

# Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2013 £000's	Year Ended 31 March 2012 £000's
Contributions	4	31,871	30,520
Transfers In	5	284	3,703
Less: Benefits	6	(31,424)	(32,007)
Less: Leavers	7	(1,957)	(3,509)
Less: Administrative expenses	8	(589)	(752)
<b>Net additions from dealings with members</b>		<b>(1,815)</b>	<b>(2,045)</b>
Investment income	9	14,054	9,936
Changes in market value of investments	10	61,904	14,213
Taxes on income		(19)	(48)
Investment management expenses	12	(3,922)	(3,539)
<b>Net return on investments</b>		<b>72,017</b>	<b>20,562</b>
<b>Net Increase in the fund during the year</b>		<b>70,202</b>	<b>18,517</b>
<b>Net Assets at start of year</b>		<b>612,850</b>	<b>594,333</b>
<b>Net Assets at end of year</b>		<b>683,052</b>	<b>612,850</b>

		31 March 2013 £000's	31 March 2012 £000's
Investment Assets	10	682,984	612,095
Investment Liabilities	11	(3,432)	(544)
Current Assets	13	4,358	1,956
Current Liabilities	14	(858)	(657)
<b>TOTAL NET ASSETS</b>		<b>683,052</b>	<b>612,850</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**  
**Corporate Director of Finance**  
 June 2013

# 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 2012/13 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. But since 01 February 2013 all new employees of the Council are automatically enrolled, with option to opt out of the scheme within three months of auto enrolment.

### 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 April 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:

Genuine Dining Ltd	Look Ahead Housing & Care
Greenwich Leisure	Mitie Cleaning
Heathrow Travel Care	Mitie FM
Hillingdon & Ealing Citizens Advice	Stag Security Services

#### Scheduled Bodies:

Barnhill Community School	Northwood School
Belmore Primary School	Queensmead School
Bishop Ramsey School	Stockley Academy
Bishopshalt School	Swakeleys School
Coteford Junior School	The Willows School
Cranford Park School	Uxbridge College
Douay Martyrs	Uxbridge High School
Eden Academy	Vyners School
Guru Nanak Academy	Wood End Park School
Harefield Academy	
Haydon School	
Hewens Academy	
LBDS Frays Academy	
London Housing Consortium	

# Notes To Pension Fund Accounts

## 1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2013 there were 6,213 active employees contributing to the fund, with 5,498 in receipt of benefit and 5,883 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2013	31 March 2012
Number of employers with active members	32	35
<b>Number of employees in scheme</b>		
London Borough of Hillingdon	5,225	4,987
Other employers	988	961
<b>Total</b>	<b>6,213</b>	<b>5,948</b>
<b>Number of Pensioners</b>		
London Borough of Hillingdon	5,047	4,969
Other employers	451	409
<b>Total</b>	<b>5,498</b>	<b>5,378</b>
<b>Deferred pensioners</b>		
London Borough of Hillingdon	4,671	4,363
Other employers	1,212	1,129
<b>Total</b>	<b>5,883</b>	<b>5,492</b>

The pension fund investments are managed externally by fund managers: Adams Street Partners, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, Marathon Global Investors, Newton Asset Management, 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 2012/13:

### Pensions Committee

Cllr Philip Corthorne (Chairman)

Cllr Richard Lewis (Vice-Chairman)

Cllr David Simmons

Cllr Raymond Graham

Cllr Paul Harmsworth

Cllr Janet Duncan

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

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

## 2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority accounting in the United Kingdom 2012/13 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and 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 2013 was £39,617k (£37,007k at 31 March 2012).

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 2013 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 £39,617k. There is a risk that this investment may be under- or overstated in the accounts.

# Notes To Pension Fund Accounts

## 4. CONTRIBUTIONS

	31 March 2013 £000's	31 March 2012 £000's
<b>Employers</b>		
Normal	18,508	17,566
Deficit funding	5,219	4,954
<b>Members</b>		
Normal	7,920	7,877
Additional contributions	224	123
	<b>31,871</b>	<b>30,520</b>

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

	31 March 2013 £000's	31 March 2012 £000's
<b>Schedule of contributions by body</b>		
<b>Employers</b>		
LB Hillingdon	19,118	19,568
Scheduled Bodies	4,286	2,580
Admitted Bodies	323	372
<b>Members</b>		
LB Hillingdon	6,639	6,905
Scheduled Bodies	1,400	971
Admitted Bodies	105	124
	<b>31,871</b>	<b>30,520</b>

## 5. TRANSFERS IN

	31 March 2013 £000's	31 March 2012 £000's
Individual transfers in from other schemes	284	3,703

## 6. BENEFITS

	31 March 2013 £000's	31 March 2012 £000's
Pensions	26,818	24,874
Commutations and lump sum retirement	4,496	6,440
Lump sum death benefits	110	693
	<b>31,424</b>	<b>32,007</b>

	31 March 2013 £000's	31 March 2012 £000's
<b>Schedule of benefits by employer</b>		
LB Hillingdon	30,950	31,525
Scheduled Bodies	380	386
Admitted Bodies	94	96
	<b>31,424</b>	<b>32,007</b>

# Notes To Pension Fund Accounts

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2013 £000's	31 March 2012 £000's
Refunds of contributions	0	4
State scheme premiums	0	1
Individual transfers out to other schemes	1,957	3,504
	<b>1,957</b>	<b>3,509</b>

