Pension Fund
Annual Report & Accounts
for the year to 31 March 2013

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PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2013

Administering Authority	London Borough of Hillingdon
Pension Fund Committee Members as at 31 March 2013	Cllr Philip Corthorne (Chairman) Cllr Richard Lewis (Vice-Chairman) Cllr Paul Harmsworth Cllr Raymond Graham Cllr David Simmons Cllr Janet Duncan John Holroyd (Pensioner/Deferred Rep) Andrew Scott (Active Member Rep)
Corporate Director of Finance	Paul Whaymand
Investment Consultant	Hymans Robertson LLP
Investment Adviser	Scott Jamieson
Fund Managers	Adam Street Partners Fauchier JP Morgan Asset Management Kempen International Investments LGT Capital Partners M&G Investments (Direct Investment) Macquarie Investment Marathon Global Investors Newton Asset Management Ruffer LLP State Street Global Advisors UBS Global Asset Management
Actuary	Hymans Robertson LLP
Legal Services	Raj Alagh, Borough Solicitor LBH
Auditor	Deloitte LLP
Bankers	HSBC Bank Plc Natwest Bank Plc (Capita Employee Benefits)
Custodian for Fund Assets:	Northern Trust Company
AVC Provider	Prudential Assurance Company

Officer Support	Nancy le Roux, Senior Service Manager – Corporate Finance Ken Chisholm, Corporate Pensions Manager Tunde Adekoya, Pension Fund Accountant Harry Lawson, Corporate Accounting Manager
Administration	Capita Employee Benefits

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.

The Pensions Accounting team oversee the accounting and management information requirements of the fund. The day to day management of the investment of the funds is undertaken by independent fund managers. The Pensions Administration of the scheme is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

During the year Pensions Committee meet formally on four occasions and the Investment sub-committee also meet four times per year between main committee meetings and on an ad hoc basis as required. Separate meetings are held with Fund Managers to review performance.

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. On 1 February 2013, 530 employees were brought in to the scheme in line with the Governments Workplace Auto Enrolment legislation. Of those, around 50% have remained in the scheme. Within Hillingdon Council, of the 6,902 employees who were eligible to join the scheme as at 31 March 2013, 5,257 were scheme members, which equates to 76% of the workforce.

Over the last few years total membership of the fund has grown steadily as shown in the table below.

5 Year Analysis of Fund Membership

Membership type	2008/09	2009/10	2010/11	2011/12	2012/13	5 year movement
Active	6,249	6,235	6,039	5,948	6,213	-0.58%
Pensioner	4,832	4,991	5,187	5,378	5,498	+13.78%
Deferred	4,541	4,772	4,890	5,492	5,883	+29.55%
Total Membership	**15,622**	**15,988**	**16,116**	**16,818**	**17,594**	**+12.62%**

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	2008/09	2009/10	2010/11	2011/12	2012/13
Redundancy or Efficiency	32	21	26	65	23
Ill Health	20	15	13	12	6
Total	**52**	**36**	**39**	**77**	**29**

The age and membership profile as at 31 March 2013 is shown below-

Age Band	Active	Deferred	Pensioner/Dependent	Total
0 -5	0	0	0	0
6 – 10	0	0	2	2
11 – 15	0	0	18	18
16 – 20	48	41	23	112
21 – 25	246	209	3	458
26 – 30	391	421	0	812
31 – 35	499	492	0	991
36 – 40	695	645	4	1,344
41 – 45	1,042	945	20	2,007
46 – 50	1,222	1,148	48	2,418
51 – 55	983	1,082	115	2,180
56 – 60	726	755	367	1,848
61 – 65	313	135	1,299	1,747
66 – 70	45	8	1,109	1,162
71 – 75	3	2	927	932
76 – 80	0	0	736	736
81 – 85	0	0	479	479
86 – 90	0	0	247	247
91 – 95	0	0	88	88
96 – 100	0	0	13	13
Over 100	0	0	0	0
Total	**6,213**	**5,883**	**5,498**	**17,594**

