

# **Pension Fund Annual Report 2008-09**

**London Borough of Harrow Pension Fund**

## Contents

<b>Introduction .....</b>	<b>3</b>
<b>Administration of the Fund .....</b>	<b>4</b>
<b>Management and Investments.....</b>	<b>9</b>
<b>Investment Adviser.....</b>	<b>10</b>
<b>Actuary .....</b>	<b>10</b>
<b>Market Performance .....</b>	<b>14</b>
<b>Fund Performancew .....</b>	<b>15</b>
<b>Statement of Responsibilities for the Statement of Accounts.....</b>	<b>18</b>
<b>Fund account .....</b>	<b>19</b>
<b>Net assets statement.....</b>	<b>20</b>
<b>Notes to the Pension Fund accounts.....</b>	<b>21</b>
<b>Statement of the Consulting Actuary.....</b>	<b>28</b>
<b>Pension Fund Annual Report Opinion .....</b>	<b>30</b>

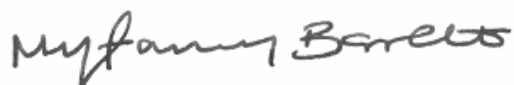
## Introduction

The purpose of this report is to account for the income, expenditure and net assets of the Harrow Council Pension Fund ('the Pension Fund') for the financial year to 31 March 2009.

Information about the economic resources controlled by the Pension Fund is provided by the net assets statement, which summarises the net assets of the Fund.

Information about the additions to, withdrawals from and changes in value of the Fund during the year to 31 March 2009 is shown in the Fund Account.

The year has been extremely turbulent for world markets generally and pension funds in particular due to rising oil prices, the sub-prime mortgage problem and the credit crunch. In overall terms, investments saw negative returns. The market value of the Fund as at 31 March 2009 was £307 million.

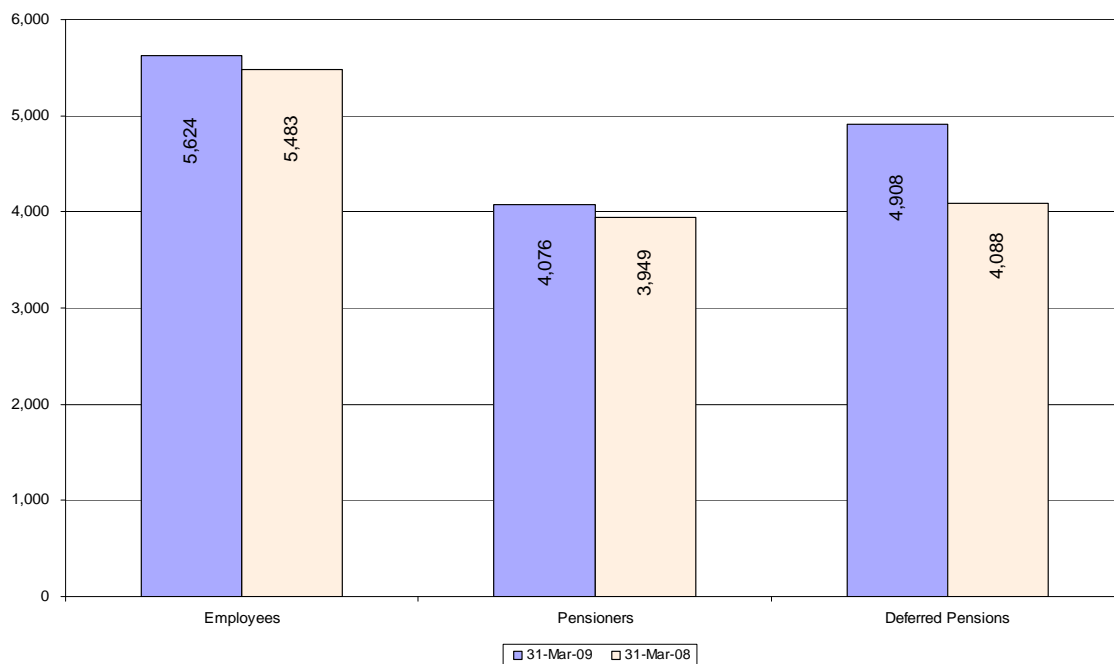


**Myfanwy Barrett**  
CPFA  
**Corporate Director of Finance**

## Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2008. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria.

