remain high with the focus remaining on growth in the US and China to sustain the global recovery.

## 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 recovery in financial markets described above together with its high allocation to equity markets and achieved a return of 41.7% in the year to 31<sup>st</sup> March 2010, exceeding the benchmark by 1.6% (calculated on a geometric basis). The excess return was derived from superior returns from the equity and bond portfolios but suffered from manager underperformance in the property and private equity portfolios.

The average fund in the local authority universe (as per WM performance services) returned 35% - the best ever performance, bringing 10 year returns back above inflation. The Harrow Fund was the 11<sup>th</sup> best performing fund out of 99 local authorities.

The longer term performance continues to disappoint with underperformance of 0.2% and 0.6% over three and five years. The Panel expect that the changes to the investment manager structure implemented in the year will support improved performance.

## Investment strategy

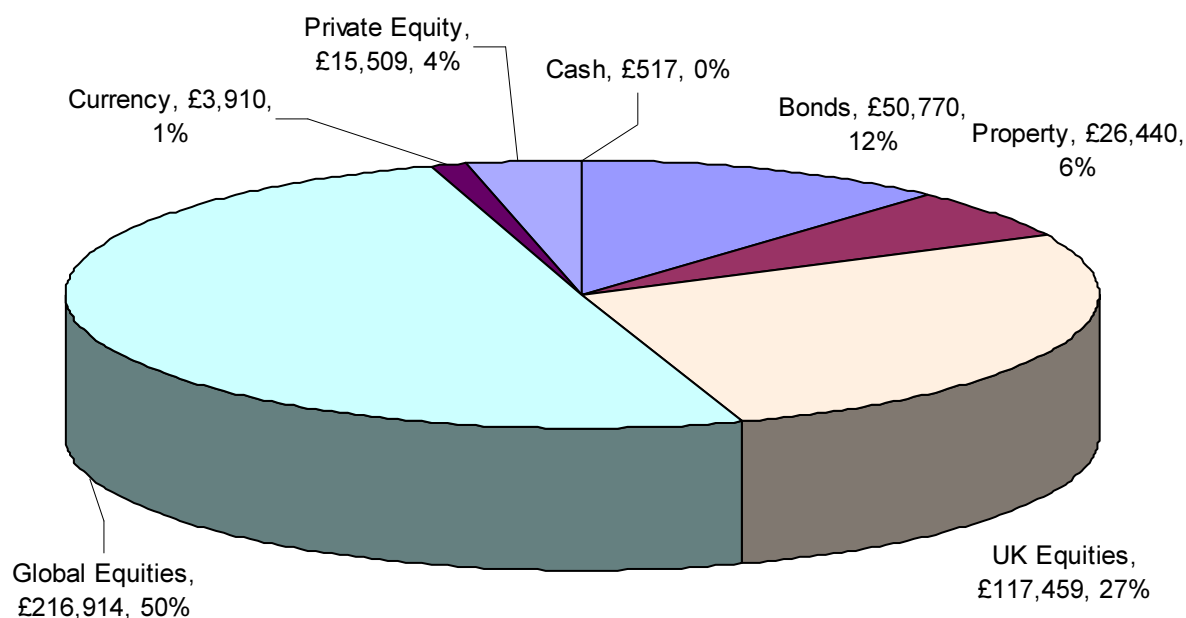
The strategic allocations approved in 2008 and reported in the Statement of Investment Principles are shown in the table below. The strategy was fully implemented in the year following the completion of a review of the manager structure.

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.

<b>Strategic Asset Allocations 31 March 2010</b>	<b>%</b>
UK Equities	26
Global Equities	45
Fixed and Index Linked Bonds	13
Property	10
Private Equity	3
Active currency	3
<b>Total</b>	<b>100</b>

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



## Investments held by Fund Managers

	2009-10		2008-09	
	£000	%	£000	%
Black Rock	64,956	15	39,921	13
UBS	12,771	3	134,880	44
Baillie Gifford	0	0	117,813	39
State Street Global Advisors	117,459	27	0	0
Longview Partners	32,736	7	0	0
Fidelity International	85,927	20	0	0
Wellington Management	98,251	23	0	0
Record Currency	1,499	0	-2,333	-1
Pantheon	15,509	4	11,784	4
Bank of New York Mellon	2,411	1	1,452	1
Total Fund	<b>431,519</b>	<b>100</b>	<b>303,517</b>	<b>100</b>

The above amounts include the investment assets, cash deposits and negative valued derivatives included in each mandate.

During the year the Panel appointed three new active global equity managers (Fidelity, Wellington and Longview) together with awarding a passive UK equity mandate to State Street. In addition, Blackrock were awarded additional fixed income and property mandates. These new mandates were funded by the termination of the appointments of UBS (completed post year-end) and Baillie Gifford. These changes reflected the increased strategic allocation to global equities and a desire to consolidate the property and fixed income portfolios with one manager each. Most of the UK equities will be managed passively as the capacity to deliver out performance net of fees in this market has diminished. As reported last year, the fixed income portfolio is now benchmarked wholly against corporate bonds.

