



LONDON BOROUGH

OF

HACKNEY

PENSION FUND

ANNUAL REPORT AND ACCOUNTS

2004-05

Audit Opinion

Independent Auditors' report to the London Borough of Hackney

I have audited the Pension Fund accounts on pages 13 to 19, which have been prepared in accordance with the accounting policies applicable to pension funds set out on page 15.

This report is made solely to the London Borough of Hackney in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Finance and Auditor

As described on page 4, the Director of Finance is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibility, as independent auditor, is established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board, except that the scope of my work was limited as detailed below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the statement of accounts and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the statement of accounts.

However, the evidence available to me was limited because inadequate records were maintained in relation to the change in market value of pension fund investments for the year ended 31st March 2004 of £66.9m included in the Pension Fund on page 14. There were no other satisfactory procedures which I could adopt to verify this amount.

In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion on the Pension Fund accounts

Except for any adjustments that might have been found to have been necessary had I been able to obtain sufficient evidence concerning the change in market value of investments for the year ended 31st March 2004, in my opinion the statement of accounts present fairly the financial transactions of the London Borough of Hackney's Pension Fund during the year ended 31st March 2005 and the amount and disposition at that date of its assets and liabilities.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Name: Jon Hayes
District Auditor

Address: Audit Commission
1st Floor
Millbank Tower
London
SW1P 4HQ

Date: 31st October 2005

Statement of Responsibilities for the Accounts

Authority's Responsibilities:

The Authority 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 this Authority, that Officer is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Chief Officer(s) Responsibilities:

Each Chief Officer is responsible for:

- maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department;
- complying with any procedural instructions issued by the Director of Finance; and
- preparing a statement of internal control.

The Director of Finance's Responsibilities:

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

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; and
- complied with the Code of Practice, except where otherwise stated.

The Director of Finance has:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 13 to 19 present fairly the Net Assets of the London Borough of Hackney's Pension Fund as at 31st March 2005 and its Income and Expenditure for the year then ended.