### Pension Fund membership



#### Admitted:

- Care UK
- Harrison Catering
- Hayward Services
- Hughes Gardner
- Kier
- North London Collegiate School
- Supporta Care

#### Scheduled:

- St Dominic's Sixth Form College
- Stanmore College
- Harrow College

Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation who have a contract of more than three months are brought into the Fund automatically, but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not pensionable. Contributors to the Fund are contracted out of the State Second Pension.

The Fund is financed by contributions paid by employees and by their employers accumulated in a Pension Fund and by earnings from the

investment of fund monies. The pension benefits payable out of the Fund are primarily determined by legislation and not by the local authority.

### **Key Elements of the Fund**

1. **Eligibility for Membership** - Virtually all employees of relevant employers (who have a contract of more than 3 months) aged under 75 can join the Fund, other than those covered by other statutory schemes (for example, teachers, police officers and fire-fighters). Membership is automatic for all employees (including those of scheduled bodies) other than employees of admitted bodies and those who have opted out in the past.
2. **Employee Contributions** – The Fund changes in April 2008 saw the introduction of banded employee contribution rates in 2008/09 according to an employee whole time equivalent (WTE) pensionable pay as shown below:

<b>WTE Pensionable Pay</b>	<b>Contribution Rate</b>
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	7.5%

Employees previously paying a protected rate of 5% paid the contribution rate of 5.25% in 2008/09. The rate will be increased on a phased basis, bringing it into line with all other Fund members by 1 April 2011.

3. **Benefits on Retirement** – From April 2008 the payment of a pension is calculated at  $1/60^{\text{th}}$  of the final year's pay multiplied by the number of years service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable service is based on the accrual rate of  $1/80^{\text{th}}$  of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active members number of years service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.
4. **Age of Retirement** - Normal retirement date for Fund members is at age 65.
  - a. Pension benefits are payable at any age if retirement results from ill health.
  - b. Members may retire with full accrued benefits from age 55 onwards (other than those with protection at age 50 until 31 March 2010) if their retirement is on redundancy or efficiency grounds.

- c. Members who have not reached normal retirement date and to whom ill health or redundancy/efficiency retirement does not apply may elect from age 55 (other than those with protection at age 50 until 31 March 2010) onwards to draw their accrued benefits. Employer consent is required for elections made before age 60, however, benefits may be actuarially reduced.
6. **Benefits on Death in Service** - A lump sum death grant is payable, normally equivalent to three years pay. Harrow Pension Fund, as administering authority, has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.
  7. **Benefits on Death after Retirement** - In some circumstances a lump sum death grant is payable, normally equivalent to ten times annual pension less pension paid (post April 2008 retirements). If so, Harrow Pension Fund has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.
  8. **Cost of Living Increases** - Pensions payable to members who retire on health grounds and to members' spouses and children are increased in line with the Retail Price Index. Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing. Where a pensioner has a Guaranteed Minimum Pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions.
  9. **Extra Benefits** - The Fund offers several ways for members to improve benefits.
    - a. Payment of additional periodical payments to increase annual pension.
    - b. A money purchase AVC Fund which is operated with Equitable Life (closed to new members), Clerical Medical or Prudential.

10. **Taxation**

**UK Tax** - The Fund is an exempt approved fund and is therefore not liable to UK capital gains tax, but is liable for income tax on UK dividends. Where a taxation agreement exists between this country and another whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another.

