

# Pension Fund Annual Report & Accounts for the year to 31 March 2012



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## **PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**

### **1. Scheme Management and Advisers as at 31 March 2012**

<b>Administering Authority</b>	London Borough of Hillingdon
<b>Pension Fund Committee Members as at 31 March 2012</b>	Cllr Philip Corthorne (Chairman) Cllr Michael Markham (Vice-Chairman) Cllr Paul Harmsworth Cllr Richard Lewis Cllr David Simmons Cllr Janet Duncan John Holroyd (Pensioner/Deferred Member Rep) Andrew Scott (Active Member Rep)
<b>Chief Finance Officer</b>	Paul Whaymand
<b>Investment Consultant</b>	Hymans Robertson LLP
<b>Investment Adviser</b>	Scott Jamieson
<b>Fund Managers</b>	UBS Global Asset Management Ruffer LLP Marathon Global Investors State Street Global Advisors LGT Capital Partners Adam Street Partners Macquarie Investment M&G Investments (Direct Investment) JP Morgan Asset management
<b>Actuary</b>	Hymans Robertson LLP
<b>Legal Services</b>	Raj Alagh, Borough Solicitor LBH
<b>Auditor</b>	Deloitte LLP
<b>Banker</b>	HSBC Bank Plc
<b>Custodian for Fund Assets:</b>	Northern Trust Company
<b>AVC Provider</b>	Prudential Assurance Company
<b>Officer Support</b>	Nancy le Roux, Senior Finance Manager Ken Chisholm, Corporate Pensions Manager Tunde Adekoya, Pension Fund Accountant James Lake, Investment Manager Harry Lawson, Corporate Accounting Manager
<b>Administration</b>	Capita Hartshead Limited (From 01 April 2012)

## 2. Management Report

### (a) Introduction

London Borough of Hillingdon is the administering authority for the London Borough of Hillingdon Pension Fund, which is part of the Local Government Pension Scheme (LGPS). All aspects of the fund's management and administration, including investment matters are overseen by the Pensions Committee, supported by the Pensions Investment Sub-Committee.

The Pensions Investment team oversee the accounting and management information requirements of the fund. The day to day management of the investment of funds is undertaken by independent fund managers. The Pensions Administration Team administers all aspects of benefits regulations and maintenance of membership records.

During the year Pensions Committee meet formally on four occasions and in addition have regular meetings with Fund Managers to review performance. The Investment Sub-Committee meet between main committee meetings and additionally when required.

### b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund.

Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. Within Hillingdon Council, of the 6,879 employees who were eligible to join the scheme as at 31 March 2012, 4,840 were scheme members, which equates to 70% of the workforce.

Over the last few years total membership of the fund has grown steadily as shown in the table below although there has been a slight dip in active members over the last three years.

### 5 Year Analysis of Fund Membership

<b>Membership type</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>5 year movement</b>
Active	6,192	6,249	6,235	6,039	5,948	-3.94%
Pensioner	4,660	4,832	4,991	5,187	5,378	+15.4%
Deferred	4,158	4,541	4,772	4,890	5,492	+32.08%
<b>Total Membership</b>	<b>15,010</b>	<b>15,622</b>	<b>15,998</b>	<b>16,116</b>	<b>16,818</b>	<b>+12.05%</b>

### Early Retirement

The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2007/08	2008/09	2009/10	2010/11	2011/12
Redundancy or Efficiency	51	32	21	26	65
Ill Health	24	20	15	13	12
<b>Total</b>	<b>75</b>	<b>52</b>	<b>36</b>	<b>39</b>	<b>77</b>

The age and membership profile as at 31 March 2012 is shown below:

Age Band	Active	Deferred	Pensioner/Dependent	Total
6 – 10	0	0	3	3
11 – 15	0	0	16	16
16 – 20	46	36	24	106
21 – 25	189	197	3	389
26 – 30	348	396	0	744
31 – 35	461	462	0	923
36 – 40	651	599	5	1,255
41 – 45	992	892	18	1,902
46 – 50	1,203	1,083	46	2,332
51 – 55	978	1,027	108	2,113
56 – 60	723	675	344	1,742
61 – 65	311	115	1,270	1,696
66 – 70	42	8	1,089	1,139
71 – 75	4	2	915	921
76 – 80	0	0	728	728
81 – 85	0	0	468	468
86 – 90	0	0	243	243
91 – 95	0	0	86	86
96 – 100	0	0	11	11
Over 100	0	0	1	1
<b>Total</b>	<b>5,948</b>	<b>5,492</b>	<b>5,378</b>	<b>16,818</b>

### (c) Key Performance Data

All LGPS funds measure performance against key industry performance indicators. Targets are set at the start of each year and reported quarterly to Pensions Committee. The table below details Hillingdon's performance against target for the year to 31 March 2012 compared to the year ending 31 March 2011. Due to long term sickness and resignation from the section, there was a significant drop in performance in 2011/12. This can be seen in the table below.

Performance Indicator	Hillingdon Target	2010/11 Performance %	2011/12 Performance %
Letter detailing transfer in quote	10 days	77.38	76.20
Letter detailing transfer out quote	10 days	70.00	46.28
Process refund & issue payment	5 days	76.92	67.57
Letter notifying estimate of benefit	10 days	86.23	88.92
Letter notifying actual benefit	5 days	76.71	79.51
Letter acknowledging death	5 days	98.01	98.17
Letter notifying amount of dependant's benefit	5 days	65.21	72.56
Calculate & notify deferred benefits	10 days	73.84	54.04

#### d) Staffing

The pensions' administration team has five full time equivalent posts devoted to LGPS work. The Department for Communities and Local Government publish the Government's SF3 statistics for staff to pension scheme member ratios. The latest available statistics for 2010/11 are as shown below. The published statistics indicate that the London Borough of Hillingdon ratio of staff to members is in the upper quartile.

#### FTE Staff to Scheme Member Ratio

Authority	Hillingdon	All English	Outer London
2010/11	1:3223	1:2900	1:3111

The staff to pension scheme member ratio for 2011/12 is 1:3364.

The latest available Government SF3 statistics (for 2010/11) indicate the cost per member for all English Authorities was £46.78 compared with an outer London average of £61.99 per scheme member and £44.71, ( a decrease of £1.39 per member from 2009/10) for London Borough of Hillingdon. Despite the continued increase in the number of scheme members, the Service has maintained a below average "cost per member" when compared to all outer London Boroughs.

#### (e) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2011/12 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Bishop Ramsey School	156,569.36	20.70
Bishopshalt School	173,948.55	25.10
Douay Martyrs School	122,432.16	18.10
Greenwich Leisure	98,468.03	16.80
Guru Nanak Academy	107,974.91	16.60
Harefield Academy	124,720.07	13.30
Haydon School	265,024.26	16.40
Heathrow Travel care	13,798.37	18.10
Hillingdon & Ealing Citizens Advice	39,020.78	15.50
Look Ahead Housing Care	29,319.63	23.00
London Housing Consortium	110,000.49	18.10
Mitie Cleaning	34,771.58	21.00
Mitie Facilities Management	83,562.13	21.00
Northwood School	61,219.35	25.10
Rosedale Hewens Academy	113,182.34	21.50
Stockley Academy	149,306.46	18.50
Swakeleys Academy	140,071.38	17.80
Uxbridge College	710,988.91	15.50

Uxbridge High School	169,001.62	19.80
Vyners Academy	134,350.06	27.20
Willows Academy	47,520.00	21.60
Yes Dining Ltd	67,105.46	21.00
<b>Total</b>	<b>2,952,355.90</b>	

### 3. Financial Performance

The budget for 2011/12 was set and approved by Pensions Committee in March 2011 and was reported and monitored throughout the year on a quarterly basis.