Tim Shields CPFA
Director of Finance

31st October 2005

Annual Report

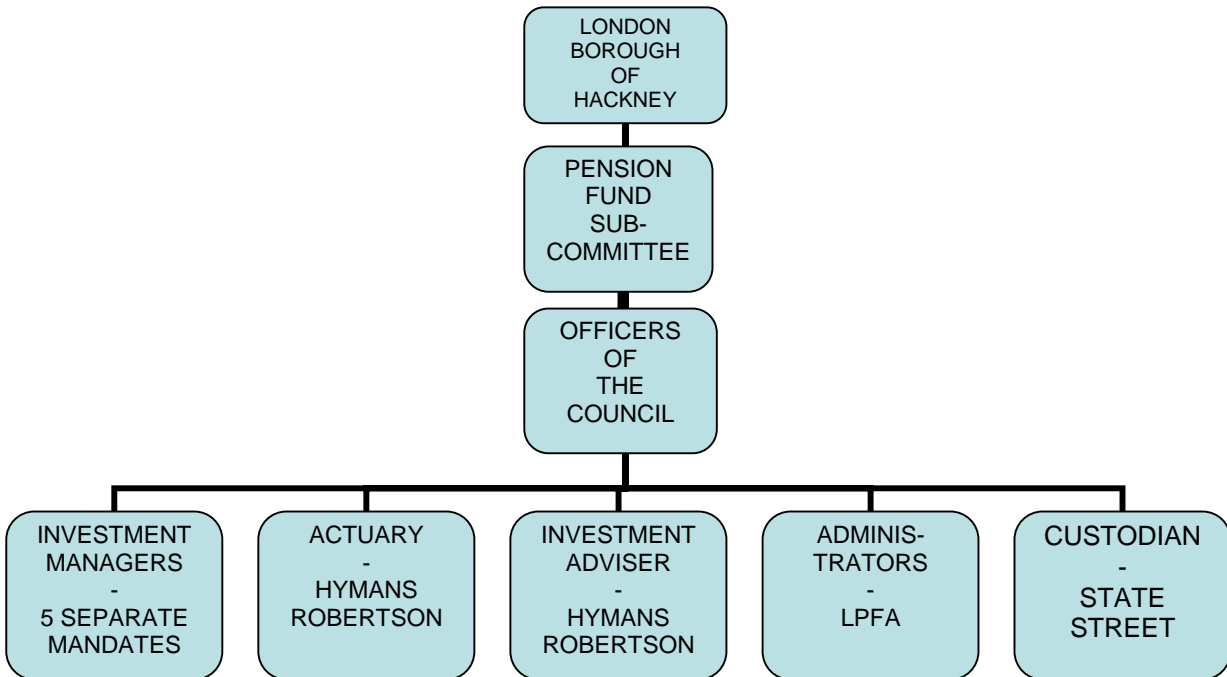
OVERVIEW OF PENSION SCHEME

The London Borough of Hackney (LBH) is responsible for the administration and management of the Pension Fund in accordance with the statutory regulations. It acts on behalf of the Council and the other employer bodies who have employees in the pension scheme. The Pension Sub Committee of the Council is responsible for the effective supervision of the scheme and monitoring investment performance. The Director of Finance has delegated authority for the day to day running of the scheme.

The Pension Scheme for the London Borough of Hackney is a final salary defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the LGPS Regulations 1997 (as amended). The regulations set out in detail the establishment and administration of the fund, covering such areas as admission to the scheme, employee contributions, benefits payable to employees, discretions available, actuarial valuations and employer obligations. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) cover the management of pension funds and the investment powers available to authorities.

MANAGEMENT OF THE FUND

The chart below sets out the management of the Fund whereby the Council has delegated responsibility for the operation and management of the Scheme to the Pensions Sub Committee. Officers of the council report to the Committee and manage the day to day operations of the Fund. In addition external organisations provide administrative, advisory and investment management services relating to the operation of the Pension Fund during the year.



SCHEME MEMBERSHIP

Admission to the LGPS is open to all Council employees, except for teachers who have their own arrangements for pension benefits payable through the Teachers Pensions Agency.

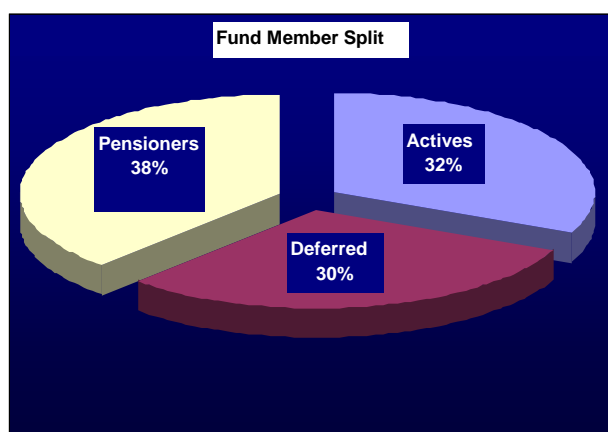
Membership into the Council's scheme is automatic for full and part-time employees (unless they opt out). Casual employees may opt to join the scheme, unless their employment lasts for longer than three months in which case they are automatically brought into the Scheme.

The current regulations provide for employees of private sector bodies who are employed in the provision of services transferred from a local authority to be admitted to the scheme. These admitted bodies also have the option to request admission to the scheme for new employees taken on by them provided those employees are engaged on the local authority's work.

Membership of the Scheme comprises of three main groups namely:

- Active Members (those currently paying contributions in to the Scheme)
- Deferred Members (those who have left the Scheme but remain entitled to deferred benefits payable at some point in the future)
- Pensioner Members, including widows(ers) or dependants (those who are currently in receipt of pensions)

The membership of the scheme analysed over the relevant categories is shown below (with comparative figures for 2003/04)



CATEGORY	31.03.04	31.03.05
Active Members	4,839	4,821
Deferred Members	4,484	4,576
Pensioners/Dependants	5,563	5,800

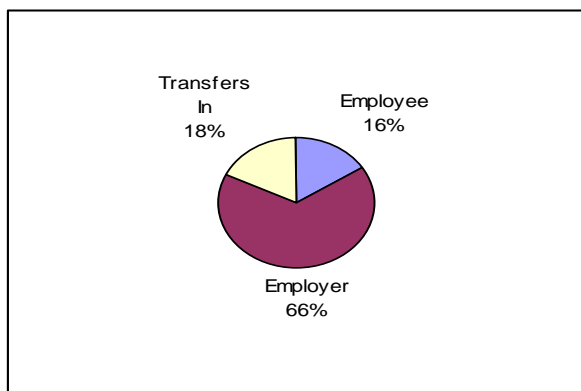
The active members figure shown above includes 727 employees belonging to admitted bodies from twelve external organisations which provide works and services transferred from the Council and who have been accepted as Admitted Bodies in the Pension scheme.