**Overseas Tax** – Income earned from investments in stocks and shares and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong, whereby investment

income is transmitted to Britain, gross of foreign income tax. Taxation arrangements exist between Britain and certain EC and other European Countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

11. **Transfer Value calculations**-The methodology used in calculating the transfer values is in accordance with the Local Government Pensions Scheme and is also in line with the guidance received from the Government Actuarial Department.

### **More Information**

All publications relating to the Fund, such as Harrow's [Pension Communications Policy](#), [Fund Guides](#) and [Governance Compliance Statement](#), can be found on the Council website at [www.harrow.gov](http://www.harrow.gov) - Advice & Benefits - Local Government Pension Scheme.

For information on joining / leaving the Fund and Fund benefits, please contact the Pensions Section.

The office is open from 9:00am to 5:00pm, Monday to Friday. The address is:

Shared Services – Pensions  
Harrow Council  
3<sup>rd</sup> Floor South Wing  
Civic Centre  
Station Road  
Harrow  
HA1 2XF

Email address: [Pension@harrow.gov.uk](mailto:Pension@harrow.gov.uk)  
Telephone Number: 020 8424 1186.

For pension investments matters please contact the Corporate Finance Section, Treasury and Pensions on 020 8424 1223.

### **Audit Responsibilities:**

The Audit Commission is responsible for appointing the auditors to the London Borough of Harrow Pension Fund. For the audit of the 2008/09 accounts, Deloitte LLP have been reappointed.

### **Custodian**

The Custodians for the Pension Fund are JP Morgan and Bank of New York Mellon.

## **The Pensions Ombudsman**

The Pensions Ombudsman can investigate complaints of maladministration as well as disputes about decisions which have been made about your pension rights at the address below:

The Pensions Ombudsman  
11 Belgrave Road  
London SW1V 1RV

Tel No. 0207 834 9144

Fax No. 0207 821 0065

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

## Management and Investments

The Authority has delegated its responsibility for the determining of investment policy and the monitoring of investment performance to the Pension Fund Investment Panel which meets at least every two months. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2009, the membership of the Pension Fund Investment Panel was as follows:

Councillor Romain (Chairman)  
Councillor Ferrari  
Councillor Dharmarajah  
Councillor Idaikkadar

The membership of the panel is determined at the Annual Council meeting each May, at the start of the Council's municipal year. A change in the membership of the panel can only be made by a Non-Executive (agreed by the Leaders of all political parties) or by full Council.

The Pension Fund Investment Panel has the following powers and duties:

- a) To administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- b) To establish a strategy for the disposition of the Council's Investment in accordance with the law and Council policy;
- c) To determine the managers' delegation of powers of management of the Fund.

The Pension Fund Investment Panel receives a quarterly update report on the Fund performance and Individual Fund Manager's performance.

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The day-to-day management of the Fund's investments as at 31 March 2009 was carried out by the following six external managers:

**Managers****Mandate**

UBS

Multi Asset

Baillie Gifford

Global/UK Equity

BlackRock

Global Bonds and Property

Record

Active Currency  
Passive Currency  
Equitisation

Mellon

Currency

Pantheon

Private Equity

## Investment Adviser

The Panel is advised by independent adviser, Hymans Robertson LLP.

## Actuary

The actuarial service is provided by Lorna Tonner of Hymans Robertson LLP.

## Actuarial Valuation

An actuarial valuation of the Fund was carried out as at 31 March 2007. The market value of the Fund's assets at the valuation date was £435m and the total accrued liabilities of the Fund were £503m. The Fund deficit was therefore £68m producing a funding level of 87% (compared to 82% at 31 March 2004, the date of the last valuation).

To reach the funding level of 100% over a period of 20 years, the common employers' contribution rate is 19.4% of pensionable pay. The Projected Unit method is used to determine this rate. Adjustments have been made to the common rate of employers' contributions to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used at 31 March 2007 are detailed below:

<b>Assumption</b>	<b>Nominal</b>
Price Inflation (RPI)	3.2%
Pay Increases	4.7%
Gilt based discount rate	4.5%
<b>Funding basis discount rate</b>	<b>6.1%</b>

## Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, maintain and publish a written statement of principles governing their decisions about investments. The Pension Fund has adopted a formal Statement of Investment Principles which is published on the council website at [www.harrow.gov.uk](http://www.harrow.gov.uk) – Advice & Benefits - Local Government Pension Scheme – Pension Fund Policies / Statements.