By the very nature of the Pension Fund, preparing a budget is complex. Additionally, predicting costs and income associated with the investment side of the Fund is challenging, as investment managers costs and any income generated is linked to movements in investment markets, which are outside the control of the Pension Fund. Therefore, the budgets for the Pension Fund are prepared without reference to the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. Recent volatility in the market serves to illustrate the difficulties associated with such forecasting in the current economic environment

#### Actual Income /expenditure against original budget

The original budget for 2011/12 forecast a surplus from operations of £343k, the actual result for the year was a £2,045k deficit. This deficit was due to increased member expenditure on Pension payments and Lump Sums payable as a result of higher redundancy and retirement levels, compared to 2010/11. Overall, net member expenditure increased by £1,759k, year on year, whilst net member income decreased by £790k in the same period.

The main differences between 2010/11 and 2011/12 in the actual income/expenditure were

:

- A decrease in employees contributions of £357k;
- A decrease in employers contributions of £167k;
- A decrease in transfer values received of £265k.

Expenditure:

- An Increase in benefit payments of £1,923k;
- A reduction in transfer values paid out of £159 k,
- An increase in investment and administration expenses of £14k

This refers to the net additions from dealing with members as shown in the fund accounts in Part E of this report.

## 4. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks. A report, including the latest risk register showing the status and direction of each risk is taken quarterly to the Pension Committee. A brief narrative description of each risk is outlined below. Further detail on risks and associated mitigating actions are included in the Funding Strategy Statement in Section F of this report.

**Key Risk 1 – Financial Risks** - a team of experienced officers and 5 advisors support the Pensions' Committee who ensure the monitoring of all financial risks. The financial risks cover all aspects of the fund's investment strategy: the impact of changes on the returns on investments, the impact of active manager performance and the impact of pay and price inflation. Currently only the risk of the fund's investment returns failing to match arising liabilities is reported corporately to the Council.

**Key Risk 2 – Demographic Risks** - The risk of pensioners living longer is a key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

**Key Risk 3 – Regulatory Risks** - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises and uses its influence to mitigate such risks.

**Key Risk 4 – Governance Risks** - These risks relate primarily to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep such risks under control.



## PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

### Market Review - Year to 31 March 2012

The global economic background was, at best, uncertain over the period. The European debt crisis was the dominant theme affecting investor sentiment worldwide for much of the year. At times, the credibility of the Euro project came close to ‘breaking point’ politicians struggled to agree a suitable policy response, as political priorities and allegiances clashed with the needs of monetary union. Although the Greek debt crisis dominated the headlines, concerns over growth in sovereign debt extended to other countries, including, Spain, Italy, and even the US. Nevertheless, there were signs of economic recovery in the US, for example growth in employment in the latter half of the period. However, the recovery was not mirrored in other regions where economic growth stalled. For some countries, a return to recession (two or more consecutive quarters of economic contraction) was a distinct possibility.

In the UK, the guiding principle of Government policy was ‘austerity’, with public-sector pay restraint and painful spending cuts, against a background of sluggish economic growth. The Chancellor also announced in his autumn statement that it will take two years longer than first proposed to eliminate the UK’s structural deficit.

Returns, in Sterling, for various asset classes during the year were as follows:

<b>Equities</b>	<b>%</b>
UK (FTSE) All Share	+1.4
All World (ex UK)	-0.2
North America	+6.9
Europe (ex UK)	-11.4
Japan	+0.9
Pacific Basin (ex Japan)	-5.1
Emerging Markets	-8.5
<b>Bonds</b>	
UK Gilts (All Stocks)	+14.5
UK Index Linked (All)	+18.1
Overseas Bonds	+5.4
Corporate (All Investment Grade)	+8.0
<b>Property</b>	+6.6
<b>Cash</b>	+0.6

Equity markets sustained heavy losses during the summer of 2011, as the enormity of the Greek debt crisis became apparent to investors. By the end of March 2012 these losses were more than made good in the UK, US and Japan. However, recovery in European and Emerging markets was somewhat muted and less than full by this time. Government bonds of countries spared the worst of the debt crisis (e.g. UK, US, Germany) fared particularly well, reflecting investors’ preference for safety in ‘troubled’ times.

Key events during the year were:

### **Global Economy**

- Short-term interest rates were unchanged in the UK and US; increases in Eurozone rates were reversed as the debt crisis unfolded.
- UK and European central banks provided further liquidity to money markets.
- Two ratings agencies, Moody's and Fitch, placed the UK's top credit rating on negative outlook.
- Economic growth in major Asian markets was impaired by weak external demand.
- The UK declined to participate in a plan for closer fiscal union across the European Union.

### **Equities**

- The US equity market delivered a satisfactory positive return, substantially outpacing other markets. Equities in Europe, Japan and Emerging Markets were particularly weak.
- The strongest equity sectors compared with the 'All World' Index were Technology (+14.4% relative) and Health Care (+14.2% relative); the weakest were Basic Materials (-16.5% relative) and Oil & Gas (-9.0% relative).

### **Bonds**

- Yields in safe haven bond markets (US, Germany and UK) fell sharply as investors sought security. By contrast, bond yields in the weaker Eurozone countries moved sharply higher.
- Long dated UK bond yields fell to levels not seen for 60 years as investors sought 'safety'.
- The legacy of the financial crisis remains a legitimate concern and still has the capacity to deliver 'shocks' to the system. Policy makers have a fine line to tread between 'austerity' and expansionary measures.

*John Hastings, May 2012, for and on behalf of Hymans Robertson LLP*

## **INVESTMENT POLICY**

Following a review by Pension Committee, it was agreed that there was a need for closer scrutiny of the investment management of Fund assets leading to the creation of the Investment Sub Committee. During the last year, the Investment Sub Committee has reviewed the Fund's investments and following a change to their delegated powers, to enable them the power to make investment decisions up to a value of 10% of the total of the Fund, have now actively taken investment decisions to react to changing markets in a timely manner. Investment Sub Committee is fully supported by Hymans Robertson and Scott Jamieson. Pensions Committee now have an enhanced governance role in seeking assurance on the activities of the Investment Sub Committee.

### **Funding and investment strategies**

The main consideration when compiling a funding and investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependents, both now and in the future. These benefits, which form the liabilities of the Fund are very long term in nature. Benefits are currently being paid to pensioners in the Fund, however, many active and former active members of the Fund are still many years from retirement, so assets

are being built up now in order to pay benefits to these members after they retire. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities and property which are expected to deliver higher investment returns over the longer term.

## Investment strategy

The allocation of Fund assets among the managers' mandates during the year was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					3.35	
JP Morgan			11.77			
LGT					2.71	
M&G						1.81
Macquarie						0.20
Marathon	0.91	8.68				
Ruffer	2.73	9.10	6.49			
State Street	8.43	6.88	4.40			
UBS Equities	18.07			0.01		
UBS Property				7.90		
<b>Total</b>	<b>30.14</b>	<b>24.66</b>	<b>22.66</b>	<b>7.91</b>	<b>6.06</b>	<b>2.01</b>

(a cash holding of 6.56% is not included in the above table.)

During 2011/12 the Pensions Committee took several decisions which changed the asset distribution of the fund. After a review of the managers and their portfolios, the following changes were implemented.