(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 2013 compared to the 2011/12 year:

Performance Indicator	Hillingdon Target	2011/12 Performance %	2012/13 Performance %
Letter detailing transfer in quote	10 days	76.20	98.81
Letter detailing transfer out quote	10 days	46.28	99.31
Process refund & issue payment	5 days	67.57	97.22
Letter notifying estimate of benefit	10 days	88.92	97.85
Letter notifying actual benefit	5 days	79.51	95.21

Letter acknowledging death	5 days	98.17	99.48
Letter notifying amount of dependant's benefit	5 days	72.56	100
Calculate & notify deferred benefits	10 days	54.04	95.65

Performance has improved in all reportable cases over the last year. Hillingdon monitors the performance of CEB on a daily basis, and we aim to continue to improve the services offered to all scheme members.

(d) 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 2012/13 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	270,085.55	26.30
Belmore Primary School	124,831.13	24.50
Bishop Ramsey School	157,252.52	20.70
Bishopshalt School	233,660.58	28.50
Coteford Junior School	57,979.04	32.20
Cranford Park School	148,837.65	29.90
Douay Martyrs School	193,393.54	32.60
Eden Academy	356,907.38	30.00
Genuine Dining Ltd	54,037.93	21.00
Greenwich Leisure	85,261.82	16.80
Guru Nanak Academy	215,272.02	22.90
Harefield Academy	139,259.97	14.00
Haydon School	272,977.54	16.40
Heathrow Travel care	11,051.82	19.10
Hewens Academy	145,442.56	19.90
Hillingdon & Ealing Citizens Advice	37,609.64	16.60
LBDS Frays Academy	140,146.64	29.10
Look Ahead Housing Care	26,414.50	23.00
London Housing Consortium	109,862.52	20.10
Mitie Cleaning	30,998.20	21.00
Mitie Facilities Management	75,933.12	21.00
Northwood School	74,144.91	25.10
Queensmead School	114,258.40	20.00
Stag Security Services	1,230.24	24.00
Stockley Academy	164,137.10	18.50
Swakeleys Academy	139,125.94	17.80
Uxbridge College	702,085.26	16.80
Uxbridge High School	165,765.45	19.80
Vyners Academy	165,347.02	27.20
Willows Academy	52,045.06	21.60

Wood End Park School	143,274.12	28.90
Total	**4,608,629.17**	

(e) Impact of Contributions received and Benefits paid on cash flow

Total contributions received during the year were £31.8m, an increase of £1.3m over 2011/12, however this was offset by the value of transfer payments into the scheme during the year which fell by £3.4m. However, benefits and leaver payments made were £33.4m, a reduction of £2.1m on last year. The overall deficit was just over £1.2m, a very slight reduction from £1.3m in 2011/12.

The impact of auto-enrolment was very slight for 2012/13 as it impacted only on contributions for February and March. However, going forward employer contributions are expected to be just over £1m higher due to auto-enrolment.

(f) Administrative expenses

Overall administration expenses reduced for the year by £163k, just over 21%. This can be almost entirely attributed to the reduction in costs through the outsourcing of the administration function to Capita.

3. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor the key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated monthly and reported to Pension Committee on an exception basis. A brief narrative description of each risk is set out below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement in Section G of this report.

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pensions' Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the funds 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 the 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 where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the fund will help further mitigate these risks.

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Commentary for the year to 31 March 2013

General background

Equity markets performed strongly over the 12 months to 31 March 2013. This positive tone contrasted with mixed developments on the economic front, continuing difficulties associated with the financial crisis and debt 'overhangs' in the US and Europe.

Optimism over global economic growth prospects deteriorated progressively over the period, with mixed data in the UK and much of Europe falling into recession. Although the US exhibited consistent growth, policy makers remained cautious. Initiatives taken by central banks in the US, Europe and Japan differed in nature and size. In the US, activity was principally focused on stimulating economic growth. In other regions, it was designed to counter deflationary forces.