## Funding Strategy Statement

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

- “establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.”

The Pension Fund's ['Funding Strategy Statement'](#) can be found on the Council website at [www.harrow.gov.uk](http://www.harrow.gov.uk) - Advice & Benefits - Local Government Pension Scheme - Pension Fund Policies/Statements.

## **Funding Policy**

The objectives of the Fund's funding policy are as detailed below:

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To maximise investment returns for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue; and
- To minimise the degree of short-term change in the level of each employer's contributions.

## Market performance

The sub prime crisis of early 2008 was superseded by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy.

The first quarter of 2009 provided no relief to the gloomy events of 2008. Equity markets fell sharply as the global economic background deteriorated. Governments around the world provided further support to their respective banking sectors, various initiatives were taken to stimulate economic activity and the once mighty US auto industry came close to bankruptcy. In late March, the US Treasury secretary announced a further plan to tackle the paralysis in the banking system; equity markets rallied, but failed to recover losses sustained earlier in the quarter.

In the UK, the scale of the country's economic decline was quantified by the sharpest fall in economic activity in nearly thirty years, dashing any hope of a speedy recovery and raising fears of a prolonged rise in unemployment. In the first quarter of 2009, the economy contracted by 1.9%. Coming after a fall of 1.6% in the final 3 months of 2008, the data confirmed the depth of the recession. In response, the Bank of England cut short-term interest rates, in three stages, from 2% to 0.5%.

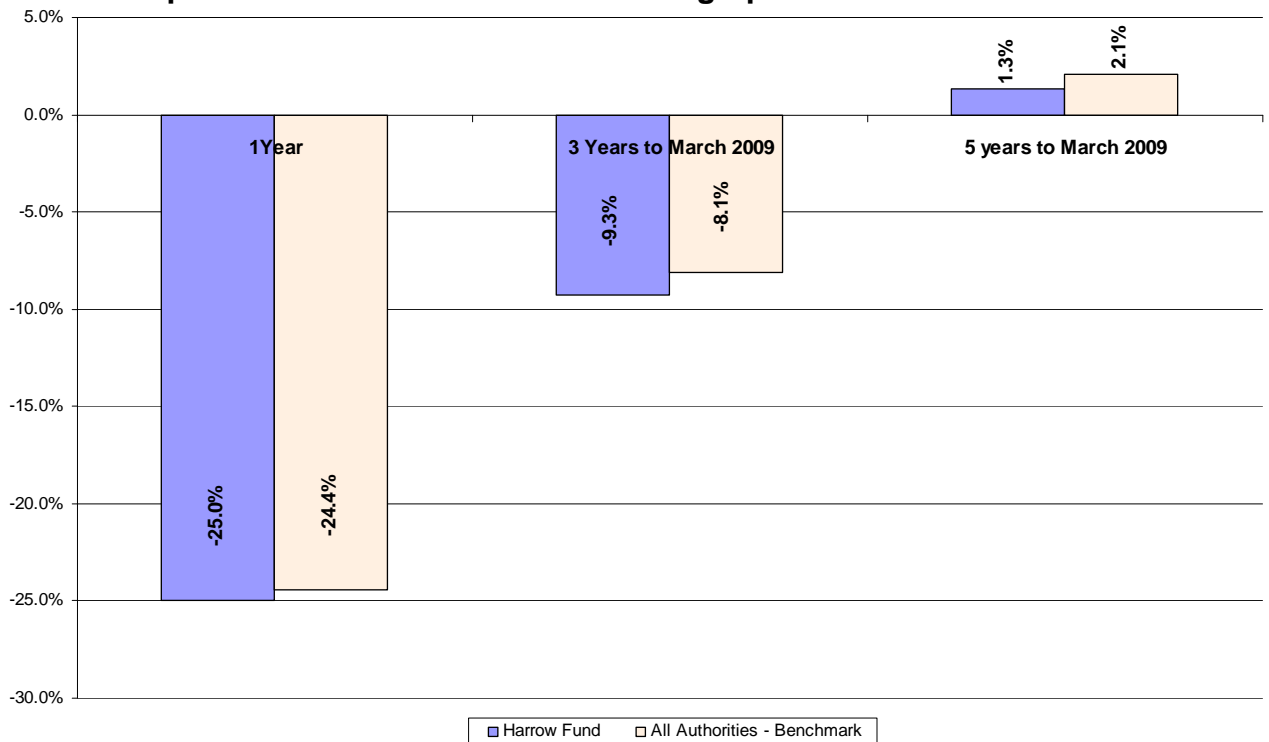
With little scope to lower short-term interest rates further, the Bank of England introduced a quantitative easing programme in early March. Quantitative easing is a technical term to describe the purchase, by a central bank, of privately held assets, thus boosting the quantity of money in the economy. Since this is potentially inflationary in the medium to long term, quantitative easing must be implemented with care. Its adoption reflects the deep concerns of the authorities over the economic outlook.

