

# Pension Fund Annual Report 2010-11

## London Borough of Harrow Pension Fund

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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 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 £476.5m compared to £435.9m as at 31 March 2010. The London Borough of Harrow Pension was ranked in the top quarter in the Local Authority Annual League Table of investment returns for the year ended March 2011.

Julie Alderson  
Interim Director of Finance  
30 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.

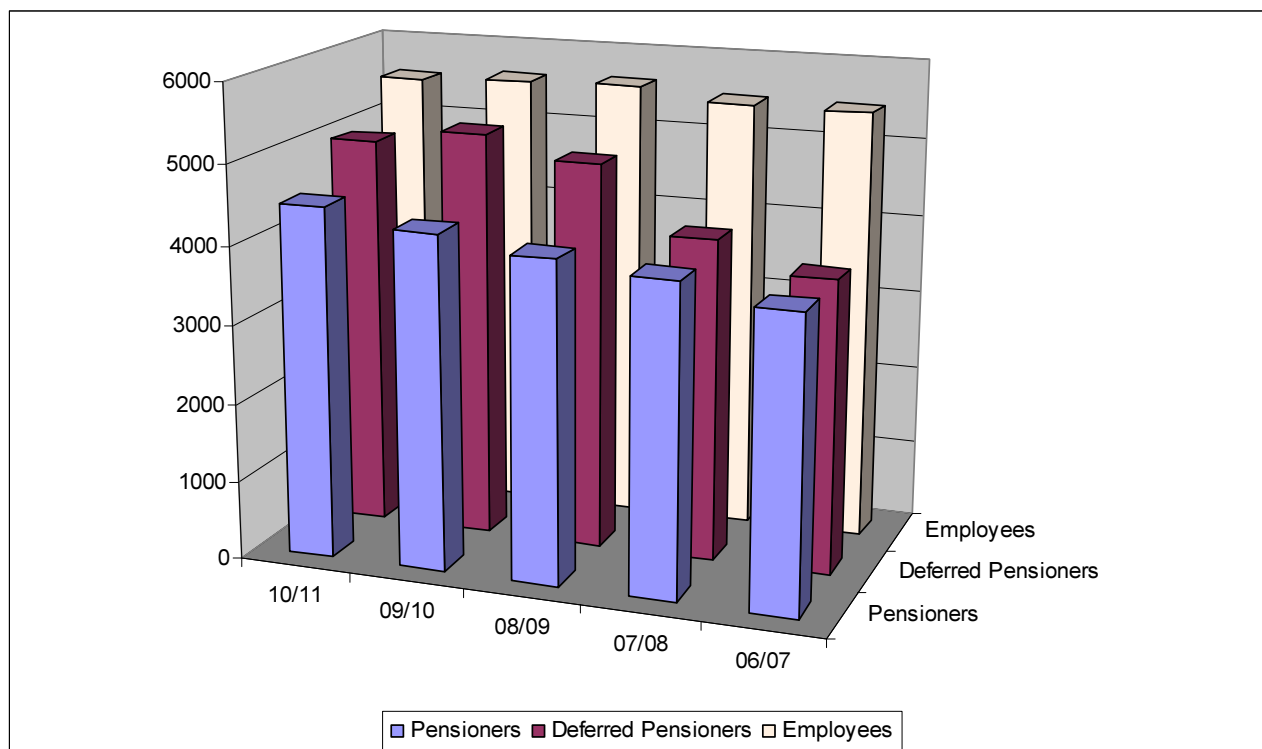
The organisations listed below have been admitted to the fund:

- Capita IT;
- Care UK;
- Harrison Catering;
- Julius Rutherford;
- 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	%
<b>LB Harrow</b>	Scheduled	5,061	4,629	4,259	<b>13,949</b>	92.95
<b>Harrow College</b>	Scheduled	176	209	104	<b>489</b>	3.26
<b>Stanmore College</b>	Scheduled	93	93	42	<b>228</b>	1.52
<b>St Dominic's Sixth Form College</b>	Scheduled	38	19	19	<b>76</b>	0.51
<b>Capita IT</b>	Admitted	12	4	5	<b>21</b>	0.14
<b>Care UK</b>	Admitted	38	8	9	<b>55</b>	0.37
<b>Harrison Catering</b>	Admitted	23	2	-	<b>25</b>	0.17
<b>Julius Rutherford</b>	Admitted	3	1	-	<b>4</b>	0.03
<b>KGB Cleaning</b>	Admitted	2	1	-	<b>3</b>	0.02
<b>Kier</b>	Admitted	7	2	1	<b>10</b>	0.07
<b>North London Collegiate School</b>	Admitted	55	16	26	<b>97</b>	0.65
<b>Supporta Care</b>	Admitted	39	3	8	<b>50</b>	0.33
<b>Total</b>		<b>5,547</b>	<b>4,987</b>	<b>4,473</b>	<b>15,007</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. 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 year's 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 year's 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. Prior to April 2011, pension increases had been based on 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** - 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](http://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](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 2010/11 accounts, Deloitte LLP have been reappointed. The Government has published proposals to transfer responsibility for the selection and appointment of auditors to the Council.