In the UK, the Governor of the Bank of England forecast a period of persistently low economic growth, citing problems in the Eurozone as a contributory factor. The Chancellor of the Exchequer presented his March 2013 budget against a background of downward revisions to economic growth forecasts and a cut in the country's credit rating. With rising debt, austerity remains the order of the day. The budget incorporated further unpopular cuts in public spending.

Key events over the 12 month period were:

Global Economy

- Policy makers in the UK, Eurozone, US, Japan and China announced asset purchase programmes to stimulate economies;
- Short-term interest rates were unchanged in US and UK, and reduced (by 0.25%) in the Eurozone;
- The Eurozone reported its third consecutive quarter of economic contraction;
- Economic growth in major Asian markets was impaired by weak external demand;
- France and Italy pressed the case for economic growth rather than austerity as policy priority;
- The UK's credit rating was cut by Moody's, on concerns over continuing economic weakness.

Equities

- Defensive stocks outperformed cyclicals over the period;
- The strongest sectors, relative to the 'All World' Index, were Health Care (+13.1%) and Consumer Services (+8.8%); the weakest sectors were Basic Materials (-15.7%) and Technology (-11.4%).

Bonds

- The European Central Bank announced a bond purchase programme to assist countries struggling to raise funds;
- Corporate bonds outperformed government issues by a comfortable margin.

John Hastings May 2013, for and on behalf of Hymans Robertson LLP

INVESTMENT POLICY

Throughout the year the Investment Sub Committee keep the Fund's asset allocation and investment strategy under review and recommend changes as necessary to Pensions Committee for approval.

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					3.68	
JP Morgan			11.29			
Kempen		7.06				
LGT					2.33	
M&G						2.42
Macquarie						1.21
Newton	0.34	3.09				
Ruffer	2.67	8.86	6.35			0.71
State Street	9.00	7.35	4.68			
UBS Equities	20.00			0.01		
UBS Property				6.99		
Total	**32.01**	**26.36**	**22.32**	**7.00**	**6.01**	**4.34**

(A cash holding of 1.96% is not included in the above table.)

During 2012/13 several changes were implemented:

- As a result of the retirement by Marathon Asset Management of one of its founders, Jeremy Hoskins, Committee decided his absence would affect the overall dynamics of the fund services provided by Marathon and took the decision to divest from Marathon and appoint two new fund managers to manage funds divested from Marathon. The managers appointed were Newton Asset Management and Kempen International Investments. The two managers are similar in style to Marathon and are seen as a continuation of that particular fund management style. Marathon remains part of the fund's preferred fund managers' pool and will be monitored for future placement of investments.

- Following a review of the Fund's asset allocation and style risk profile, Committee decided to address Absolute Return portfolio concentration risks by reducing assets managed by Ruffer LLP from 19% of funds' assets to 12% and to appoint a second Absolute Return manager. Following a selection process Barings Asset Management was appointed. Barings were allocated 9% of the funds' asset derived from 7% withdrawn from Ruffer and a further 2% from UBS Asset Management's UK Equities portfolio. Barings appointment took effect from April 2013.

- A further £15m was committed to further investments with M&G as part of its' Debt Opportunities Fund offering to exploit the lack of credit in the financial market and take advantage of the generous IRR offered by the new offering from M&G. With this investment, Committee made the commitment to further enhance the diversified nature of the fund's assets.

Fund Managers who manage assets on behalf of the London Borough of Hillingdon Pension Fund

State Street Global Advisors - 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 (SSgA Drawdown) were reallocated.

UBS Global Asset Management - (UK equities) - UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2013 was conducive to their investment style and contributed to their outperforming the benchmark in both one year and since inception categories.

UBS Global Asset Management - 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. Currently, there is an on-going major restructure of the UBS Triton part of the fund's property portfolio due to be completed by the fund manager by the end of July 2013.