The main factors affecting UK government bonds were diminishing concern about deflation and growing disquiet over the scale of public borrowing. Yields rose (prices fell) during the quarter although the additional demand from quantitative easing provided some support in March.

The worst of the financial crisis may have passed but the damage inflicted on the real economy was biting deeply at the end of the first quarter of 2009. The rebuilding of financial structures and restoration of economic growth will take time. The various economic stimulus packages implemented around the world have resulted in an explosive growth of public debt which has to be serviced and, ultimately, re-paid. This raises profound questions over the course of fiscal policy in the years to come. In addition, it seems that the state is set to play a dominant role in financial markets for some time.

## Fund performance

The Fund's performance is summarised in the graph below



Source: WM Performance Services

The meltdown in financial markets during 2008-09 resulted in negative returns for equities, corporate bonds and properties, resulting in the value of the Fund falling by £107m over the year ended 31 March 2009. The impact of the market conditions were exacerbated by the following:

1. *Asset allocation* – during the year, equities and property where the Fund was more focussed, underperformed relative to both bonds, cash and alternatives where the Fund was less focussed.
2. *Manager underperformance* – over the year the Fund's investment managers generally underperformed relative to their benchmarks.

### Investment strategy

At year end, the Fund included less UK index linked investments and more fixed interest investments than required by the SIP. The Investment Panel has made the necessary adjustments to the investment portfolio post year end to ensure that the Fund's investments are in line with the guidance set out in the SIP.

During the period in question the Panel undertook a strategic review of investment and funding strategy and it was agreed to maintain the current long-term asset allocation. As a second stage to the review the Panel has also reviewed the appointment of both their equity and bond managers and subsequent to the year end, and have appointed 4 new investment managers to manage the equity portfolio. We have also increased our investment in corporate bonds. The Panel will continue to monitor the performance of their Investment Managers.

The next actuarial valuation of the Fund is due to take place in 2010 and a further review of the Fund's investment and funding strategy will be undertaken at that time.

## Investments held by Fund Managers

	2008-09		2007-08	
	£000	%	£000	%
BlackRock	39,921	13	45,608	11
UBS	134,880	44	185,273	45
Baillie Gifford	117,813	39	161,802	39
Record Currency	-2,333	-1	7,592	2
Pantheon	11,784	4	6,994	2
Mellon	1,452	1	3,397	1
Total Fund	<b>303,517</b>	<b>100</b>	410,666	100

The above amounts include the investment assets, cash deposits and negative valued derivatives.

