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 Simmonds 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 Partners (Divested Dec 2011) JP Morgan Asset Management Kempen International Investments (Appointed Jan 2013) LGT Capital Partners M&G Investments (Direct Investment) Macquarie Infrastructure Investments Marathon Global Investors (Divested October 2012) Newton Asset Management (Appointed Jan 2013) 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, 5,225 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**	**15,998**	**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 and transfers-in received during the year were £32.2m, an increase of £1.4m 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					3.41	
JP Morgan			11.29			
Kempen		7.06				
LGT					2.56	
M&G						2.42
Macquarie						1.21
Newton	0.35	3.09				
Ruffer	2.67	8.86	6.35			0.71
State Street	9.00	7.35	4.68			
UBS Equities	20.01			0.01		
UBS Property				6.99		
Total	**32.03**	**26.36**	**22.32**	**7.00**	**5.97**	**4.34**

(A cash holding of 1.98% 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.

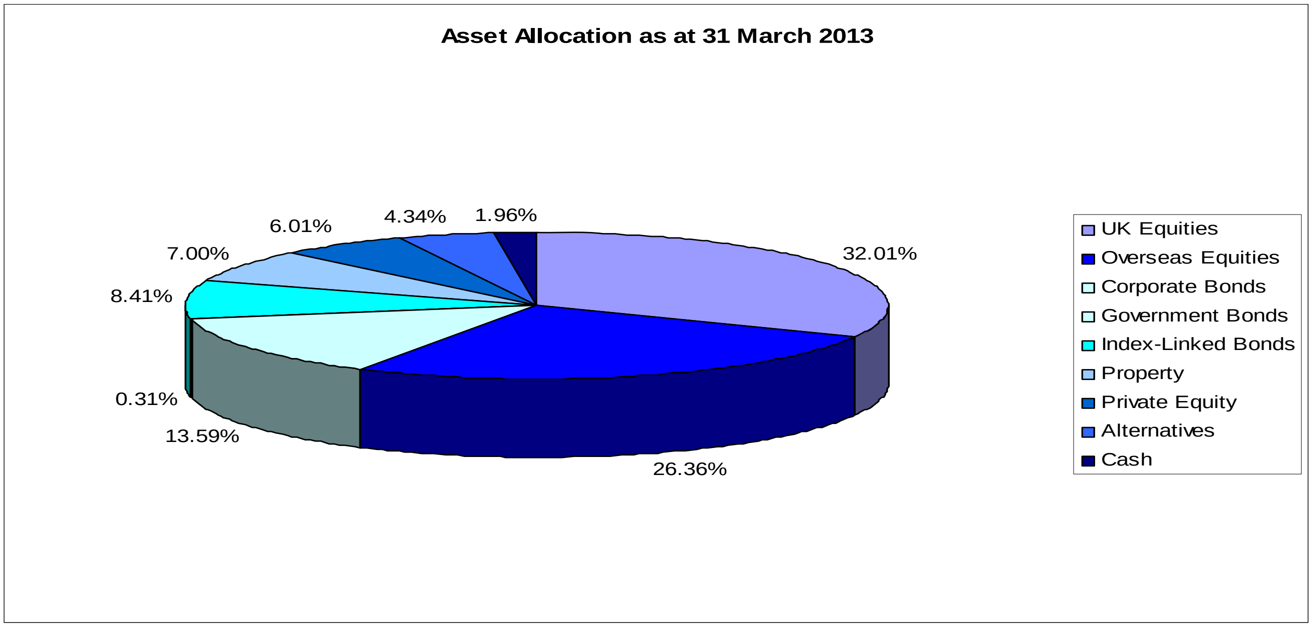
M&G Investments - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that 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.

Other Fund Managers – Marathon Global Asset Management and Fauchier Partners no longer have assets under management, but are still on the fund's preferred investment managers' list. Kempen International Investments and Newton Asset Management have recently been appointed (Jan 2013), hence no performance data are available to report for both managers.