## 8. ADMINISTRATIVE EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration and processing	545	683
Audit fee	21	37
Actuarial fee	23	32
	<b>589</b>	<b>752</b>

## 9. INVESTMENT INCOME

	31 March 2013 £000's	31 March 2012 £000's
Dividends from equities	6,662	6,132
Income from index-linked securities	396	737
Income from pooled investment vehicles	1,988	1,648
Interest on cash deposits	118	83
Other (for example from stock lending or underwriting)	4,890	1,336
	<b>14,054</b>	<b>9,936</b>

## 10. INVESTMENT ASSETS

	Value at 1 April 2012 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2013 £000's
Equities	167,191	251,835	(228,265)	2,793	193,554
Government Bonds	0	130	(127)	(3)	0
Index-linked securities	39,594	8,438	(8,701)	2,843	42,174
Pooled investment vehicles	363,215	164,897	(169,778)	56,815	415,149
	<b>570,000</b>	<b>425,300</b>	<b>(406,871)</b>	<b>62,448</b>	<b>650,877</b>
Other investment balances	4,217			(685)	3,048
Fund managers' cash	37,878			141	29,059
<b>Total Investment Assets</b>	<b>612,095</b>			<b>61,904</b>	<b>682,984</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 £357k (£337k in 2011/12). 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 2013 £000's	Market Value at 31 March 2012 £000's
Adams Street	23,366	20,791
JP Morgan Asset Management	74,981	72,012
Kempen International	46,884	0
LGT	18,215	17,011
M&G	16,351	11,149
Macquarie	8,536	1,205
Marathon	0	58,670
Newton Asset Management	22,819	0
Ruffer	131,368	118,378
State Street Global Advisors	135,887	132,251
UBS	135,737	112,777
UBS (Property)	48,574	48,628
Other*	16,834	18,679
<b>Total</b>	<b>679,552</b>	<b>611,551</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	350	350	0	27/03/2013	02/04/2013
Northern Trust GBP - USD	900	896	4	27/03/2013	02/04/2013
Northern Trust GBP - JPY	370	370	1	28/03/2013	02/04/2013
Northern Trust GBP - JPY	13,496	13,559	(63)	11/01/2013	15/04/2013
Northern Trust GBP - JPY	4,616	4,614	2	26/03/2013	15/04/2013
Northern Trust GBP - EUR	26,909	26,347	562	06/02/2013	14/05/2013
Northern Trust GBP - AUD	2,547	2,668	(121)	06/02/2013	14/05/2013
Northern Trust EUR - GBP	2,616	2,671	(55)	06/03/2013	14/05/2013
Northern Trust GBP - USD	17,542	17,997	(455)	13/02/2013	15/05/2013
Northern Trust GBP - EUR	1,342	1,297	44	11/03/2013	14/06/2013
<b>Total unrealised gains</b>			<b>(81)</b>		

As at 31 March 2013 Ten forward foreign exchange contracts were in place for £70,768k with unrealised loss of £81k 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 in the underlying asset value if converted into sterling.

### Investment Assets by Asset Class

	31 March 2013 £000's	31 March 2012 £000's
<b>Equities</b>		
UK quoted	150,769	126,322
Overseas quoted	42,785	40,869
	<b>193,554</b>	<b>167,191</b>
<b>Index Linked Securities</b>		
UK Public Sector quoted	21,428	13,933
Overseas Public Sector Quoted	20,746	25,661
	<b>42,174</b>	<b>39,594</b>
<b>Pooled Investment Vehicles</b>		
UK Managed funds - other	269,305	107,174
UK Unit Trusts - property	46,465	48,076
Overseas Unit Trusts - other	59,763	170,893
Private Equity	39,616	37,072
	<b>415,149</b>	<b>363,215</b>
<b>Other Investment balances</b>		
Forward foreign exchange unrealised gain	0	1,688
Amount due from brokers	1,615	1,081
Outstanding dividend entitlements and recoverable withholding tax	1,433	1,448
	<b>3,048</b>	<b>4,217</b>
<b>Cash deposits</b>		
Sterling	29,059	37,878
	<b>29,059</b>	<b>37,878</b>

**Note: There are no investments that are more than 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.

According to provisional information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2013 was **£5,298k (may change after annual revision)**, and as at 31 March 2012 £5,400k. 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 2013 £000's	31 March 2012 £000's
Amount outstanding to brokers	3,351	544
Forward foreign exchange unrealised loss	81	0
	<b>3,432</b>	<b>544</b>

## 12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration, management and custody	3,796	3,412
Performance measurement services	12	4
Other advisory fees	114	123
	<b>3,922</b>	<b>3,539</b>

## 13. CURRENT ASSETS

	31 March 2013 £000's	31 March 2012 £000's
Employers' contributions due	157	151
Employees' contributions due	56	56
Debtor: London Borough of Hillingdon	215	858
Debtor: Other Entities	4	3
Cash balances	3,926	888
	<b>4,358</b>	<b>1,956</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 2013 £000's	31 March 2012 £000's
Creditor: Other Entities	849	656
Creditor: London Borough of Hillingdon	9	1
	<b>858</b>	<b>657</b>

NB: A total of £849k is due to bodies external to government, namely investment managers, with all remaining amounts due to local government bodies.