## 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 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 Panel 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

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

### Mandate

Corporate and Index linked Bonds  
 UK Equities Passive  
 Global Equities  
 Global Equities  
 Global Equities  
 Global Equities  
 Active Currency  
 Private Equity  
 Passive Currency  
 UK Property  
 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 an 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 ("SIP") 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. Following completion of an ongoing strategic review, the SIP will be updated to include control ranges around the strategic asset allocation. Pending this update, the Fund is technically not in compliance with the SIP as market movements have moved actual allocations away from the strategy.

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

## Funding Strategy Statement

The 'Funding Strategy Statement' (FSS) is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. The purpose of the FSS is to:

- Establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- Support the regulatory framework to maintain 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.

Copies of the Statement of Investment Principles, Funding Strategy Statement and Communications Policy Statement are attached to this report.

## 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.

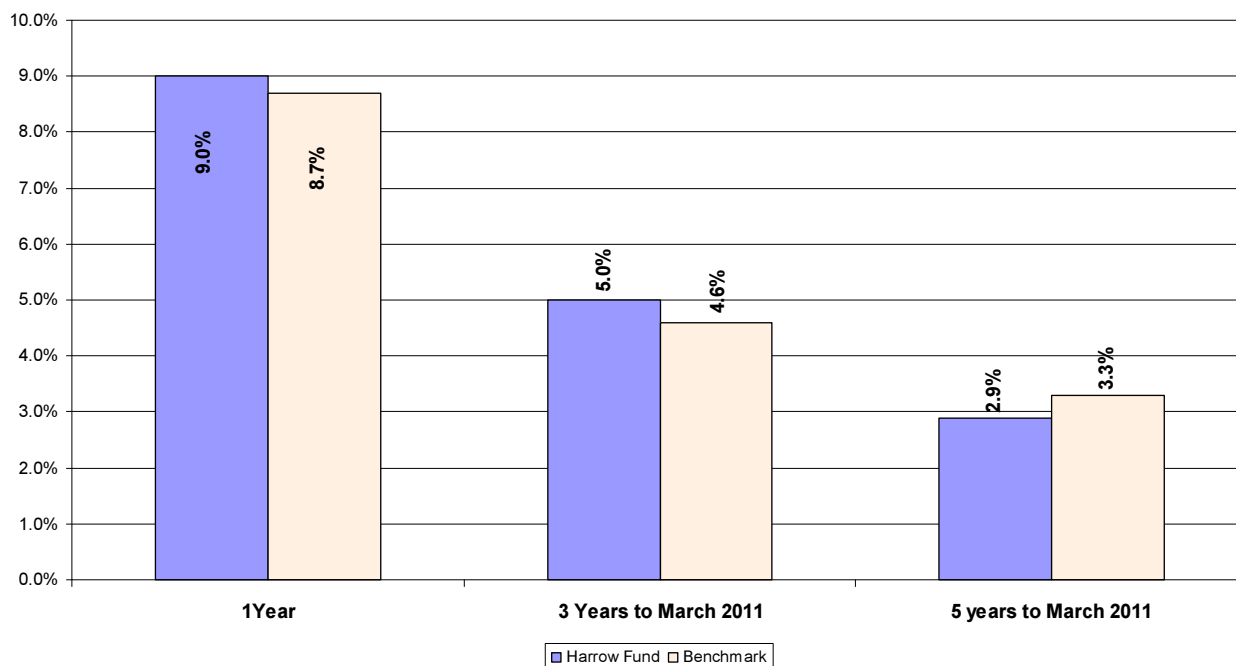
Global equity markets benefited from the accommodative economic policy and returned 8.4%. In the UK equity markets returned 8.7%, while those in the US and Europe (ex-UK) returned 9.6% and 7.5% respectively in sterling. Superior growth prospects in emerging markets helped them add 11.9% in the year.