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 Partners	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%

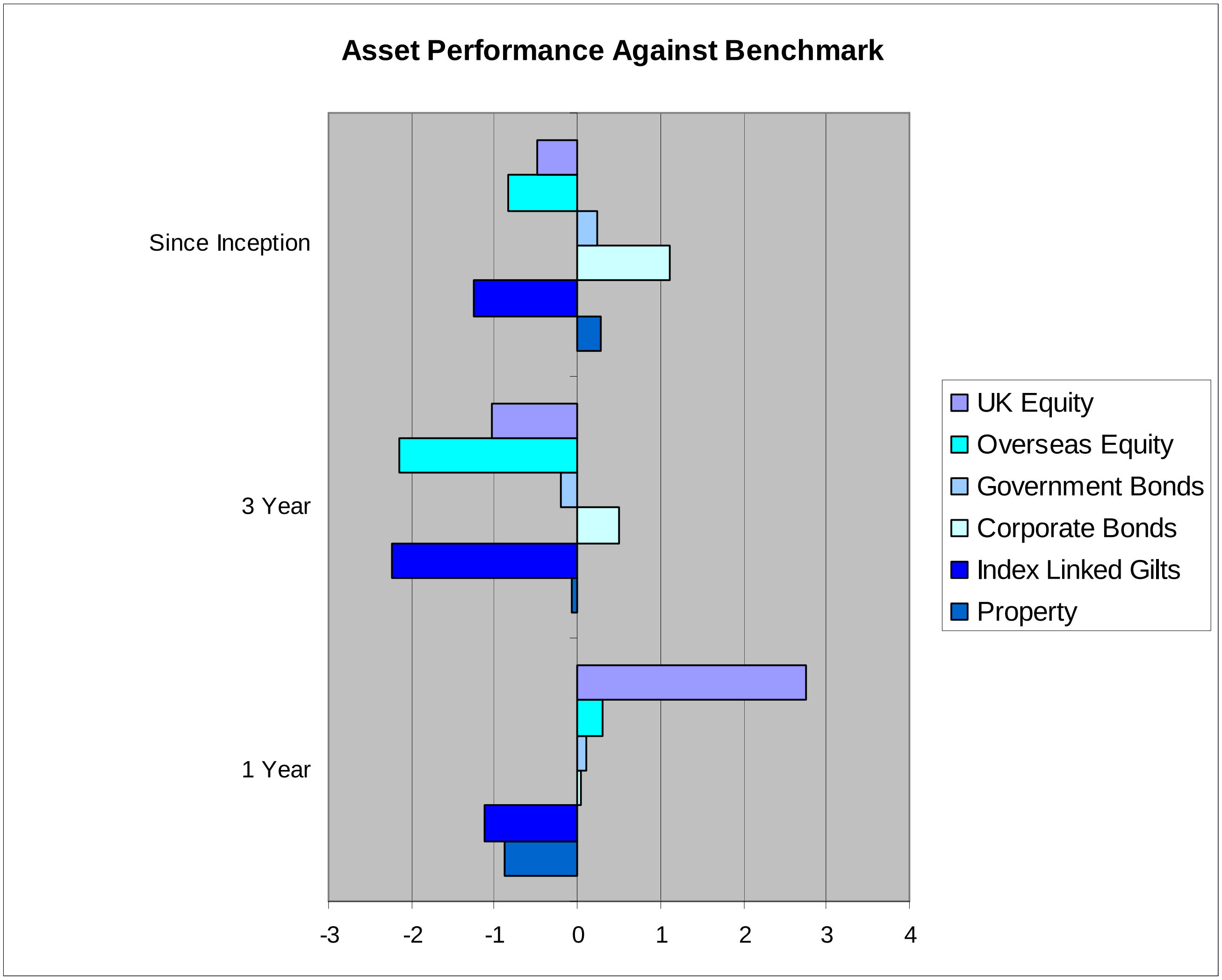
Investment Performance

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 Manager	1 Year			3 Year			Since Inception		
	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 169 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

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)
Net additions from dealings with members		**(1,815)**	**(2,045)**
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)
Net return on investments		**72,017**	**20,562**
Net Increase in the fund during the year		**70,202**	**18,517**
Net Assets at start of year		**612,850**	**594,333**
Net Assets at end of year		**683,052**	**612,850**

		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)
TOTAL NET ASSETS		**683,052**	**612,850**

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 21-22 and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
26 September 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
Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Look Ahead Housing & Care
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

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

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	23
Number of employees in scheme		
London Borough of Hillingdon	5,225	4,987
Other employers	988	961
Total	**6,213**	**5,948**
Number of Pensioners		
London Borough of Hillingdon	5,047	4,969
Other employers	451	409
Total	**5,498**	**5,378**
Deferred pensioners		
London Borough of Hillingdon	4,671	4,363
Other employers	1,212	1,129
Total	**5,883**	**5,492**

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 Simmonds
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.