Following the decision to terminate Goldman Sachs, Committee agreed to appoint a specialist corporate bonds manager to take a different investment approach and to exploit the inherent value in the bonds market. JP Morgan was appointed.

Following a period of protracted underperformance, the mandate with Alliance Bernstein who managed an overseas equities mandate, was terminated in June 2012. All assets under their management were transferred to Ruffer, an absolute return manager. This decision was taken to further enhance the fund's income generation potential and to preserve capital.

Recent market conditions have made it very difficult for Hedge fund managers to outperform set benchmarks and as a result the decision was taken to temporarily discontinue investment in this asset class. As a result monies invested in the Fauchier Fund were transferred to SSgA Northern Trust pending a decision on where to invest. Fauchier remain on the Fund's list of Investment Managers.

During 2011/12, SSgA drawdown fund portfolio earmarked for the funding of M&G investment commitments breached the benchmark weighting of 50:50 as specified in the 2011 Statement of Investment Principles (SIP). This was due to temporary allocation of £7.3m from the proceeds from termination of Fauchier to the SSgA Sterling Liquidity fund. Necessary benchmark adjustments will be made in the 2012 version of the SIP to accommodate the change.

## **Commentary on the Fund Managers who manage asset on behalf of the London Borough of Hillingdon Pension Fund**

### **State Street**

State Street manages fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently. The scale of assets managed by State Street reduced as those being managed on a temporary basis were reallocated.

### **UBS (UK equities)**

UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2012 was conducive to their investment style and contributed to their outperforming the benchmark in both one year and since inception categories.

### **UBS Property**

The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a fund of funds arrangement with the assets managed in several pooled property funds managed by several managers, but with UBS responsible for selecting the pooled funds. Despite positive performance in a number of the underlying funds, the ongoing reorganisation costs continue to be a drag on performance and are likely to remain a challenge until the new structure is in place.

### **Private equity**

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 6% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification.

### **Ruffer**

The Absolute Return manager, Ruffer have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year and since inception.

### **Macquarie**

The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year.

## M&G

The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. Since Inception, the Fund's Internal Rate of Return of 5.22% matches the set target

## Marathon

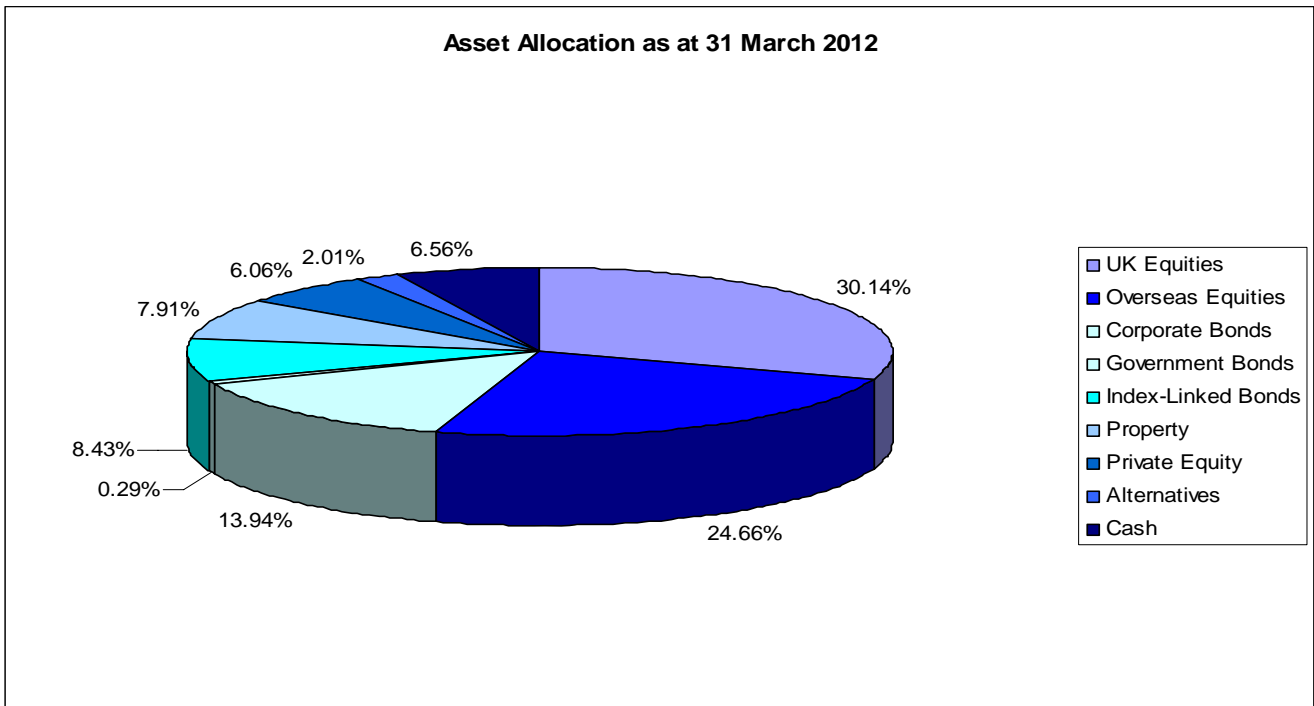
Despite outperformance in the last quarter of year ended 31 March 2012, Marathon failed to fully reverse the one year underperformance and this resulted in value of assets under management reducing by 0.16%. However, since inception returns have been relatively good, aided by increased performance in Q3 and Q4 2012.

## JP Morgan

A new mandate with JP Morgan has been in place for approximately four months. Although still in its early stages, to date JP Morgan has performed positively and has taken advantage of the general need for consistent income stream, without the volatility of equities.

## Fund Value and Asset allocation as at 31 March 2012

At 31 March 2012 the total value of the pension fund investment assets was £611,551k. The following diagram identifies the allocation, by asset class, as at 31 March 2012.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of the revised asset allocation which has been implemented during the year. Consequently, the fund now has increased exposure to UK equities, corporate bonds, index-linked bonds and cash due to the liquidation of the fund of hedge funds portfolio managed by Fauchier and the proceeds kept as cash.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2012.

INVESTMENT MANAGER	AS AT 31 MARCH 2012		AS AT 31 MARCH 2011	
	£'000	%	£'000	%
Adams Street	20,791	3.40	19,321	3.25
Alliance Bernstein	0	0	62,177	10.46
Goldman Sachs Asset Management	0	0	65,974	11.10
Fauchier	0	0	25,519	4.29
JP Morgan	72,012	11.78	0	0
LGT	17,011	2.78	16,555	2.78
M&G	11,149	1.82	5,314	0.89
Macquarie	1,205	0.20	1,277	0.21
Marathon	58,670	9.59	58,767	9.88
Ruffer	118,378	19.36	53,204	8.95
State Street Global Advisors	132,251	21.63	130,919	22.02
UBS	112,777	18.44	110,694	18.62
UBS Property	48,628	7.95	45,899	7.72
Other*	18,679	3.05	(1,026)	(0.17)
<b>Total</b>	<b>611,551</b>	<b>100.00</b>	<b>594,594</b>	<b>100.00</b>

\*Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), Schedule 1, set out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2012 were:

Top 5 Holdings	Market Value as at 31 March 2012 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	72,012	11.78%
Marathon Asset Management	58,670	9.60%
SSgA Equity Index	51,677	8.46%
BP ORD USD0.25	15,306	2.50%
Vodafone	14,414	2.36%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2012 £000s	Percentage of Fund Value
BP	15,306	2.50%
Vodafone	14,414	2.36%
GlaxoSmithKline	9,501	1.55%
Royal Dutch Shell	8,649	1.42%
Lloyds Banking Group	4,981	0.82%
Barclays	4,650	0.76%
Rio Tinto	4,571	0.75%
HSBC	3,951	0.65%
Anglo American	3,736	0.61%
BAE Systems	3,324	0.54%

## Investment Performance

Markets continued to make gains through 2011/12 which helped the fund produce an annual return of 3.64%. Although all fund managers except Marathon produced positive returns over the year, relative performance between the underlying managers was mixed with all but two of the managers outperforming their benchmarks. Marathon & SSgA Drawdown underperformed relative to their benchmarks. Outperformance by the remainder of the managers more than offset these results and the fund outperformed the plan benchmark and WM average by 0.49% and 1.05% respectively.