The Record balance includes the £4.9m derivative shown under liabilities. This negative valuation is due to the weakened value of sterling on the currency hedge overlay on the overseas investments that has been made to negate the movement in exchange rates against sterling. This is offset by the 'currency gain' element in the value of the overseas investments.

### *Performance since 31 March 2009*

During the 3 month period ending on 30 June 2009, the Fund performance improved significantly. The total Fund return in this period was 11.4%; this compares to the WM median of 6.3%, placing the Fund in the 3rd percentile in the WM survey for this period.

The improved performance results primarily from sterling recovering some of the ground previously lost against other major currencies, and strong equity returns during that period. Manager returns were again mixed.

# 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. In Harrow, that officer is the Chief Financial Officer, ie, the Corporate Director of Finance;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the statement of accounts.

## 2. The Director of Finance's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2009 and its income and expenditure for the year then ended.



**Myfanwy Barrett**

CORPORATE DIRECTOR OF FINANCE  
27 November 2009

## London Borough of Harrow Pension Fund Account

	Notes	2008-09 £000's	2007-08 £000's
<b>Contributions</b>	2	24,415	22,858
<b>Individual transfers in from other schemes</b>		2,250	2,214
<b>Capital costs</b>	3	104	158
<b>Benefits</b>	4	(21,015)	(21,218)
<b>Leavers</b>	5	(2,089)	(4,018)
<b>Administrative Expenses</b>	6	(1,109)	(1,261)
<b>Net additions/(withdrawals) from dealings with members</b>		<u>2,556</u>	<u>(1,267)</u>
<b>Investment Income</b>	7	8,813	10,302
<b>Change in market value of investments</b>	8	(112,346)	(33,679)
<b>Investment Management Expenses</b>	6	<u>(1,005)</u>	<u>(1,060)</u>
<b>Net Return on Investments</b>		(104,538)	(24,437)
<b>Net Decrease in the Fund during the year</b>		<u>(101,982)</u>	<u>(25,704)</u>
<b>Net Assets at start of year</b>		<u>409,403</u>	<u>435,107</u>
<b>Net Assets at end of year</b>		<u>307,421</u>	<u>409,403</u>

## London Borough of Harrow Pension Net Assets Statement

		<b>31 March 2009</b>	31 March 2008
	<i>Notes</i>	<b>£'000</b>	£'000
<b>Investments</b>	8	<b>303,517</b>	410,666
<b>Current Assets</b>	9	<b>4,740</b>	2,008
<b>Current Liabilities</b>	9	<b>-836</b>	-3,271
<b>TOTAL NET ASSETS</b>		<b>307,421</b>	409,403

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on page 9 and these accounts should be read in conjunction with it.



**Myfanwy Barrett**

CORPORATE DIRECTOR OF FINANCE  
27 November 2009

## 1. Accounting Policies

The accounts have been compiled in accordance with chapter 2 of the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007) (“the SORP”). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

**Basis of Preparation** - Except where otherwise stated, the accounts have been prepared on an accruals basis.

**Investments** - These are shown in the accounts at market value which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March 2009;
- Other unlisted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information;
- Investments in the pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers prior to 31 March 2009; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

This is in accordance with the current SORP and is a change from previous years when valuations were based on mid values for both securities and pooled investment funds. This change in valuation does not have a material impact on the financial statements and therefore comparatives have not been restated. As a result the comparative figures for investments are reported on a mid price basis and the adjustment in valuation from mid to bid is included in the current year’s “change in market value of investments”.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2009.

**Benefits, Refunds of Contributions and Transfer Values** - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis.

The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

**Investment Income** - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into sterling at the date of the transaction.

**Investment Management and Administration** - Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

## 2. Contributions

	2008-09 £'000	2007-08 £'000
- employers	17,892	17,111
- employees	6,523	5,747
	<b>24,415</b>	<b>22,858</b>

Further analysis of contributions is set out below:

Administering Body £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
21,822	769	1,824	<b>24,415</b>

## 3. Capital Costs

This is the payment to the Pension Fund from departmental budgets to make up for the funding shortfall following early retirement or ill health retirement.