3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period. Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services. 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	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 valuation.	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
Employers		
Normal	17,050	17,566
Deficit funding	6,677	4,954
Members		
Normal	7,920	7,877
Additional contributions	224	123
	31,871	**30,520**

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%.

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

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
	31,424	**32,007**

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

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
	1,957	**3,509**

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
	589	**752**

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
	14,054	**9,936**

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
	570,000	**425,300**	**(406,871)**	**62,448**	**650,877**
Other investment balances	4,217			(685)	3,048
Fund managers' cash	37,878			141	29,059
Total Investment Assets	**612,095**			**61,904**	**682,984**

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 Partners	23,366	20,791
JP Morgan Asset Management	74,981	72,012
Kempen International Investments	46,884	0
LGT Capital Partners	18,215	17,011
M&G Investments	16,351	11,149
Macquarie Infrastructure	8,536	1,205
Marathon Global Asset management	0	58,670
Newton Asset Management	22,819	0
Ruffer LLP	131,368	118,378
State Street Global Advisors	142,038	132,251
UBS Global Asset Management (Equities	135,737	112,777
UBS Global Asset Management (Property	48,574	48,628
Other*	10,683	18,679
Total	**679,552**	**611,551**

* 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	0	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	45	11/03/2013	14/06/2013
Total unrealised gains		**70,688**	**70,769**	**(81)**		

As at 31 March 2013 ten forward foreign exchange contracts were in place for £70,769k 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
Equities		
UK quoted	147,385	126,322
Overseas quoted	46,169	40,869
	193,554	**167,191**
Index Linked Securities		
UK Public Sector quoted	21,428	13,933
Overseas Public Sector Quoted	20,746	25,661
	42,174	**39,594**
Pooled Investment Vehicles		
UK Managed funds - other	260,800	107,174
UK Unit Trusts - property	46,465	48,076
Overseas Unit Trusts - other	68,267	170,893
Private Equity	39,617	37,072
	415,149	**363,215**
Other Investment balances		
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
	3,048	**4,217**
Cash deposits		
Sterling	29,059	37,878
	29,059	**37,878**
	682,984	**612,095**

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 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
	3,432	**544**

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
	3,922	**3,539**

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
	4,358	**1,956**

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
	858	**657**

NB: A total of £849k is due to bodies external to government, namely 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 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fixed Interest Securities	42,174	39,594
Equities	193,554	167,191
Pooled Investments	321,011	276,863
Pooled Property Investments	46,465	48,076
Private Equity/Infrastructure	47,673	38,277
Derivative Contracts	0	1,687
Cash	29,059	37,878
Debtors	3,048	2,529
	682,984	612,095
Financial Liabilities		
Derivative Contracts	(81)	0
Creditors	(3,351)	(544)
	(3,432)	(544)
	679,552	**611,551**

b) Net Gains and Losses on Financial Instruments

	31 March 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fair Value through profit and loss	61,985	30,589
Financial Liabilities		
Fair Value through profit and loss	(81)	(16,376)
	61,904	**14,213**

c) Fair Value of Financial Instruments and liabilities

	31 March 2013	31 March 2013	31 March 2012	31 March 2012
	£000's	**£000's**	**£000's**	**£000's**
Financial Assets	Fair Value	Carrying Value	Fair Value	Carrying Value
Fair Value through profit and loss	650,877	650,877	570,000	570,000
Loans and receivables	32,107	32,107	42,095	42,095
Total Financial assets	**682,984**	**682,984**	**612,095**	**612,095**
Financial Liabilities				
Fair Value through profit and loss	(3,432)	(3,432)	(544)	(544)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(3,432)**	**(3,432)**	(544)	(544)

The carrying amount for 31 March 2012 has been restated to show the fair value as stated in the financial statements.