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 eight 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 of £1.499m includes net derivative liabilities of £1.891m shown under assets (£1.354m) and liabilities (£3.245m), 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. The recent weakness in sterling has had a positive impact on the value of non-sterling assets, partially offset by losses on the currency hedge.

## 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, ie, 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 2010 and its income and expenditure for the year then ended.



Myfanwy Barrett

CORPORATE DIRECTOR OF FINANCE  
30 September 2010



## 7 London Borough of Harrow Pension Fund Account

### Pension Fund Account for the year ended 31st March 2010

2008-09 £000		Notes	2009-10 £000
	<b>Contributions and Benefits</b>		
24,415	Contributions receivable	8.2	25,170
2,250	Individual Transfers in from other schemes		4,315
104	Other Income (including Capital cost)		93
	Less:		
-21,015	Benefits Payable	8.3	-23,526
-2,089	Leavers	8.4	-3,805
-1,109	Administrative expenses	8.5	-816
2,556	<b>Net additions from dealings with members</b>		<b>1,431</b>
	<b>Returns on Investments</b>		
8,813	Investment Income	8.6	5,668
-112,346	Change in market value of investments	8.7	122,033
-1,005	Investment management expenses	8.5	-630
-104,538	<b>Net returns on investments</b>		<b>127,071</b>
-101,982	Net (Increase)/decrease in Fund during the year		128,502
409,403	Net assets at start of year		307,421
307,421	<b>Net assets at end of year</b>		<b>435,923</b>

### Net Assets Statement

2008-09 £000		Notes	2009-10 £000
	<b>Investment Assets</b>		
2,584	Fixed interest securities		0
167,386	Equities		0
133,702	Pooled investment vehicles	8.9	<b>432,893</b>
3,642	Derivative contracts	8.10	<b>1,354</b>
307,314			<b>434,247</b>
	<b>Investment Liabilities</b>		
-8,452	Derivative contracts	8.10	-3,245
298,862			<b>431,002</b>
4,655	Cash deposits	8.7	<b>517</b>
303,517	<b>Net Investment Assets</b>		<b>431,519</b>
3,904	<b>Net current assets and liabilities</b>	8.12	<b>4,404</b>
307,421	<b>Net assets of the scheme at 31 March 2010</b>		<b>435,923</b>

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

*Myfanwy Barrett*

Myfanwy Barrett

CORPORATE DIRECTOR OF FINANCE  
30 September 2010

## 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 and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2010;
- 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.

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

2008-09 £000		2009-10 £000
	<b>Employers - normal</b>	
15,953	London Borough of Harrow	16,623
1,330	Scheduled Bodies	1,367
551	Admitted Bodies	530
	<b>Members - normal</b>	
5,868	London Borough of Harrow	5,977
495	Scheduled Bodies	500
218	Admitted Bodies	173
<u>24,415</u>		<u>25,170</u>

## 8.3 Benefits

2008-09 £000		2009-10 £000
	<b>Pensions</b>	
-16,340	London Borough of Harrow	-17,664
-286	Scheduled Bodies	-348
-72	Admitted Bodies	-108
		<u>-18,120</u>
	<b>Commutation of Pensions and Lump Sum Retirement Benefits</b>	
-3,599	London Borough of Harrow	-4,364
-205	Scheduled Bodies	-331
-196	Admitted Bodies	-82
		<u>-4,777</u>
	<b>Lump Sum Death Benefits</b>	
-240	London Borough of Harrow	-629
-77	Admitted Bodies	0
		<u>-629</u>
<u>-21,015</u>		<u>-46,423</u>

## 8.4 Leavers

2008-09 £000		2009-10 £000
-8	Refunds to members	-9
-2,082	Individual transfers to other schemes	-3,797
1	NI contributions	1
<u>-2,089</u>		<u>-3,805</u>

## 8.5 Investment Management and Administration Expenses

2008-09 £000		2009-10 £000
-1,005	Investment management expenses	-630
	Scheme administration	
-790	Harrow Council	-690
-319	Misc. (including Actuary Fees)	-126
<u>-1,109</u>	<b>Total Administration Expenses</b>	<u>-816</u>
<u>-2,114</u>	<b>Total Expenses</b>	<u>-1,446</u>

## 8.6 Investment Income

2008-09 £000		2009-10 £000
731	Interest from fixed interest securities	889
5,037	Dividends from equities	3,534
340	Income from index-linked securities	310
1,682	Income from pooled investment	1,371
531	Interest on cash deposits	168
190	Income from derivatives	0
302	Foreign exchange	-604
<u>8,813</u>		<u>5,668</u>

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

## 8.7 Investments

	Value at 01-Apr-09 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-10 £000
Public Sector Overseas Fixed Interest Securities	2,584	0	-2,286	-298	0
Equities					
UK	97,251	205,681	-436,359	133,427	0
Overseas	70,135	40,625	-88,152	-22,608	0
Pooled Investment Vehicles					
Property	24,808	5,513	-4,861	980	26,440
Other	108,894	591,426	-303,905	10,038	406,453
Derivatives	-4,810	7,408	-4,983	494	-1,891
	<u>298,862</u>	<u>850,653</u>	<u>-840,546</u>	<u>122,033</u>	<u>431,002</u>
Cash Deposits	4,655				517
	<u>303,517</u>				<u>431,519</u>

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). £85.1m of the change was in respect of unrealised net gains at 31 March 2010.