Adams Street Partners & LGT - 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 LLP - 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. However, subsequent performance may suffer a drag due to reduction of assets under management, as explained in the Investment Strategy review above.

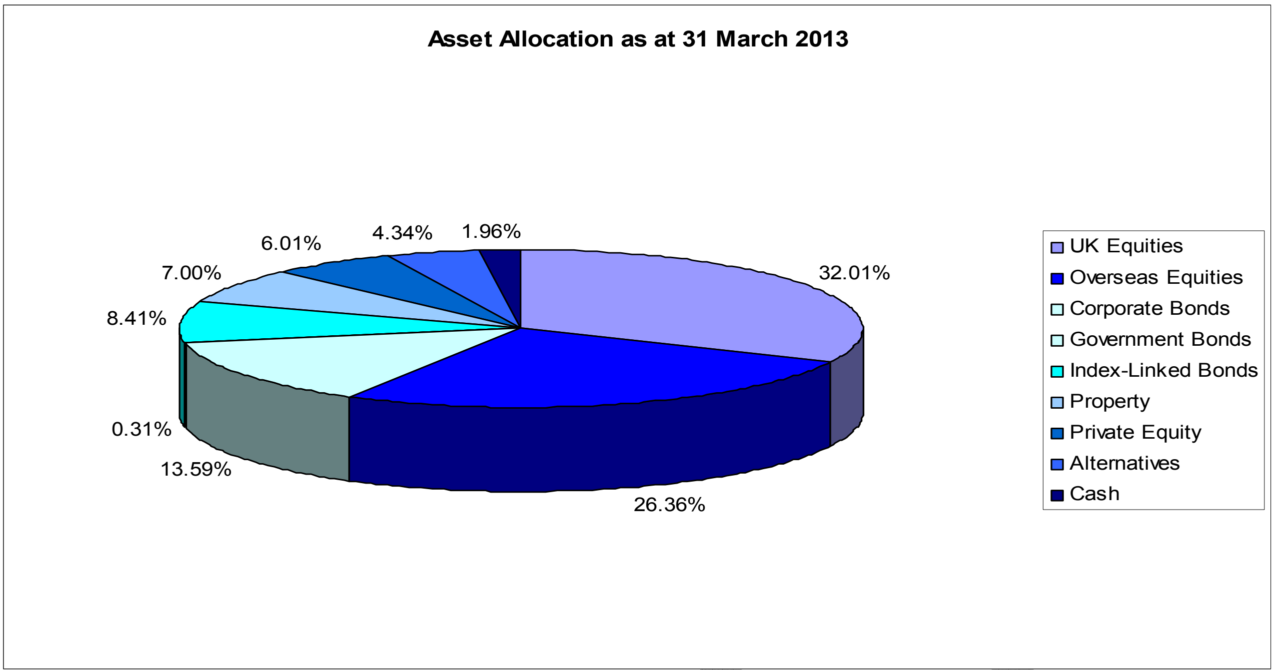
Macquarie Investment - The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year. The European Fund MEI4 commenced drawdown during the financial year and had gathered pace tremendously resulting in the overall drawdown investments by Macquarie increasing by 1.01% (1.21%) of Fund's assets in 12/13 compared to (0.20%) in 11/12.

M&G Investments - 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. During the financial year under review, commitments to M&G funds were increased with an investment of a further £15 million in the Debt Opportunities Fund. This fund specifically targets distressed companies in which M&G already has vested interest and offer rescue packages at discounted rates.

JP Morgan Asset Management - JP Morgan mandate has been in place for just over 16 months and has performed positively and have taken advantage of the general need for consistent income stream, without the volatility of equities with returns slightly outperforming prescribed benchmark over one year by 0.40% and 1.98% since inception.

Fund Value and Asset allocation as at 31 March 2013

At 31 March 2013 the total value of the pension fund investment assets was £679,552k. The following diagram identifies the allocation, by asset class, as at 31 March 2013.