## 4. Benefits

	2008-09 £'000	2007-08 £'000
Pensions	16,698	15,462
Commutation of pensions and lump sum retirement benefits	4,000	5,483
Lump sum death benefits	317	273
	<b>21,015</b>	<b>21,218</b>

Further analysis of benefits is set out below:

Administering Body £'000	Admitted Bodies £'000	Schedule Bodies £'000	Total £'000
20,180	344	491	<b>21,015</b>

## 5. Leavers

	2008-09 £'000	2007-08 £'000
Refund of contributions	8	11
Individual transfers out to other schemes	2,082	4,014
NI contributions: equivalent premium	(1)	(7)
	<b>2,089</b>	<b>4,018</b>

**6. Investment Management and Administration Expenses**

	<b>2008-09</b>	2007-08
	<b>£'000</b>	£'000
Investment management	<b>1,005</b>	1,060
Fund administration:		
- Harrow Council	<b>790</b>	932
- Misc (including actuary fees)	<b>319</b>	329
	<b>1,109</b>	1,261
<b>Total</b>	<b>2,114</b>	2,321

**7. Investment Income**

Income from dividends has been accrued from the point when securities have been quoted ex-dividend.

	<b>2008-09</b>	2007-08
	<b>£'000</b>	£'000
Interest from fixed interest securities	731	1,477
Dividends from equities	5,037	5,780
Income from index-linked securities	340	311
Income from pooled investments	1,682	2,162
Interest from cash deposits	531	306
Income from derivatives	190	-
Other income	302	266
<b>Total</b>	<b>8,813</b>	<b>10,302</b>

**8. Investments**

	<b>Value at 1</b>			<b>Change in</b>	<b>Value at</b>
	<b>April 2008</b>	<b>Purchases</b>	<b>Sales</b>	<b>market</b>	<b>31 March</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>value</b>	<b>2009</b>
				<b>£'000</b>	<b>£'000</b>
Public sector					
overseas fixed	8,216	7,804	-15,282	1,846	2,584
interest securities					
Equities:					
- UK	133,025	41,310	-35,413	-41,671	97,251
- Overseas	102,522	12,288	-9,383	-35,292	70,135
Pooled					
investment					
vehicles					
- Property	34,013	4,296	-	-13,501	24,808
- Other	110,526	18,248	-16,702	-3,178	108,894
Derivatives	7,351	8,389	-	-20,550	-4,810
	395,653	92,335	-76,780	-112,346	298,862
Cash deposits	15,013				4,655
	410,666				303,517

## 8. Investments (continued)

Fixed Interest Securities and Equities are both quoted. Pooled Investment Vehicles and Derivatives are unquoted.

The significant change in market values is due to the sharp fall in equity values as the global economic background deteriorated over the year. UK equity markets fell by 29% and overseas markets by 20%. £98.958m of the change was in respect of unrealised net losses at 31 March 2009.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

Transaction costs incurred during the year amounted to £0.369m. The comparable amount for 2007-08 is not available. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

The derivative payment of £8.4m is in respect of forward foreign exchange trades settled during the period.

**All fund managers operating the pooled investment vehicles are registered in the United Kingdom.**

### Investments held by Fund Managers

The only investment that exceeded 5% of the total value of net assets was UBS Life Global Optimal Thirds 'A' Units. The market value of the investment was £51.1m as at 31 March 2009 (£70.8m as at 31 March 2008).