As a result of the fund restructuring over the last three years a full complement of returns is not available for all managers. M&G, Marathon, Ruffer and SSgA Drawdown are yet to accrue three years worth of performance returns, whilst JP Morgan have only been appointed for the last four months of the year under review.

Performance Manager	1 Year			3 Year			Since Inception		
	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
M&G	5.76	4.98	0.78	-	-	-	4.43	4.89	(0.46)
Marathon	(0.16)	0.41	(0.57)	-	-	-	10.66	9.48	1.19
Ruffer	5.11	0.90	4.21	-	-	-	5.94	0.82	5.12
SSgA	2.66	2.45	0.21	16.60	16.43	0.17	14.26	14.11	0.15
SSgA Drawdown	4.13	4.61	(0.48)	-	-	-	5.28	5.25	0.03
UBS	2.14	1.39	0.76	18.54	18.85	(0.31)	9.75	8.78	0.97
UBS (Property)	5.96*	5.72	0.24	7.11	8.79	(1.68)	(1.08)	(0.49)	(0.59)
<b>Total Portfolio</b>	<b>3.64</b>	<b>3.15</b>	<b>0.49</b>	<b>13.93</b>	<b>14.46</b>	<b>(0.53)</b>	<b>6.45</b>	<b>6.51</b>	<b>(0.06)</b>

Over one year the fund has earned a 3.64% growth which is 49 basis points ahead of the benchmark figure of 3.15%. However, over a 3 year period the fund has underperformed with a relative return of -0.49% pa. Although since inception in September 1995 the returns come back into line with an annualised return of 6.45% just 6 basis points below the benchmark.

### Asset Performance Against Benchmark



Performance	1 Year			3 Year			Since Inception		
	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
UK Equity	0.96	1.39	-0.43	16.29	16.85	-0.56	6.08	6.79	-0.71
Overseas Equity	-1.62	-1.79	0.17	15.59	15.94	-0.35	5.55	6.11	-0.56
Government Bonds	13.05	10.28	2.77	7.09	5.22	1.87	6.34	6.06	0.28
Corporate Bonds	10.69	8.79	1.9	14.04	10.23	3.81	4.39	5.57	-1.18
Index Linked Gilts	14.74	18.12	-3.38	9.82	11.53	-1.71	6.98	7.80	-0.82
Property	6.84*	5.72	1.12	8.25	8.79	-0.54	8.15	7.79	0.36
<b>Total Portfolio</b>	<b>3.64</b>	<b>3.15</b>	<b>0.49</b>	<b>13.93</b>	<b>14.46</b>	<b>(0.53)</b>	<b>6.45</b>	<b>6.51</b>	<b>(0.06)</b>

\* Difference in Asset class and UBS Property portfolio fund returns are due to cash holdings reducing UBS' portfolio performance.

### Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects



dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements. The contract for Custody was re-tendered during last year and Northern Trust was re-appointed from 1 April 2012.

## **Responsible Investing**

The Fund supports the principle of socially responsible investment within the requirements of the law and the need to give high priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee are committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the fund managers and reported to Committee on a quarterly basis.

Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

The Council is a member of Local Authority Pension Fund Forum and uses it as a platform for engagement on environmental, socially responsible issues and corporate governance rather than disinvesting.

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of LAPFF. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

## **PART C – SCHEME ADMINISTRATION**

### **SCHEME ADMINISTRATION REPORT**

#### **Overview**

The Council's Pensions Team was part of the Central Services Group and provided pension and compensation services to current and former employees and pensioners of the London Borough of Hillingdon Fund. These services included the full range of administrative duties for an employing and administering authority as follows:

Administer the Local Government Pension Scheme (LGPS) as an Employing and Administering Authority in accordance with relevant legislation and Committee decisions.

- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide advice to Scheme members, external scheme Employers and the Pensions Committee on options available under the Council's Pension Scheme.
- Prudently manage the budgets under the pension's team's control.
- Exploit information technology to improve service standards and efficiency.
- Train and develop staff to meet these service objectives.

The performance of the Pensions Administration Team is reported elsewhere within this report.

The team dealt with contributing members of the LGPS with London Borough of Hillingdon performing the duties of both an administering and employing authority. The main areas of work cover the deduction of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits. This team dealt with pensioners, retirement, re-employment, death benefits and calculations of redundancy and compensation benefits for non-teaching employees.

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) or on request. An application at stage one of the process is to the Corporate Pensions Manager and at stage two to a Senior Officer of the Council not previously involved in the case.

On 1 April 2012 the administration function was transferred to Capita Hartshead, who can be contacted by telephoning 01737 366062 or by email to [hillington.pensions@capita.co.uk](mailto:hillington.pensions@capita.co.uk).

The number of active scheme members that the Service deals with decreased year in year by approximately 1.0%. This can be seen in the table shown on page 4 detailing Fund Membership Data.

Information about the LGPS and the pensions administration service can be found on the Council's website at [www.hillingdon.gov.uk/](http://www.hillingdon.gov.uk/)

## **Software**

During 2011/12 the pensions administration system was AXISe and is currently being used by over 80 local authorities to administer the LGPS.

The new Local Government Pension Scheme, which was introduced on 1 April 2008, has continued to introduce changes to the way benefits and payments are calculated and in particular to the factors applied in the majority of calculations. This has meant that the administration system has had to undergo a number of updates and amendments in the last year.

## **Dispute Resolution**

Occasionally disagreements between members and the London Borough of Hillingdon pensions Scheme arise. When disagreements do happen we endeavour to try to resolve them informally and reach an agreement. But this isn't always possible and the scheme provides a formal way for disagreements to be resolved as set out in the Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Corporate Pensions Manager at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to a Senior Officer of the Council, who has not previously been involved with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2011/12, there were two stage 1 appeals, neither of which have progressed to stage 2. No cases were referred to the Pensions Ombudsman.

## **Scheme Administration from 1 April 2012**

In December 2011, Pensions Committee took the decision to transfer administration of the scheme to Capita Hartshead, through a pan London Pensions Administration framework.

## **INVESTMENT ADMINISTRATION**

External Fund Managers are engaged to manage the investments of the fund. Administration of the investment arrangements is managed in house by a small team who also oversee the relationship with fund managers, monitor their performance, prepare the fund accounts and support Pensions Committee.

Officers participate in several networks and forums, in addition to undertaking regular formal training, to ensure their knowledge and awareness of initiatives and developments is kept up to date. In addition, the networking advantages of such forums ensure regular comparison of best

practice processes and informed debate on the development of new working methods and improvements to investment strategy.

## **PENSION COMMITTEE TRAINING**

Pensions Committee have reaffirmed their commitment to ongoing training and development. Suitable opportunities are offered to Committee alongside more formal specific training sessions arranged in house.