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 both market gains and revised asset allocation during the year. Consequently, the fund now has increased exposure to UK and overseas equities, corporate bonds and alternatives.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2013.

INVESTMENT MANAGER	AS AT 31 MARCH 2013		AS AT 31 MARCH 2012	
	£'000	%	£'000	%
Adams Street	23,366	3.44	20,791	3.40
JP Morgan	74,981	11.03	72,012	11.78
Kempen	46,884	6.90	0	0
LGT	18,215	2.68	17,011	2.78
M&G	16,351	2.41	11,149	1.82
Macquarie	8,536	1.26	1,205	0.20
Marathon	0	0	58,670	9.59
Newton Asset Management	22,819	3.36	0	0
Ruffer	131,368	19.33	118,378	19.36
State Street Global Advisors	135,887	20.00	132,251	21.63
UBS	135,737	19.97	112,777	18.44
UBS Property	48,574	7.14	48,628	7.95
Other*	16,834	2.48	18,679	3.05
Total	**679,552**	**100.00**	**611,551**	**100.00**

*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 2013 were:

Top 5 Holdings	Market Value as at 31 March 2013 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	74,981	11.03%
SSgA Equity Index	59,893	8.81%
Kempen Int'l Funds	46,884	6.90%
BNY Mellon Newton Global Higher Income Fund	22,819	3.36%
BP Ord USD0.25	16,376	2.41%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2013 £000s	Percentage of Fund Value
BP	16,376	2.41%
Royal Dutch Shell	11,274	1.66%
Vodafone Group	9,943	1.46%
GlaxoSmithKline	9,338	1.37%
Lloyds Banking Group	7,716	1.13%
Rio Tinto	6,093	0.90%
Barclays	5,754	0.85%
BAE Systems	4,846	0.71%
HSBC	4,489	0.66%
3I Group	4,398	0.65%