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 Panel 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 fund does not hold Greek or other overseas bonds, although a debt default by Greece has the potential to impact on other financial markets.

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

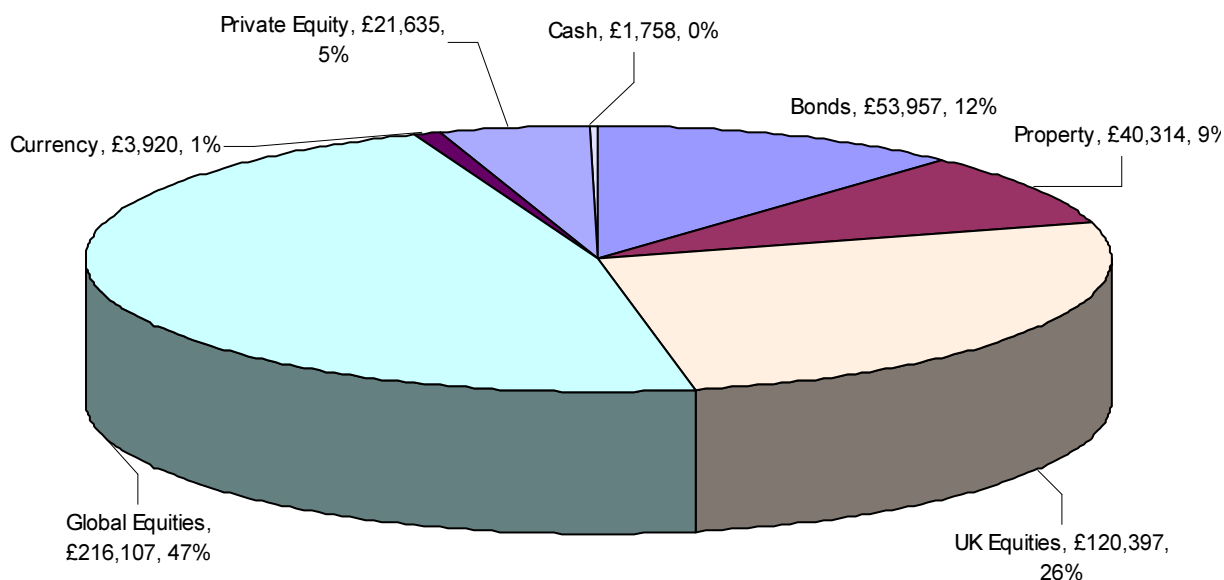
The strategic allocations approved in 2008 and reported in the Statement of Investment Principles are shown in the table below. The strategy was fully implemented in the year following the completion of a review of the manager structure.

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 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
<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. Currency investments shown below include forward currency contracts with a value of £900,000 that are used to hedge exposure to non sterling currencies within the equity portfolio.



**Total Value £458,088,000**

## Investments held by Fund Managers

	2010-11		2009-10		
	£000	%	£000	%	
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	21,635	5%	15,509	4%	Private Equity
Mellon	3,020	1%	2,411	1%	Currency
Record Currency	900	0%	1,499	0%	Currency
<b>Total Fund</b>	<b>458,088</b>	<b>100%</b>	<b>431,519</b>	<b>100%</b>	

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 DIRECTOR OF FINANCE

30<sup>th</sup> 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
	<b>Contributions and Benefits</b>		
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	<b>Net additions from dealings with members</b>		<b>2,915</b>
	<b>Returns on Investments</b>		
5,668	Investment Income	8.6	3,338
122,033	Change in market value of investments	8.7	34,160
-630	Investment management expenses	8.5	202
127,071	<b>Net returns on investments</b>		<b>37,700</b>
128,502	Net Increase in Fund during the year		40,615
307,421	Net assets at start of year		435,923
435,923	<b>Net assets at end of year</b>		<b>476,538</b>

### Net Assets Statement

2009-10 £000		Notes	2010-11 £000
	<b>Investment Assets</b>		
432,893	Pooled investment vehicles	8.9	<b>455,438</b>
1,354	Derivative contracts	8.10	<b>1,527</b>
434,247			<b>456,965</b>
	<b>Investment Liabilities</b>		
-3,245	Derivative contracts	8.10	<b>-627</b>
431,002			<b>456,338</b>
517	Cash deposits	8.7	<b>1,750</b>
431,519	<b>Net Investment Assets</b>		<b>458,088</b>
5,122	<b>Current assets</b>	8.12	<b>18,881</b>
-718	<b>Current liabilities</b>	8.12	<b>-431</b>
435,923	<b>Net assets of the scheme at 31 March 2011</b>		<b>476,538</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 25 and 26 and these accounts should be read in conjunction with it.