The CIPFA 'Knowledge and Skills Framework' covers the training needs of both Members of Committee and officers supporting Committee. All Pensions Committee members and officers have access to the framework.

Over the course of 2011/12, members of Pensions Committee attended training courses, seminars and several specific seminars were held in house, supported by the fund managers and advisors. Reports from managers on development issues are regularly circulated to Pension Committee Members.

## **PART D – ACTUARIAL REPORT**

### **London Borough of Hillingdon (“the Fund”) Actuarial Statement for 2011/12**

This statement has been prepared in accordance with Regulation 34(1)(d) 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 2011/12.

#### **Description of Funding Policy**

The funding policy is set out in the London Borough of Hillingdon Funding Strategy Statement (FSS), dated 16 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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 25 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates 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 £564 million, were sufficient to meet 77.6% 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 £163 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.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Hillingdon, administering authority to the Fund.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

- plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.8 years	24.1 years
Future Pensioners	22.3 years	25.7 years

#### Experience over the period since April 2010

The funding level is likely to have worsened since 31 March 2010. The reasons for this are that Total investment returns were lower than the long term assumption made at the 2010 valuation; and there has been a significant fall in Government bond yields (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the markets expectations for long term inflation (resulting in a decrease in the pension increase

assumption) but overall there has been an increase in the real discount rate (the nominal discount rate net of inflation). This will have lead to an increase in the value placed on the liabilities.

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

*Bryan T Chalmers, Fellow of the Institute and Faculty of Actuaries, For and on behalf of Hymans Robertson LLP, 23 May 2012*

# Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2012 £000's	Year Ended 31 March 2011 £000's
Contributions	4	30,520	31,045
Transfers In	5	3,703	3,968
Less: Benefits	6	(32,007)	(30,084)
Less: Leavers	7	(3,509)	(3,673)
Less: Administrative expenses	8	(752)	(738)
<b>Net additions from dealings with members</b>		<b>(2,045)</b>	<b>518</b>
Investment income	9	9,936	9,853
Changes in market value of investments	10	14,213	22,872
Taxes on income		(48)	(91)
Investment management expenses	12	(3,539)	(3,109)
<b>Net return on investments</b>		<b>20,562</b>	<b>29,525</b>
<b>Net Increase/(Decrease) in the fund during the year</b>		<b>18,517</b>	<b>30,043</b>
<b>Net Assets at start of year</b>		<b>594,333</b>	<b>564,290</b>
<b>Net Assets at end of year</b>		<b>612,850</b>	<b>594,333</b>

		31 March 2011 £000's	31 March 2010 £000's
Investment Assets	10	612,095	596,505
Investment Liabilities	11	(544)	(1,911)
Current Assets	13	1,956	426
Current Liabilities	14	(657)	(687)
<b>TOTAL NET ASSETS</b>		<b>612,850</b>	<b>594,333</b>

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Annual Report on pages 21-23 and these accounts should be read in conjunction with this.

**Paul Whaymand**  
**Chief Finance Officer**  
**20 September 2012**



# Notes To Pension Fund Accounts

## 1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

A) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

B) Membership: Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

### FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 01/04/2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Council, pension fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the Council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

Employers who contribute to the fund in addition to London Borough of Hillingdon are:

#### Admitted Bodies:

Greenwich Leisure  
Heathrow Travel Care  
Hillingdon & Ealing Citizens Advice  
Look Ahead Housing & Care

Mitie Cleaning  
Mitie FM  
Yes Dining Ltd

#### Scheduled Bodies:

Bishop Ramsey School  
Bishopshalt School  
Douay Martyrs School  
Guru Nanak Academy  
Harefield Academy  
Haydon School  
London Housing Consortium  
Northwood School

Rosedale Hewens Academy  
Stockley Academy  
Swakeleys Academy  
Uxbridge College  
Uxbridge High School  
Vyners Academy  
Willows Academy

# Notes To Pension Fund Accounts

## 1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2012 there were 5,948 active employees contributing to the fund, with 5,378 in receipt of benefit and 5,492 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2012	31 March 2011
Number of employers with active members	23	13
<b>Number of employees in scheme</b>		
London Borough of Hillingdon	4,987	5,170
Other employers	961	869
<b>Total</b>	<b>5,948</b>	<b>6,039</b>
<b>Number of Pensioners</b>		
London Borough of Hillingdon	4,969	4,818
Other employers	409	369
<b>Total</b>	<b>5,378</b>	<b>5,187</b>
<b>Deferred pensioners</b>		
London Borough of Hillingdon	4,363	4,305
Other employers	1,129	585
<b>Total</b>	<b>5,492</b>	<b>4,890</b>

The pension fund investments are managed externally by fund managers: Adams Street Partners, Fauchier Partners, JP Morgan Asset Management, LGT Capital Partners, Macquarie Investment, Marathon Global Investors, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by London Borough of Hillingdon Pension Fund Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2011/12:

### Pensions Committee

Cllr Philip Corthorne (Chairman)

Cllr David Simmons

Cllr Michael Markham (Vice-Chairman)

Cllr Janet Duncan

Cllr Paul Harmsworth

Mr John Holroyd (Pensioner/Deferred Scheme Member Representative)  
(Non Voting)

Cllr Richard Lewis

Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

## 2. BASIS OF PREPARATION

The accounts have been compiled in accordance the CIPFA code of practice on local authority accounting in the United Kingdom 2011/12 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.

## 3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis. Group transfers are accounted for under the agreement which they are made.

# Notes To Pension Fund Accounts

## 3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Equities and fixed income are valued at bid prices - where bid price is not available, the mid price is used. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) Interest on property developments - Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

i) Contributions - are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

j) Benefits - are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

### Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2012 was £37.07m (£34.93 million at 31 March 2011).

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

The items in the net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the	The total private equity investments in the financial statements are £37 million. There is a risk that this investment may be under- or overstated in the accounts.

# Notes To Pension Fund Accounts

## 4. CONTRIBUTIONS

	31 March 2012 £000's	31 March 2011 £000's
<b>Employers</b>		
Normal	17,566	17,923
Deficit funding	4,954	4,764
<b>Members</b>		
Normal	7,877	8,229
Additional contributions	123	129
	<b>30,520</b>	<b>31,045</b>

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78%

	31 March 2012 £000's	31 March 2011 £000's
<b>Schedule of contributions by body</b>		
<b>Employers</b>		
LB Hillingdon	19,568	21,309
Scheduled Bodies	2,580	979
Admitted Bodies	372	399
<b>Members</b>		
LB Hillingdon	6,905	7,795
Scheduled Bodies	971	445
Admitted Bodies	124	118
	<b>30,520</b>	<b>31,045</b>

## 5. TRANSFERS IN

	31 March 2012 £000's	31 March 2011 £000's
Individual transfers in from other schemes	3,703	3,968

## 6. BENEFITS

	31 March 2012 £000's	31 March 2011 £000's
Pensions	24,874	23,243
Commutations and lump sum retirement	6,440	5,850
Lump sum death benefits	693	991
	<b>32,007</b>	<b>30,084</b>

	31 March 2012 £000's	31 March 2011 £000's
<b>Schedule of benefits by employer</b>		
LB Hillingdon	31,525	29,666
Scheduled Bodies	386	282
Admitted Bodies	96	136
	<b>32,007</b>	<b>30,084</b>

# Notes To Pension Fund Accounts

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2012 £000's	31 March 2011 £000's
Refunds of contributions	4	8
State scheme premiums	1	2
Individual transfers out to other schemes	3,504	3,663
	<b>3,509</b>	<b>3,673</b>