CONTRIBUTIONS AND BENEFITS

CONTRIBUTIONS in to the Fund come from the following sources:

- Employees' contributions which are fixed by statute (6% for all employees, except for those who were employed as manual workers prior to April 1998 who pay 5%)
- Employer's contributions which are set by an actuarial valuation every three years. The current rate for the Council has been set at 11.9% with additional monetary contributions to be paid for the next 3 years
- Transfers in to the Fund from employees joining the Scheme and transferring membership from other schemes

Total contributions in to the Fund during 2004/05 amounted to £38.4m compared to £35.5m for the comparable period for 2003/04.

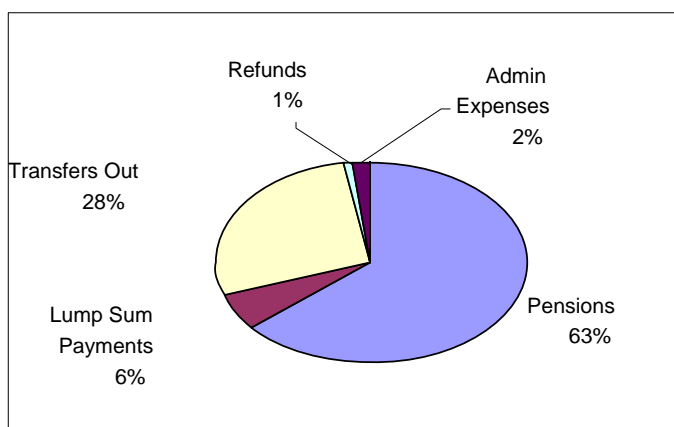


Contributions	£000's
Employer	25,531
Employee	6,114
Transfers In	6,759
Total	38,404

BENEFITS paid out from the Fund include the following:

- Retirement benefits fixed by statute with some discretions available to authorities to enhance benefits payable
- Lump sum payments, both retirement and death benefits
- Transfers out of the Fund by employees leaving the Council and transferring their benefits to new employers
- Refunds of contributions
- Administration expenses – cost of administering the scheme

Total Benefits and administration expenses paid out during 2004/05 amounted to £38.6m versus £36.0m for the year 2003/04



Benefits	£000's
Pensions	24,537
Lump Sums	2,232
Transfers Out	10,915
Refunds	195
Admin Expenses	725
Total	38,604

FINANCIAL REVIEW

The primary objective of the Pension Fund is to provide for members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefit basis. The Fund has to ensure that any surplus contributions and investment income are invested to provide returns to help meet future liabilities i.e. future pension payments. An actuarial valuation of the Fund is carried out every 3 years taking in to account the amount of current and future pension liabilities of the Fund, the expected contributions into the Fund and the expected investment returns on assets held by the Fund. Other factors taken into account include, pay and price inflation, and mortality rates.

Following the end of the previous financial year 2003/04 an actuarial valuation of the Fund was undertaken to assess the assets and liabilities of the Fund in order to meet future pension payments. This was carried out by the Fund's Actuary Hymans Robertson. The result of that valuation showed that the funding level of the LBH Pension Scheme in common with most other schemes experienced a fall in the funding level from the previous valuation carried out in 2001.

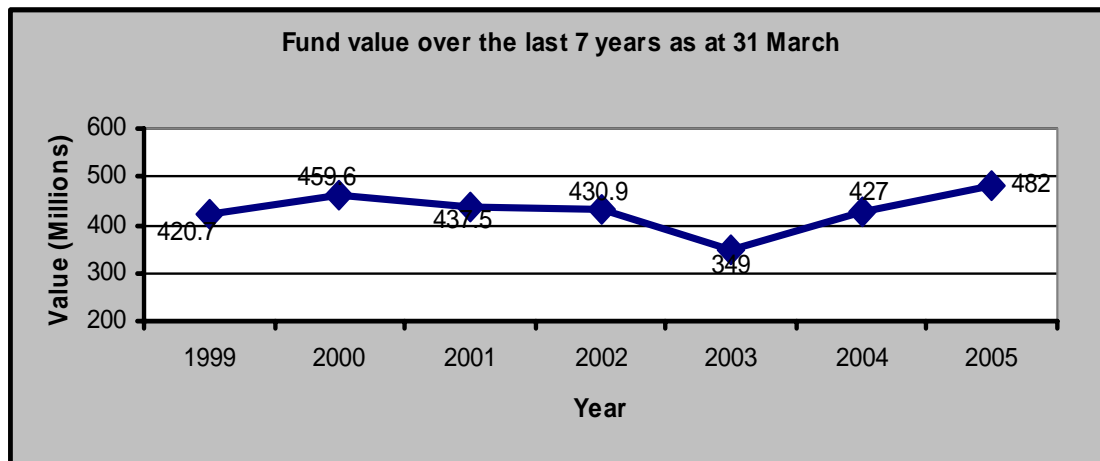
As a consequence of the experience of the Fund during the intervening period between valuations, the funding level has fallen to 64% versus 76% at the previous valuation. The actuary has therefore set the contribution rate into the Fund by the Council at 11.9% for the next three years commencing on 1st April 2005. In addition lump sum payments were also required of the Council and have been set at the following for the next three years:

- £19.2m for the year ended 31st March 2006
- £20.9m for the year ended 31st March 2007
- £21.8m for the year ended 31st March 2008

During 2004/05 there was a surplus of £9.9m of income over the expenditure of the Fund (taking account of a lump sum contribution of £12.0m to cover deficiencies identified in the actuarial report) which was available for new investment. This compares with a surplus of £11.0m in 2003/04.

The Pension Fund Revenue Account shows that as a consequence of investment markets continuing to improve during the year, the underlying value of investments rose by £45.3m during the year. This is lower than the gain that occurred during the financial year 2003/04 which saw market gains of £66.9m.

At the end of March 2005 the market value of the Pension Fund's total assets was £482.3m compared to £427.0m at 31st March 2004, an increase of 12.9%.



INVESTMENT REVIEW

INVESTMENT POWERS

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 set out the main powers to invest pension fund monies. They permit a wide range of investments, subject to not more than 10% of the fund being invested in a single holding or in unlisted securities and not more than 10% being deposited with a local authority or with any single bank, institution or person. They also restrict investment in unit trust schemes and open ended collective investment schemes managed by any one body to not more than 25%.

The regulations enable authorities to appoint investment managers to manage and invest Pension Fund monies on their behalf subject to being satisfied on their experience, competence and risk control with appropriate arrangements for monitoring performance.

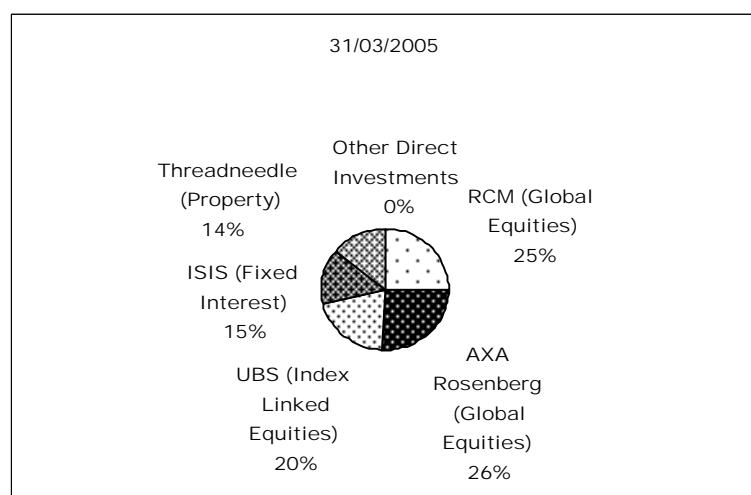
Following the actuarial review as at 31st March 2004, the Fund has now published a Funding Strategy Statement (FSS) which outlines the Fund's approach to funding its liabilities and how any deficit will be recovered to meet regulatory requirements. The FSS was approved by the Pensions Sub-Committee at the Committee meeting held on 22nd March 2005 and became effective from 31st March 2005. Copies of the FSS can be obtained from the Treasury and Pensions Section, Finance Directorate of the Council.

Under the regulations a Statement of Investment Principles (SIP) is required, setting out the main parameters and responsibilities for the management of the Fund. This covers such matters as the investment style for fund managers (e.g. balanced active/passive), types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied and corporate governance matters to be exercised relating to the Fund's shareholding interests. The SIP published in 2003 is currently under review and is expected to be published in the autumn of 2005 and will be available from the Treasury and Pensions Section, Finance Directorate of the Council.