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	552,791	46,465	63,741	662,997
Loans and Receivables	15,150	2,109	2,728	19,987
Total Financial Assets	**567,941**	**48,574**	**66,469**	**682,984**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(3,432)	0	0	(3,432)
Total Financial Liabilities	**(3,432)**	**0**	**0**	**(3,432)**
Net Financial Assets	**564,509**	**48,574**	**66,469**	**679,552**

Values as at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
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
Total Financial Assets	**513,246**	**48,651**	**50,198**	**612,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(544)	0	0	(544)
Total Financial Liabilities	**(544)**	**0**	**0**	**(544)**
Net Financial Assets	**512,702**	**48,651**	**50,198**	**611,551**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee have undertaken a review of the audited Financial statements for the Private Equity funds on behalf of the London Borough of Hillingdon Pension Fund by Adam Street Partners and LGT and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation process is rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

17. 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. The 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.

17. 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 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	12.90%
Overseas quoted equities	11.80%
UK Public Sector quoted Index-Linked Securities	6.50%
Overseas Public Sector quoted Index-Linked Securities	6.50%
Corporate Bonds	4.00%
UK Managed funds - other	12.90%
UK Unit Trusts - property	2.30%
Overseas Unit Trusts - other	11.80%
Private Equity	4.70%

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:

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

Asset type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	29,059	0.00	29,059	29,059
Investment Assets				
UK quoted equities	147,385	12.90	166,398	128,372
Overseas quoted equities	46,169	11.80	51,617	40,721
UK Public Sector quoted Index-Linked Securities	21,428	6.50	22,821	20,035
Overseas Public Sector quoted Index-Linked Securities	20,746	6.50	22,094	19,938
UK Managed funds - Equities	100,447	12.90	113,405	87,489
UK Managed funds - Bonds	53,742	4.00	55,892	51,592
UK Unit Trusts - property	46,465	2.30	47,534	45,396
Overseas Unit Trusts - Equities	94,622	11.80	105,787	83,457
Overseas Unit Trusts - Bonds	72,200	4.00	75,088	69,312
Private Equity/Infrastructure	47,673	4.70	49,914	45,432
Net Derivative assets	(81)	0.00	(81)	(81)
Investment income due	1,433	0.00	1,433	1,433
Amounts receivable for sales	1,615	0.00	1,615	1,615
Amounts payable for purchases	(3,351)	0.00	(3,351)	(3,351)
Total Assets Available to pay benefits	**679,552**		**739,225**	**620,419**

Asset type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	37,878	0.00	37,878	37,878
Investment Assets				
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)
Total Assets Available to pay benefits	**611,551**		**674,297**	**547,837**

17. 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 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2013 £000's**	**31 March 2012 £000's**
Cash and cash equivalents	2,488	11,667
Cash	26,570	26,211
Fixed Interest Securities	168,118	149,625
Total	**197,176**	**187,503**

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 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 2013**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash Equivalents	2,488	25	(25)
Cash	26,570	266	(266)
Fixed Interest Securities	168,118	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

Asset Type	**Carrying amount as at 31 March 2012**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash Equivalents	11,667	117	(117)
Cash	26,211	262	(262)
Fixed Interest Securities	149,625	1,496	(1,496)
Total change in assets available	**187,503**	**1,875**	**(1,875)**

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 2013 the Fund had a 100% Euro and 50% AU$ 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 2013 and as at the previous period ending 31 March 2012.

Notes To Pension Fund Accounts

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

Currency exposure by asset type

	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£000's	£000's
Overseas quoted Securities	46,169	40,869
Overseas Corporate Bonds	72,200	59,259
Overseas Index-linked Bonds	20,746	25,661
Overseas managed funds	94,622	110,429
Private Equity/Infrastructure	47,673	38,277
	281,410	**274,495**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 5.6%, based on the data provided by WM. A 5.6% 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 5.6% 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 2013	Change in the net assets available to pay benefits	
		+5.6%	-5.6%
	£000's	£000's	£000's
Overseas quoted Securities	46,169	48,754	43,584
Overseas Corporate Bonds	72,200	76,243	68,157
Overseas Index-linked Bonds	20,746	21,908	19,584
Overseas managed funds	94,622	99,921	89,323
Private Equity/Infrastructure	47,673	50,343	45,003
	281,410	**297,169**	**265,651**