## 8. ADMINISTRATIVE EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration and processing	683	630
Audit fee	37	37
Actuarial fee	32	71
	<b>752</b>	<b>738</b>

## 9. INVESTMENT INCOME

	31 March 2012 £000's	31 March 2011 £000's
Dividends from equities	6,132	5,507
Income from index-linked securities	737	461
Income from pooled investment vehicles	1,648	1,594
Interest on cash deposits	83	232
Other (for example from stock lending or underwriting)	1,336	2,059
	<b>9,936</b>	<b>9,853</b>

## 10. INVESTMENT ASSETS

	Value at 1 April 2011 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2012 £000's
Equities	190,121	75,379	(92,577)	(5,732)	167,191
Government Bonds	0	905	(904)	(1)	0
Index-linked securities	40,560	37,475	(46,277)	7,836	39,594
Pooled investment vehicles	350,726	121,937	(117,239)	7,791	363,215
	<b>581,407</b>	<b>235,696</b>	<b>(256,997)</b>	<b>9,894</b>	<b>570,000</b>
Other investment balances	1,459			3,055	4,217
Fund managers' cash	13,639			1,264	37,878
<b>Total Investment Assets</b>	<b>596,505</b>			<b>14,213</b>	<b>612,095</b>

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. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £337k (£438k in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

# Notes To Pension Fund Accounts

## 10. INVESTMENT ASSETS (CONTINUED)

### Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 20112 £000's	Market Value at 31 March 2011 £000's
Adams Street	20,791	19,321
Alliance Bernstein	0	62,177
Goldman Sachs Asset Management	0	65,974
Fauchier	0	25,519
JP Morgan Asset Management	72,012	0
LGT	17,011	16,555
M&G	11,149	5,314
Macquarie	1,205	1,277
Marathon	58,670	58,767
Ruffer	118,378	53,204
State Street Global Advisors	132,251	130,919
UBS	112,777	110,694
UBS (Property)	48,628	45,899
Other*	18,679	(1,026)
<b>Total</b>	<b>611,551</b>	<b>594,594</b>

\* Other includes transition assets, pending trades and recoverable tax

### Forward Foreign Exchange Contracts

Counterparty and Currency	Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust GBP - JPY	12,743	11,511	1,232.00	10/01/2012	13/04/2012
Northern Trust GBP - JPY	2,292	2,131	161.00	13/02/2012	13/04/2012
Northern Trust GBP - JPY	2,406	2,298	109.00	17/02/2012	13/04/2012
Northern Trust GBP - JPY	1,243	1,211	32.00	06/03/2012	13/04/2012
Northern Trust GBP - EUR	26,458	26,397	61.00	08/02/2012	14/05/2012
Northern Trust GBP - USD	5,324	5,262	62.00	13/02/2012	16/05/2012
Northern Trust GBP - EUR	3,319	3,288	31.00	12/03/2012	15/06/2012
<b>Total unrealised gains</b>			<b>1,688</b>		

As at 31 March 2012 seven forward foreign exchange contracts were in place for £53,785k with unrealised gains of £1,688k respectively. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement underlying asset value if converted into the base currency.

### Investment Assets by Asset Class

	31 March 2012 £000's	31 March 2011 £000's
<b>Equities</b>		
UK quoted	126,322	114,967
Overseas quoted	40,869	78,793
	<b>167,191</b>	<b>193,760</b>
<b>Index Linked Securities</b>		
UK Public Sector quoted	13,933	28,922
Overseas Public Sector Quoted	25,661	11,638
	<b>39,594</b>	<b>40,560</b>
<b>Pooled Investment Vehicles</b>		
UK Managed funds - other	107,174	122,187
UK Unit Trusts - property	48,076	44,793
Overseas Unit Trusts - other	170,893	145,181
Private Equity	37,072	34,926
	<b>363,215</b>	<b>347,087</b>
<b>Other Investment balances</b>		
Forward foreign exchange unrealised gain	1,688	72
Amount due from brokers	1,081	355
Outstanding dividend entitlements and recoverable withholding tax	1,448	1,032
	<b>4,217</b>	<b>1,459</b>
<b>Cash deposits</b>		
Sterling	37,878	13,639
	<b>37,878</b>	<b>13,639</b>

Note: There are no investments > 5% of the Net Asset Value

# Notes To Pension Fund Accounts

## 10. INVESTMENT ASSETS (CONTINUED)

### AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

A full reconciliation of the AVC deductions and Prudential's records agree that the value of these funds as at 31 March 2012 were £5,440k, and as at 31 March 2011 £5,771k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

## 11. INVESTMENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Amount outstanding to brokers	544	470
Forward foreign exchange unrealised loss	0	1,441
	<b>544</b>	<b>1,911</b>

## 12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration, management and custody	3,412	3,070
Performance measurement services	4	4
Other advisory fees	123	35
	<b>3,539</b>	<b>3,109</b>

## 13. CURRENT ASSETS

	31 March 2012 £000's	31 March 2011 £000's
Employers' contributions due	151	179
Employees' contributions due	56	71
Debtor: London Borough of Hillingdon	858	52
Debtor: Other Entities	3	10
Cash balances	888	114
	<b>1,956</b>	<b>426</b>

NB: The current assets all relate to amounts due from local government bodies with the exception of cash which is held with bodies external to government.

## 14. CURRENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Creditor: Other Entities	656	668
Creditor: London Borough of Hillingdon	1	19
	<b>657</b>	<b>687</b>

NB: A total of £656,000 is due to bodies external to government, being the investment managers, with all remaining amounts due to local government bodies.

# Notes To Pension Fund Accounts

## 15. FINANCIAL INSTRUMENTS

### a) Classification of Financial Instruments

	31 March 2012 £000's	31 March 2011 £000's
<b>Financial Assets</b>		
Fixed Interest Securities	39,594	40,560
Equities	167,191	193,760
Pooled Investments	276,863	266,091
Pooled Property Investments	48,076	44,793
Private Equity/Infrastructure	38,277	36,203
Derivative Contracts	1,687	72
Cash	37,878	13,639
Debtors	2,529	1,387
	<b>612,095</b>	<b>596,505</b>
<b>Financial Liabilities</b>		
Derivative Contracts	0	(1,441)
Creditors	(544)	(470)
	<b>(544)</b>	<b>(1,911)</b>
	<b>611,551</b>	<b>594,594</b>

### b) Net Gains and Losses on Financial Instruments

	31 March 2012 £000's	31 March 2011 £000's
<b>Financial Assets</b>		
Fair Value through profit and loss	30,589	27,085
<b>Financial Liabilities</b>		
Fair Value through profit and loss	(16,376)	(4,213)
	<b>14,213</b>	<b>22,872</b>

### c) Fair Value of Financial Instruments and liabilities

	31 March 2012 £000's Fair Value	31 March 2012 £000's Carrying Value	31 March 2011 £000's Fair Value	31 March 2011 £000's Carrying Value
<b>Financial Assets</b>				
Fair Value through profit and loss	570,000	522,461	581,407	501,641
Loans and receivables	42,095	27,292	15,098	13,926
<b>Total Financial assets</b>	<b>612,095</b>	<b>549,753</b>	<b>596,505</b>	<b>515,567</b>
<b>Financial Liabilities</b>				
Fair Value through profit and loss	(544)	(544)	(470)	(470)
Loans and receivables	0	0	(1,441)	0
<b>Total Financial Liabilities</b>	<b>(544)</b>	<b>(544)</b>	<b>(1,911)</b>	<b>(470)</b>