Julie Alderson

INTERIM DIRECTOR OF FINANCE  
30 September, 2011

## 8 Notes to the Pension Fund Accounts

### 8.1 Accounting Policies

The accounts have been compiled in accordance with the CIPFA code of practice on local authority accounting in the United Kingdom 2010/11 and following the guidance in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007) ("the SORP"). 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 charged to the fund.

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
	<b>Employers - normal</b>	
16,623	London Borough of Harrow	16,905
1,367	Scheduled Bodies	1,336
530	Admitted Bodies	575
	<b>Members - normal</b>	
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
	<b>Pensions</b>	
-17,664	London Borough of Harrow	-18,286
-348	Scheduled Bodies	-419
-108	Admitted Bodies	-134
-18,120		-18,839
	<b>Commutation of Pensions and Lump Sum Retirement Benefits</b>	
-4,364	London Borough of Harrow	-4,847
-331	Scheduled Bodies	-350
-82	Admitted Bodies	-253
-4,777		-5,450
	<b>Lump Sum Death Benefits</b>	
-629	London Borough of Harrow	-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
<u>-816</u>	<b>Total Administration Expenses</b>	<u>-775</u>
<u>-1,446</u>	<b>Total Expenses</b>	<u>-573</u>

## 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
<u>5,668</u>		<u>3,338</u>

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	30,816	415,124
Derivatives	-1,891	2,190	-427	1,028	900
	<u>431,002</u>	<u>25,117</u>	<u>-33,941</u>	<u>34,160</u>	<u>456,338</u>
Cash Deposits	517				1,750
	<u>431,519</u>				<u>458,088</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). 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
<u>363.8</u>		<u>410.4</u>

## 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	237,742
<u>432,893</u>		<u>455,438</u>

## 8.10 Derivatives

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

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
		<b>37</b>	<b>1,527</b>	<b>-627</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 £142.5m. The main currency exposures are US\$ forward v £ (£64.7m), Euro forward v £ (£20.3m), Yen forward v £ (£16.6m). Other currency forwards traded against sterling comprise Australian \$, Canadian \$, Hong Kong \$, Singapore \$, Swedish Krona and Swiss Franc, with an aggregate exposure of £40.9m.

### 8.11 Additional Voluntary Contributions (AVCs)

Members of the Fund are able to accrue additional benefits through the payment of AVCs, which are invested outside of the fund with insurance companies. 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. However, the note below details the change in value of AVCs during the year.

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
<b>2,233</b>	<b>Value of AVC Fund at 31 March</b>	<b>2,193</b>

## 8.12 Current Assets & Liabilities

2009-10 £000		2010-11 £000
	<b>Current Liabilities</b>	
-516	Unpaid Benefits	-256
-202	Other Unpaid liabilities	-175
<u>-718</u>		<u>-431</u>
	<b>Current Assets</b>	
4,378	Cash balances held by London Borough of Harrow	18,750
114	Contributions due from employers	114
630	Other Current Assets	17
<u>5,122</u>		<u>18,881</u>
<u>4,404</u>	<b>Net Current Assets</b>	<u>18,450</u>

## 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. A separate pension fund bank account was 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 required level of contributions and reported on page 25 and 26.

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

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

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 31 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. The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficit over a period of 20 years. The total common contribution rate is 25.7% for the period of 1 April 2011 to 31 March 2014. The common contribution rate is a theoretical figure and an adjustment has been determined for each employer.



## **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  
14 September 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 2011 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets statement and the related notes 8.1 to 8.14. 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 48 of the Statement of Responsibilities of Auditors and of Auditor 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of Interim Director of Finance and auditor

As explained more fully in the Statement of the Responsibilities, the Interim Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the financial statements. We read all the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of London Borough of Harrow Pension Fund's affairs as at 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the Fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

**Opinion on other matters**

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

**10. Pension Fund Annual Report Opinion (continued)****Matters on which I report by exception**

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

Paul Schofield (Engagement Lead)  
for and on behalf of Deloitte LLP  
Appointed Auditor

**St Albans, United Kingdom**

September 2011