INVESTMENT STRUCTURE

During the year 2004/05 the investments of the Fund were managed by 5 external Fund Managers. The Fund employed three equity managers - one passive UK fund manager, UBS with 20% of the Fund under management, two active global equity managers, AXA Rosenberg and RCM with 51% of the Fund. Fixed interest investments were managed by Foreign & Colonial (F&C, formerly ISIS) with 15% of the Fund and property being managed via a Unit Trust with Threadneedle amounting to 14% of the Fund. There remained a small proportion of investments in the shape of other direct investments and some residual cash left with Credit Suisse First Boston (CSFB) following the transfer of properties to Threadneedle. The list of Fund Managers and the proportions of assets under management are shown below:

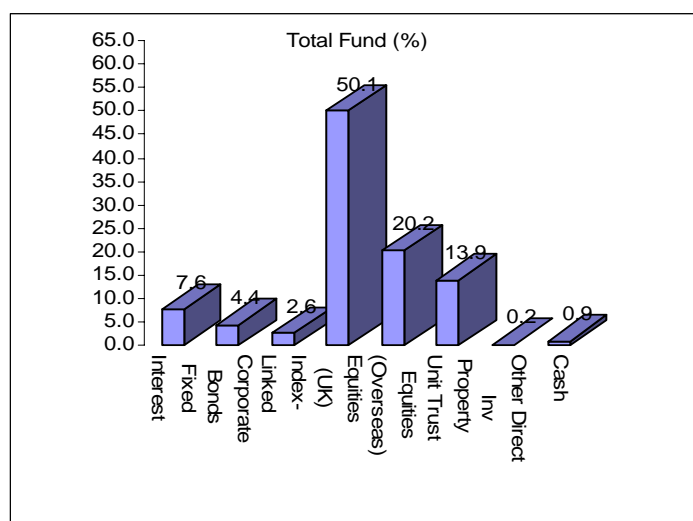
Percentage of Hackney Pension Fund Investments by Fund Manager



Manager	£000's	%
UBS	95,482	20.3
AXA	121,413	25.8
RCM	115,778	24.6
F&C	70,310	14.9
Threadneedle	66,266	14.1
Other	1,492	0.3
Total	470,741	100.0

The asset distribution of the Fund remained broadly similar to the previous year, with the greatest allocation to equities both UK and overseas. During the year 2004/05 however, the last remaining directly held property investments with CSFB were transferred to Threadneedle for sale. There remains only one directly held property investment, although it is hoped that this will be disposed of during the current year.

Asset Distribution of Pension Fund at 31st March 2005 (%)



Asset	£000's	%
Fixed Interest	35,945	7.7
Corporate Bonds	20,714	4.4
Index Linked	12,407	2.6
UK Equities	235,876	50.1
O/S Equities	95,196	20.2
Property Units	65,506	13.9
Other	878	0.2
Cash	4,219	0.9
Total	470,741	100.0

Investment Background

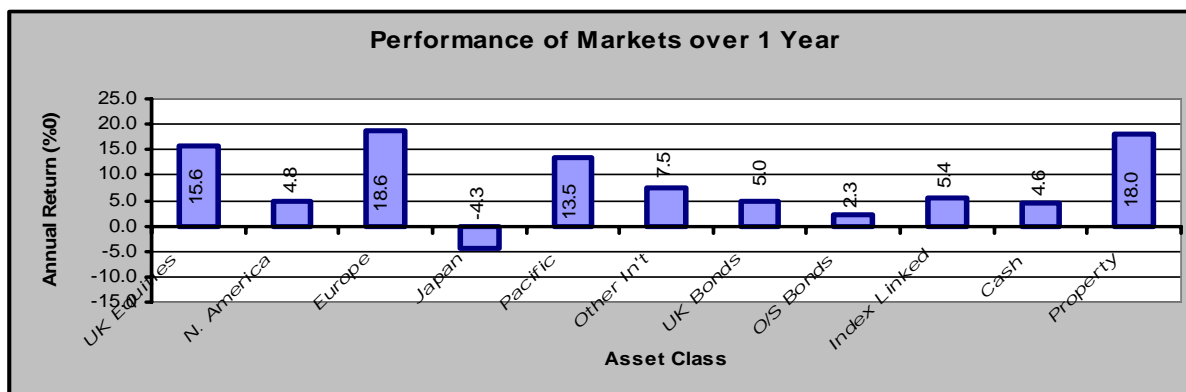
The year to end March 2005 was another year which saw equity markets around the globe posting reasonable gains following on from strong investment markets in 2003/04. The fiscal stimulus provided by interest rate cuts and a relaxation of fiscal policy particularly in the US saw the world economy recover quite strongly in 2004 with the corporate sector seeing strong profits growth. However, towards the end of 2004 and into the first quarter of 2005, higher oil prices, interest rate rises and the ongoing conflict in Iraq led to growth slowing.