# Notes To Pension Fund Accounts

## 15. FINANCIAL INSTRUMENTS (CONTINUED)

### d) Valuation of financial instruments carried at fair value

Values as at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	484,187	48,075	49,404	581,666
Loans and Receivables	29,059	576	794	30,429
<b>Total Financial Assets</b>	<b>513,246</b>	<b>48,651</b>	<b>50,198</b>	<b>612,095</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	(544)	0	0	(544)
<b>Total Financial Liabilities</b>	<b>(544)</b>	<b>0</b>	<b>0</b>	<b>(544)</b>
<b>Net Financial Assets</b>	<b>512,702</b>	<b>48,651</b>	<b>50,198</b>	<b>611,551</b>

Values as at 31 March 2011	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	467,369	44,793	69,245	581,407
Loans and Receivables	12,983	1,127	988	15,098
<b>Total Financial Assets</b>	<b>480,352</b>	<b>45,920</b>	<b>70,233</b>	<b>596,505</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	(1,911)	0	0	(1,911)
<b>Total Financial Liabilities</b>	<b>(1,911)</b>	<b>0</b>	<b>0</b>	<b>(1,911)</b>
<b>Net Financial Assets</b>	<b>478,441</b>	<b>45,920</b>	<b>70,233</b>	<b>594,594</b>

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. This fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**Market risk** - The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each Fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

# Notes To Pension Fund Accounts

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy statement.

### Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	15.60%
Overseas quoted equities	14.70%
UK Public Sector quoted Index-Linked Securities	6.00%
Overseas Public Sector quoted Index-Linked Securities	6.00%
UK Managed funds - other	15.60%
UK Unit Trusts - property	4.70%
Overseas Unit Trusts - other	14.70%
Private Equity	3.30%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

# Notes To Pension Fund Accounts

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Cash and Cash equivalents</b>	37,878	0.00	37,878	37,878
<b>Investment Assets</b>				
UK quoted equities	126,322	15.60	146,027	106,617
Overseas quoted equities	40,869	14.70	46,877	34,861
UK Public Sector quoted Index-Linked Securities	13,933	6.00	14,769	13,097
Overseas Public Sector quoted Index-Linked Securities	25,661	6.00	27,201	24,121
UK Managed funds - Equities	56,402	15.60	65,201	47,603
UK Managed funds - Bonds	50,772	6.00	53,818	47,726
UK Unit Trusts - property	48,076	4.70	50,335	45,815
Overseas Unit Trusts - Equities	110,429	14.70	126,662	94,196
Overseas Unit Trusts - Bonds	59,259	6.00	62,815	55,703
Private Equity/Infrastructure	38,277	3.30	39,040	36,546
Net Derivative assets	1,688	0.00	1,688	1,688
Investment income due	1,448	0.00	1,449	1,449
Amounts receivable for sales	1,081	0.00	1,081	1,081
Amounts payable for purchases	(544)	0.00	(544)	(544)
<b>Total Assets Available to pay benefits</b>	<b>611,551</b>		<b>674,297</b>	<b>547,837</b>

Asset type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Cash and Cash equivalents</b>	13,639	0.50	13,707	13,571
<b>Investment Assets</b>				
UK quoted equities	114,967	20.50	138,535	91,399
Overseas quoted equities	78,793	21.60	95,812	61,774
UK Public Sector quoted Index-Linked Securities	28,922	10.70	32,017	25,827
Overseas Public Sector quoted Index-Linked Securities	11,638	10.70	12,883	10,393
UK Managed funds - Equities	84,390	20.50	101,690	67,090
UK Managed funds - Bonds	37,797	10.70	41,841	33,753
UK Unit Trusts - property	44,793	12.00	50,168	39,418
Overseas Unit Trusts - Equities	97,985	21.60	119,150	76,820
Overseas Unit Trusts - Bonds	45,921	10.70	50,835	41,007
Private Equity/Infrastructure	36,201	4.90	37,975	34,427
Net Derivative assets	(1,369)	0.00	(1,369)	(1,369)
Investment income due	1,032	0.00	1,032	1,032
Amounts receivable for sales	355	0.00	355	355
Amounts payable for purchases	(470)	0.00	(470)	(470)
<b>Total Assets Available to pay benefits</b>	<b>594,594</b>		<b>694,161</b>	<b>495,027</b>

# Notes To Pension Fund Accounts

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

**Interest Rate Risk** is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in Bonds and cash. Based on interest received on Fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2012	31 March 2011
	£000's	£000's
Cash and cash equivalents	11,667	6,743
Cash	26,211	6,896
Fixed Interest Securities	149,625	124,278
<b>Total</b>	<b>187,503</b>	<b>137,917</b>

**Interest rate risk sensitivity analysis** - The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Carrying amount as at 31 March 2012		Change in the net assets available to pay benefits	
			1%	-1%
	£000s	£000s	£000s	£000s
Cash and cash equivalents	11,667	117	117	-117
Cash	26,211	262	262	-262
Fixed Interest Securities	149,625	1,496	1,496	-1,496
<b>Total change in assets available</b>	<b>187,503</b>	<b>1,875</b>	<b>1,875</b>	<b>-1,875</b>

Asset Type	Carrying amount as at 31 March 2011		Change in the net assets available to pay benefits	
			1%	-1%
	£000s	£000s	£000s	£000s
Cash and cash equivalents	6,743	67	67	-67
Cash	6,896	69	69	-69
Fixed Interest Securities	124,278	1,243	1,243	-1,243
<b>Total change in assets available</b>	<b>137,917</b>	<b>1,379</b>	<b>1,379</b>	<b>-1,379</b>

**Currency Risk** is the risk to which the Pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2012 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end.

# Notes To Pension Fund Accounts

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

### Currency exposure by asset type

	Asset value as at 31 March 2012	Asset value as at 31 March 2011
	£000s	£000s
Overseas quoted Securities	40,869	78,793
Overseas Corporate Bonds	59,259	45,921
Overseas Index-linked Bonds	25,661	11,638
Overseas managed funds	110,429	97,985
Private Equity/Infrastructure	38,277	36,201
	<b>274,495</b>	<b>270,538</b>

**Currency risk sensitivity analysis** - Following analysis of historical data in consultation with WM Company, the funds data analysts and provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 10%, based on the data provided by WM. A 10% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 10% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

### Currency exposure by asset type

	Asset value as at 31 March 2012	Change in the net assets available to pay benefits	
		+10%	-10%
	£000s	£000s	£000s
Overseas quoted Securities	40,869	44,956	36,781
Overseas Corporate Bonds	59,259	65,185	53,333
Overseas Index-linked Bonds	25,661	28,227	23,095
Overseas managed funds	110,429	121,472	99,386
Private Equity/Infrastructure	38,277	42,105	34,449
	<b>274,495</b>	<b>301,945</b>	<b>247,045</b>

### Currency exposure by asset type

	Asset value as at 31 March 2011	Change in the net assets available to pay benefits	
		+13%	-13%
	£000s	£000s	£000s
Overseas quoted Securities	78,793	89,036	68,550
Overseas Corporate Bonds	45,921	51,891	39,951
Overseas Index-linked Bonds	11,638	13,151	10,125
Overseas managed funds	97,985	110,723	85,247
Private Equity/Infrastructure	36,201	40,907	31,495
	<b>270,538</b>	<b>305,708</b>	<b>235,368</b>

# Notes To Pension Fund Accounts

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

**Credit Risk** - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank account is held with HSBC which holds a AA- long term credit rating (or equivalent) across three rating agencies and it maintains its status as a well capitalised and strong financial organisation. Deposits are placed in the AAAm rated Northern Trust Money Market Fund and SSgA Sterling Liquidity sub-Fund which offers the benefits of a diversified pool of underlying investments, ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £29.5million (31 March 2011: £6.8million) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2012	Rating	Balances as at 31 March 2011
<b>Money market funds</b>		<b>£000</b>		<b>£000</b>
Northern Trust Global Sterling Fund A	AAAm	17,494	AAAm	0
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	11,667	AAAm	6,743
<b>Bank current accounts</b>				
HSBC Plc	AA-	388	AA	114
<b>Total</b>		<b>29,549</b>		<b>6,857</b>

**Liquidity Risk** - The risk the Pension Fund will have difficulties in paying its financial obligations.

The Pension Funds holds a working cash balance in its own bank account and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments. At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2012 these assets totalled £532.2m, with a further £29.5m held in cash by fund managers.