### Pooled Investment Vehicles

	<b>2008-09</b>	2007-08
	<b>£'000</b>	£'000
UK Managed Funds – property	24,808	34,013
UK Managed Funds – other	37,338	39,825
Overseas – other	71,556	70,701
<b>Total</b>	<b>133,702</b>	<b>144,539</b>

### Derivatives

	<b>2008-09</b>	2007-08
	<b>£'000</b>	£'000
Forward Foreign Exchange Contracts	-4,901	-4,915
Equalisation account	91	12,266
<b>Total</b>	<b>-4,810</b>	<b>7,351</b>

**8. Investments (continued)**

<b>Counterparty</b>	<b>Duration</b>	<b>No. of Contracts</b>	<b>Value at 31 March 2009</b> £'000
HSBC Bank	7 days - 6 mths	9	-17
Northern Trust	3 mths	1	182
Royal Bank of Canada	3 mths - 6 mths	6	-4,248
Royal Bank of Scotland	3 mths - 6 mths	8	-1,024
UBS AG	7 days - 6 mths	10	206
		<u>34</u>	<u>-4,901</u>

The Fund objective in using derivatives is to reduce risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets and to mitigate the effect of currency risk on overseas investments. The value of the economic exposure is £58.3m.

**Additional Voluntary Contributions (AVCs)**

Members of the Fund make AVCs. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5c of the Pension Fund (Management and Investment of Funds) Regulations 1998.

	<b>2008-09</b> £'000	2007-08 £'000
Value of AVC Fund at 1 Aprils	2,298	2,390
Employee contributions	191	225
Investment income and change in market value	-86	58
Benefits paid and transfers out	-283	-375
<b>Total</b>	<u><b>2,120</b></u>	<u><b>2,298</b></u>

**9. Current Assets & Liabilities**

	<b>2008-09</b> £'000	2007-08 £'000 (Restated)
<b>Current Assets</b>		
Cash balances held by London Borough of Harrow	3,473	-
Contributions due from employers	200	155
Other current assets	1,067	1,853
	<u><b>4,740</b></u>	<u><b>2,008</b></u>
<b>Current Liabilities</b>		
Cash balances owed to London Borough of Harrow	-	-2,947
Unpaid benefits	-302	-
Other current liabilities	-534	-324
	<u><b>-836</b></u>	<u><b>-3,271</b></u>

The comparative figures for the above table have been restated to comply with the revised SORP disclosure categories.

## 10. Related Party Transactions

	<b>2008-09</b>	2007-08
	<b>£'000</b>	£'000
Employer's pension contribution to the Fund	-15,794	-15,326
Administration expenses paid to the Council	790	932
Cash balances/(overdraft)	3,473	-2,947

The fund is required under FRS8 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council are set out above. Details of total contributions made in the year are set out in note 2 to the accounts.

The Pension Fund does not have a separate bank account – rather cash balances are maintained by the Council on the Pension Fund's behalf. Details of the year end cash balances maintained by the London Borough of Harrow on behalf of the Pension Fund are set out above.

## Statement of the Consulting Actuary

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the London Borough of Harrow Pension Fund's assets and liabilities was carried out as at 31 March 2007.

### Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be, and have been, paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 10 February 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 29 February 2008.

### Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 29 February 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of the London Borough of Harrow.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants; where appropriate.

These methods allow for future salary increases and assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

## Valuation of assets

A "market related" valuation method has been used for the actuarial valuation as at 31 March 2007. This is consistent with the methodology adopted at the 2004 valuation. The Fund's assets are taken at their market value on the date of the valuation (in this case 31 March 2007).

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long-term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases*	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.8%

\* Plus an allowance for promotional pay increases.

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £435 million, were sufficient to meet approximately 87% of the liabilities accrued up to that date.

### The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:-



Lorna Tonner  
2 September 2009  
For and on behalf of Hymans Robertson LLP

## **Pension Fund Annual Report opinion**

### **Independent auditors' report to the Members of London Borough of Harrow**

We have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes 1 to 10. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Harrow in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permissible by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

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

The Chief Financial Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the Fund year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme

(Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

### **Opinion**

In our opinion:

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the Fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the Fund year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the Pension Fund accounts.

*Paul Schofield.*

Paul Schofield (Engagement Lead)  
**For and on behalf of Deloitte LLP**  
**Appointed Auditor**  
St Albans, UK  
30 November 2009