Currency exposure by asset type

	Asset value as at 31 March 2012	Change in the net assets available to pay benefits	
		+10%	-10%
	£000's	£000's	£000's
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
	274,495	**301,945**	**247,045**

Notes To Pension Fund Accounts

17. 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 accounts are held with HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. 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 2013 was £16,046k (31 March 2012: £29,500k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2013	Rating	Balances as at 31 March 2012
Money market funds		**£000**		**£000**
Northern Trust Global Sterling Fund A	AAAm	10,832	AAAm	17,494
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	2,488	AAAm	11,667
Bank current accounts				
Natwest (Capita)	A-	1,169	A-	0
HSBC Plc	AA-	1,557	AA-	388
Total		16,046		29,549

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.
The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) 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 2013 these assets totalled £599,200k, with a further £16,046k held in cash by fund managers.

Notes To Pension Fund Accounts

18. 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 £564,000k. 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% Funding Basis Discount Rate - 6.10%

Pay Increases - 5.30%

19. 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 2013**	**31 March 2012**
	% P.a.	**% P.a.**
Inflation /Pensions Increase Rate	2.8%	2.5%
*Salary Increase Rate	5.1%	4.8%*
Discount Rate	4.5%	4.8%

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

An IAS 26 valuation was carried out for the fund as at 31 March 2013 by Hymans Robertson LLP with the following results:

Description	**31 March 2013**	**31 March 2012**
	£000	**£000**
Present Value of Promised Retirement Benefits	1,066,000	889,000
Assets	683,052	612,850
Deficit	382,948	276,150

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.

20. RELATED PARTY TRANSACTIONS

It is required under IAS 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 ceased provision of administration services for the pension fund on 01 April 2013. These services have now been contracted out to Capita Hartshead Administration Services and Administration charges for 2012/13 was £535k compared to £683k in 2011/2012 paid to London Borough of Hillingdon for the fund administration services.
No senior officers or Pension committee member had any interest with any related parties to the pension fund.

20. 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 2013	Accrued pension as at 31 March 2012
	£000's	£000's
Corporate Director of Finance	1,107	658
Senior Service Manager - Corporate Finance	622	442

21. 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 2013, securities worth £34,022k were on loan by Northern Trust from our portfolio and collateral worth £46,480k was held within the pool including Hillingdon. In the same period, a net income of £46k was received.

22. 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 and included in the Annual Report.

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2012/13.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2013 totalled £45,175k (31 March 2012: £53,800k). 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.

25. 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.

26. POST BALANCE SHEET EVENTS

Barings Asset Management was appointed in March 2013 to reduce style concentration risk in the Absolute return strategy of Ruffer LLP, with a mandate total of circa £63,000k (9% of fund's assets). The funding for the new mandate was derived from a reduction of Ruffer assets under management from 19% to 12% and the remaining 2% from UBS UK Equities Portfolio, thus increasing absolute return portfolio holdings to 21% and reducing UK Equities to 19%. Transition of assets and funding of the new mandate took place between 17-24 April 2013 and was overseen by Nomura International Plc.

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 Corporate Director of Finance);

- 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 Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2013 and its income and expenditure for the year then ended.

Paul Whaymand

Corporate Director of Finance

26 September 2013

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 2013, and approved by the Chairman on 24 September 2013.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

24 September 2013

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 26 September 2013.

Signed on behalf of the London Borough of Hillingdon

John Morley

CHAIRMAN (AUDIT COMMITTEE)

26 September 2013

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 September 2012.The statement is available at:
http://www.hillingdon.gov.uk/media/pdf/t/t/2008_FSS.pdf
The FSS will be reviewed following the 2013 triennial valuation.

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2013, and has been added to the website. The latest SoIP can be accessed at:
http://www.hillingdon.gov.uk/media.jsp?mediaid=26876&filetype=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

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

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 Employee Benefits, telephone 01737 366062 or email Hillingdon.pensions@capita.co.uk .Further general scheme information regarding the LGPS is available from the website: 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)

The calculation of pension is based on the 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)

The ill health pension is 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

The lump sum retirement grant is based on the average pensionable pay for the last year of service and the 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.

Additional Voluntary Contributions

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 2013under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. 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 2012/13.

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 Corporate Director of Finance and auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance 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 Corporate Director of Finance; 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, 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 2012/13.

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
26 September 2013