# Notes To Pension Fund Accounts

## 17. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2010. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 78% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2010 was £564,290k. The value of the deficit at that date was £163,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 22.4% for the period of 1 April 2011 to 31 March 2014.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 3.30%

Gilt-based Discount Rate - 4.50%

Pay Increases - 5.30%

Funding Basis Discount Rate - 6.10%

## 18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	31 March 2012	31 March 2011
	% P.a.	% P.a.
Inflation /Pensions Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

\*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

\*\*Salary increase are assumed to be 1% p.a. until 31 March 2013 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2012 by Hymans Robertson LLP with the following results:

Description	31-Mar-12	31-Mar-11
	£000	£000
Present Value of Promised Retirement Benefits	889,000	800,000
Assets	612,394	594,333
Deficit	276,606	205,667

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net asset Statement surrounding future liabilities of the fund.

## 19. RELATED PARTY TRANSACTIONS

It is required under International Accounting Standard 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (4) to the Pension Fund accounts. The Council provides administration services for the pension fund. In 2011/12 a charge of £683k (£630k in 2010/2011) was made for these services.

No senior officers or Pension committee member had any interest with any related parties to the pension fund.

# Notes To Pension Fund Accounts

## 19. RELATED PARTY TRANSACTIONS (CONTINUED)

### Governance

There are five members of the pension fund committee who are active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

### Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension as at 31 March 2012	Accrued pension as at 31 March 2011
Paul Whaymand, Chief Finance Officer	£657,921.03	£498,547.69
Nancy Leroux, Senior Service Manager - Corporate Finance	£442,102.60	£352,467.69

## 20. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2012, securities worth £19,575k were on loan by Northern Trust from our portfolio and collateral worth £28,285k was held within the pool including Hillingdon. In the same period, a net income of £44.4k was received.

## 21. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 22. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2011/12.

## 23. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2012 totalled £53.8m (31 March 2011: £65.5m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

## 24. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.



# Statement of Responsibilities for the Statement of Accounts

## 1. 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 (usually that officer is the Chief Finance Officer);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

## 2. The Chief Finance Officer's

The Chief Finance Officer 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 Chief Financial Officer 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 Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2012 and its income and expenditure for the year then ended.

Paul Whaymand  
Chief Finance Officer  
September 2012

## **Pension Committee Certificate for the Approval of the Annual Report (excluding financial statements)**

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2012, and approved by the Chairman on 19 September 2012.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne  
CHAIRMAN (PENSIONS COMMITTEE)  
19 September 2012

## **Audit Committee Certificate for the Approval of the Accounts**

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 20 September 2012.

Signed on behalf of the London Borough of Hillingdon

John Morley  
CHAIRMAN (AUDIT COMMITTEE)  
20 September 2012

## **PART F – POLICY STATEMENTS**

Details of the following Statements can be found on the London Borough of Hillingdon website, using the links provided below.

### **Funding Strategy Statement**

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2011. The statement is available at :

[http://www.hillingdon.gov.uk/media/pdf/t/t/2008\\_FSS.pdf](http://www.hillingdon.gov.uk/media/pdf/t/t/2008_FSS.pdf)

### **Statement of Investment Principles**

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2011. The 2012 amended SoIP will be submitted to the September 2012 Pensions Committee, and will be added to the website following this meeting. The latest SoIP can be accessed at

[http://www.hillingdon.gov.uk/media/pdf/5/s/Statement\\_of\\_Investment\\_Principles\\_December\\_2011.pdf](http://www.hillingdon.gov.uk/media/pdf/5/s/Statement_of_Investment_Principles_December_2011.pdf)

### **Communication Policy Statement**

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was approved by Committee in March 2006 and updated during 2011. It can be accessed at:

[http://www.hillingdon.gov.uk/media/pdf/p/e/comm\\_policy.pdf](http://www.hillingdon.gov.uk/media/pdf/p/e/comm_policy.pdf)

### **Governance Policy Statement**

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review and statements are updated with amendments. The documents are available at: [http://www.hillingdon.gov.uk/media/pdf/g/q/Governance\\_Policy\\_Statement\\_2008.pdf](http://www.hillingdon.gov.uk/media/pdf/g/q/Governance_Policy_Statement_2008.pdf)

## PART G SCHEME BENEFITS

### SCHEME BENEFITS

#### Introduction

The Local Government Pension Scheme (LGPS) is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information can be obtained from our pensions administrator Capita Hartshead, telephone 01737 366062 or email [Hillingdon.pensions@capita.co.uk](mailto:Hillingdon.pensions@capita.co.uk). Further general scheme information regarding the LGPS is available from the website: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)

#### Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert within limits, pension to lump sum. Pension and lump sum are related to length of service and final pay.

#### Pension (Normal)

Based on average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any three consecutive years in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

#### Pension (Ill Health)

Based on average pensionable pay for the last year of service and the split of 80ths and 60ths accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

**First tier:** If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

**Second Tier:** If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or age 65 if earlier, the employee's LGPS service is enhanced by 25% of potential service to age 65.

**Third Tier:** If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date

of leaving with no enhancement. There is an ill health review after benefits have been paid for eighteen months, and the benefits may be stopped, continued for a further maximum period of eighteen months or the level of ill health may be increased to Tier 2 from date of the review.

### **Lump Sum Retirement Grant**

Based on average pensionable pay for the last year of service and total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as 3/80ths for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

### **Death Grant**

#### **(i) Death in Service**

A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

#### **(ii) Death after Retirement**

A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

#### **(iii) Death of a member with Preserved benefits**

A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

### **Spouses, civil partners and nominated cohabiting partner's Pension**

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on 1/160 of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

### **Children's Pension**

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

**Partner with one child:** Child's pension is 1/320th of member's service, multiplied by the final pay.

**Partner with more than one child:** Child's pension is 1/160th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.

**No partner and one child:** Child's pension is 1/240th of the member's service, multiplied by the final pay.

**No partner and more than one child:** Child's pension is 1/120th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

### **Pension Increases**

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

### **Contracting Out Status** (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

### **AVCs**

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

### **REGULATIONS**

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

## **PART H AUDITORS' REPORT**

### **AUDITOR'S REPORT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON PENSION FUND

#### **Opinion on the pension fund accounting statements**

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

#### **Respective responsibilities of the Chief Financial Officer and auditor**

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

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

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

## **Opinion on financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year.; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

## **Matters on which we report by exception**

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

Heather Bygrave  
for and on behalf of Deloitte LLP  
Appointed Auditor  
St Albans, United Kingdom  
[Date]