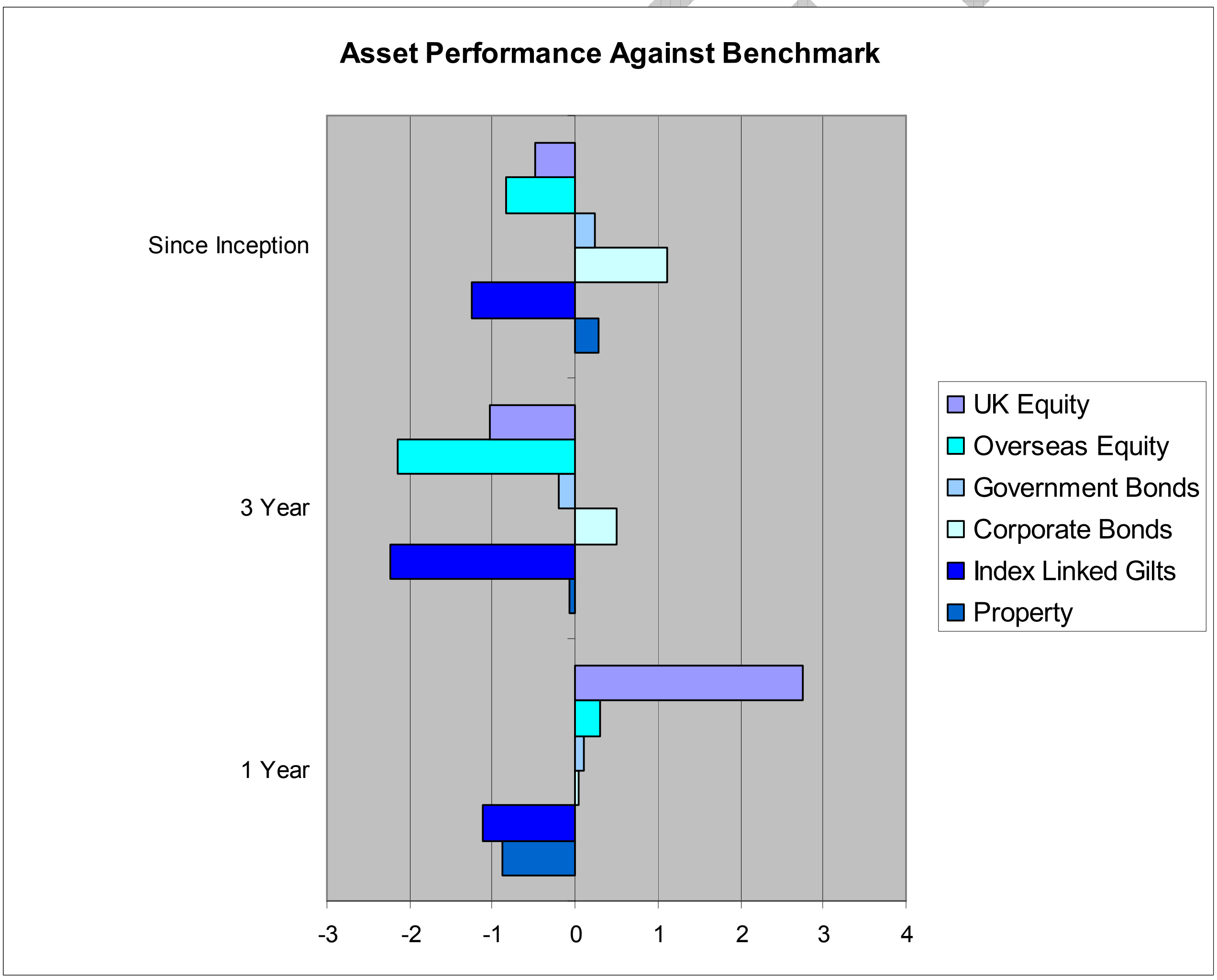
Investment Performance

Markets remained favourable to most of the fund's investments and managers through 2012/13 which helped the fund produce an annual return of 12.33%. All fund managers, produced positive returns over the year, with the exception of UBS Property and SSgA Drawdown. Relative performance between the underlying managers was positive with all outperforming their benchmarks, again with the exception of UBS Property & SSgA Drawdown who underperformed relative to their benchmarks. The total fund outperformed the plan benchmark by 1.68% but underperformed the WM average by -1.47%.

The following table details performance by managers over one and three years and since inception. M&G, Ruffer and JP Morgan were appointed less that three years ago and Newton and Kempen are not included as they were appointed in the last two months of the year under review.

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
JP Morgan	4.12	3.71	0.41	-	-	-	5.87	3.82	2.05
M&G	5.78	4.72	1.06	-	-	-	4.90	4.83	0.07
Ruffer	11.03	0.82	10.21	-	-	-	7.70	0.82	6.88
SSgA	15.82	15.92	(0.10)	8.74	8.68	0.06	14.61	14.55	0.06
SSgA Drawdown	4.39	6.05	(1.65)	3.90	4.50	(0.61)	5.04	5.46	(0.42)
UBS	20.06	16.77	3.29	9.13	8.78	0.35	10.16	9.10	1.06
UBS (Property)	(0.09)	1.38	(1.46)	4.56	5.35	(0.78)	(0.94)	(0.22)	(0.72)
Total Portfolio	**12.33**	**10.64**	**1.68**	**7.09**	**5.89**	**1.20**	**6.78**	**6.75**	**0.03**

Over the financial year under review, the fund grew by 12.33% equating to 168 basis points ahead of the benchmark figure of 10.64%. For the 3 year period to 31 March 2013, the fund has outperformed with a relative return of 1.20% pa. However, since inception in September 1995 the returns come to 6.78% just 3 basis points better than the benchmark.