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

Transaction costs incurred during the year amounted to £0.279m (£0.369m in 2008-09). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative payments (£7.4m) and receipts (£5.0m) 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

2008-09 £m		2009-10 £m
0.0	SSGA MPF UK Equity Index Sub-Fund	117.6
0.0	Wellington Global Pooled Value Equity Portfolio	98.2
0.0	Fidelity Inst Select Global Pooled Equities	74.9
0.0	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	40.4
0.0	Longview Partners Invest - Global Pooled Equities FD K Class	32.7
51.1	UBS Life Global Optimal Thirds 'A' Units	0.0
<u>51.1</u>		<u>363.8</u>

## 8.9 Pooled Investment Vehicles

2008-09 £000		2009-10 £000
24,808	UK Managed Funds - Property	26,440
37,338	UK Managed Funds - Other	174,030
71,556	Overseas Other	232,423
<u>133,702</u>		<u>432,893</u>

## 8.10 Derivatives

31-Mar-09 £000		31-Mar-10 £000
	<b>Investment Assets</b>	
3,551	Forward Foreign exchange contracts	1,354
91	Equitisation account	0
<u>3,642</u>		<u>1,354</u>
	<b>Investment Liabilities</b>	
-8,452	Forward Foreign exchange contracts	-3,245
<u>-4,810</u>	<b>Net Derivatives</b>	<u>-1,891</u>

Counterparty	Duration	No. of Contracts	Value at 31-Mar-10	
			Assets £000	Liabilities £000
HSBC Bank - London	7 days - 6 mths	6	178	-24
Northern Trust - London	7 days - 6 mths	6	98	-191
Royal Bank of Canada - London	7 days - 6 mths	11	418	-228
Royal Bank of Scotland-London	3 mths - 6 mths	5	90	-808
UBS AG - London	7 days - 6 mths	9	553	-1,977
Westpac - Sydney	7 days - 4 mths	2	17	-17
		<b>39</b>	<b>1,354</b>	<b>-3,245</b>

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 £59.9m.

### 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.

2008-09 £000		2009-10 £000
2,298	Value of AVC Fund at 1 April	2,120
191	Employee contributions	223
-86	Investment income and change in market value	166
-283	Benefits paid and transfers out	-276
<u>2,120</u>	<b>Value of AVC Fund at 31 March</b>	<u>2,233</u>

### 8.12 Current Assets & Liabilities

31-Mar-09 £000		31-Mar-10 £000
	<b>Current Liabilities</b>	
-302	Unpaid Benefits	-516
-534	Other Unpaid liabilities	-202
<u>-836</u>		<u>-718</u>
	<b>Current Assets</b>	
3,473	Cash balances held by London Borough of Harrow	4,378
200	Contributions due from employers	114
1,067	Other Current Assets	630
<u>4,740</u>		<u>5,122</u>
<u>3,904</u>	<b>Net Assets</b>	<u>4,404</u>

Contributions due from employers are received in line with the regulations and timings.

### 8.13 Related Party Transactions

2008-09 £000		2009-10 £000
15,794	Employer's pension contribution to the fund	<b>16,621</b>
-790	Administration expenses paid to the Council	<b>-690</b>
3,473	Cash in hand held by Council	<b>4,378</b>

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 2 to the accounts.

The Pension Fund does not have a separate bank account – 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.

## 9 Statement of the Consulting Actuary

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the London Borough of Harrow Pension Fund's assets and liabilities was carried out as at 31 March 2007.

### Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be, and have been, paid to the Fund:

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;

Contributions by employers in accordance with the Rates and Adjustments Certificate dated 10 February 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 29 February 2008.

### Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 29 February 2008 and the Rates and Adjustments certificate contained therein. Copies of these documents are available on request from the Finance Department of the London Borough of Harrow.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants; where appropriate.

These methods allow for future salary increases and assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.



## 9. Statement of the Consulting Actuary (continued)

### Valuation of assets

A “market related” valuation method has been used for the actuarial valuation as at 31 March 2007. This is consistent with the methodology adopted at the 2004 valuation. The Fund’s assets are taken at their market value on the date of the valuation (in this case 31 March 2007).

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long-term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases*	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.8%

\* Plus an allowance for promotional pay increases.

The 2007 valuation revealed that the Fund’s assets, which at 31 March 2007 were valued at £435 million, were sufficient to meet approximately 87% of the liabilities accrued up to that date.

### The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:



Lorna Tonner  
For and on behalf of Hymans Robertson LLP

## 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

Date