Performance	1 Year			3 Year			Since Inception		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	19.53	16.77	2.76	7.74	8.78	-1.04	6.85	7.33	-0.48
Overseas Equity	17.08	16.78	0.30	4.82	6.94	-2.14	5.83	6.66	-0.83
Government Bonds	5.36	5.25	0.11	8.01	8.21	-0.20	7.07	6.84	0.23
Corporate Bonds	12.03	11.99	0.04	9.21	8.70	0.51	11.31	10.20	1.11
Index Linked Gilts	9.09	10.21	-1.12	9.25	11.48	-2.23	10.94	12.20	-1.26
Property	0.51	1.38	-0.87	5.28	5.35	-0.07	7.70	7.42	0.28
Total Portfolio	**12.33**	**10.64**	**1.68**	**7.09**	**5.89**	**1.20**	**6.78**	**6.75**	**0.03**

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 2011/12 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 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 the CIPFA principles are included within the Statement of Investment Principles.

The Pension Fund 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 Administration of the Local Government Pension Scheme (LGPS) was outsourced to Capita Employee Benefits (CEB) (formally known as Capita HartsHead) from 1 April 2012. The London Borough of Hillingdon joined a pan-London Framework Agreement for LGPS Administration lead by the London Borough of Hammersmith and Fulham. Currently there are 4 London Boroughs signed up to the framework. They are London Borough of Hammersmith and Fulham, London Borough of Brent, London Borough of Hillingdon and The Royal Borough of Kensington and Chelsea. The Framework covers the full range of administration services for both current, former employees and pensioners of the London Borough of Hillingdon Fund including:

- Administer the Local Government Pension Scheme on behalf of London Borough of Hillingdon as an Employing 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 and external scheme Employers on options available under the Council's Pension Scheme.
- Exploit information technology to improve service standards and efficiency.

The performance of CEB is reported quarterly to Pensions Committee and monitored on a daily basis by pension's officers of London Borough of Hillingdon.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits and redundancy and compensation benefits for non-teaching employees.

The pensions administration service at CEB can be contacted by telephoning 01737 366062 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

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 or on request. An application at stage one of the process is to the Operations Manager at CEB and at stage two to the Corporate Pensions Manager or a Senior Officer of the Council not previously involved in the case.

Review of 2012/13

The number of active scheme members that the Service deals with increased in the last year, as a result of Auto Enrolment. The London Borough of Hillingdon enrolled all non-scheme members in to the pension scheme from 1st February 2013.

Latest available Government SF3 statistics (for 2011/12) indicate the cost per member for all English Authorities was £27.82 compared with an outer London average of £50.01 per scheme member. The cost in 2012/13 for the London Borough of Hillingdon was £34.02, (a decrease of £10.69 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average "cost per member" when compared to all outer London Boroughs.

As a result of the Lord Hutton report to Government on the future of all Public Service Pensions published on 10 March 2011, containing 27 recommendations for change to public service pensions, and endorsed by the government. Amendments to the structure of the LGPS should be completed by spring 2013, and a new scheme in operation from 1 April 2014. A revised scheme structure is currently being consulted upon.

Dispute Resolution

Because pensions are such a complicated issue at times it's inevitable that occasionally disagreements between members and scheme administrators arise. When disagreements do occur we do all we can 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 and the set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme is the Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Director of Operations at CEB at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to the Corporate Pensions Manager at London Borough of Hillingdon or 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 2012/13, there were 5 stage 1 appeals, 1 of which has progressed to stage 2. No cases have been referred to the Pensions Ombudsman.

PART D – ACTUARIAL REPORT

London Borough of Hillingdon ("the Fund") Actuarial Statement for 2012/13

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Hillingdon Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2013 £m	31 Mar 2012 £m
Present value of Promised Retirement Benefits	1,066	889

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £503m in respect of employee members, £212m in respect of deferred pensioners and £351m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £128m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a.	31 Mar 2012 % p.a.
Inflation/Pensions Increase Rate	2.8%	2.5%
Salary Increase Rate*	5.1%	4.8%
Discount Rate	4.5%	4.8%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2010. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Catherine McFadyen FFA, May 2013, for and on behalf of Hymans Robertson LLP