Individual equity markets were generally strong over the year, with the exception of the Japanese market. Bond and Property markets also saw reasonable gains over the year. The UK market saw returns of 15.6% over the year on the back of above trend growth of around 3%. The Bank of England was the first to raise interest rates to try to curb the consumer who continued to be strong, which in recent months has led to a slowdown in the housing market and personal borrowing. Over the last 3 years the UK is now showing positive returns of 2% p.a., although the FT All Share is still in negative territory over a 5 year period of 1.7% p.a.

Overseas markets were more mixed in performance terms. The US markets posted a positive gain of 4.8% over the year but over a 5 year period is still showing negative returns of 6.2% p.a. Continental Europe was particularly strong over the year with a return of 18.6%, this was the best performing equity region, although like the UK and US markets, over a 5 year period is still showing -2.5% p.a. The only overseas equity region to be down over the year was Japan which saw a setback, -4.3%, but this was after a very strong performance the preceding year, over 5 years the Japanese market is also the worst performing equity market at -9.8% p.a. over that period. The Pacific Basin, excluding Japan, witnessed a strong performance of 13.5% over the year and is the only region which has a positive return over 5 years at 3.2% p.a.

Investment gains from the fixed interest markets were in general positive, however, the strength of sterling meant that for UK investors in overseas bonds some returns were negative including US and Japanese bonds. Conventional UK gilts improved by 5% over the year and Index Linked Gilts saw gains of 5.4% over the year. In total the overseas bonds benchmark posted muted gains of 2.3% over the year.

Property again put in a good performance over the year, with the benchmark IPD index showing a total return of 18% to the end of March 2005. This made property the best performing asset class over the last 5 years with an average of 11.5% p.a. return.

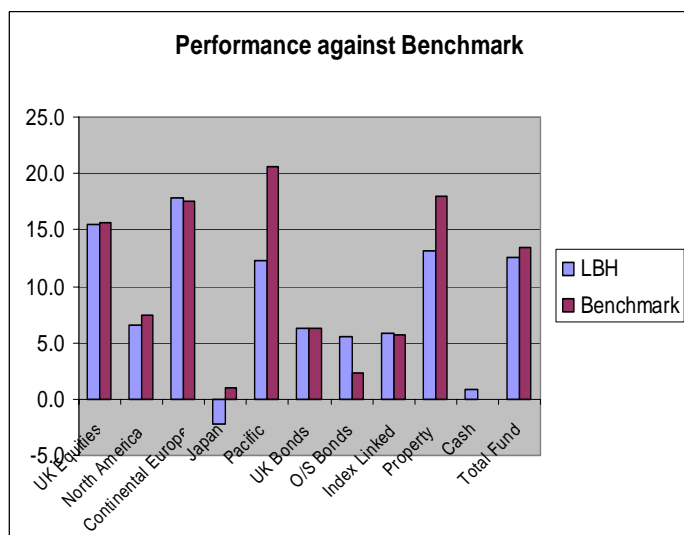


Fund Management Performance

The investment performance of the Fund is measured by the WM Company against a customised benchmark. Performance of the Fund is reviewed on a quarterly basis by the Pension Fund Sub-Committee, both for the overall Fund and for individual Fund Managers against their individual benchmarks. The Fund is also compared against the relative returns of all local authorities' pension funds over the year (90 funds in total) and it also provides a relative comparison over a longer timeframe.

The overall investment performance of the Fund for 2004/05 was 12.5% compared to a benchmark of 13.4%, a slight underperformance versus the benchmark of 0.9%, which was attributed to stock selection. Asset allocation over the year was neutral.

Performance within the individual asset classes over the year showed returns of 15.5% in UK equities versus benchmark of 15.6%, basically in line with index. In North America the fund saw a return of 6.5% versus benchmark of 7.4%, underperforming by 0.9%. Performance in Japan and the Pacific basin was disappointing against benchmark being down 3.2% and 8.3% against benchmark although the overall impact on the fund was not significant given the size of the asset class. The performance in the Fixed Interest area was either in line or above benchmark. The property performance was adversely affected by one particular directly held property which is currently in the process of being disposed of.

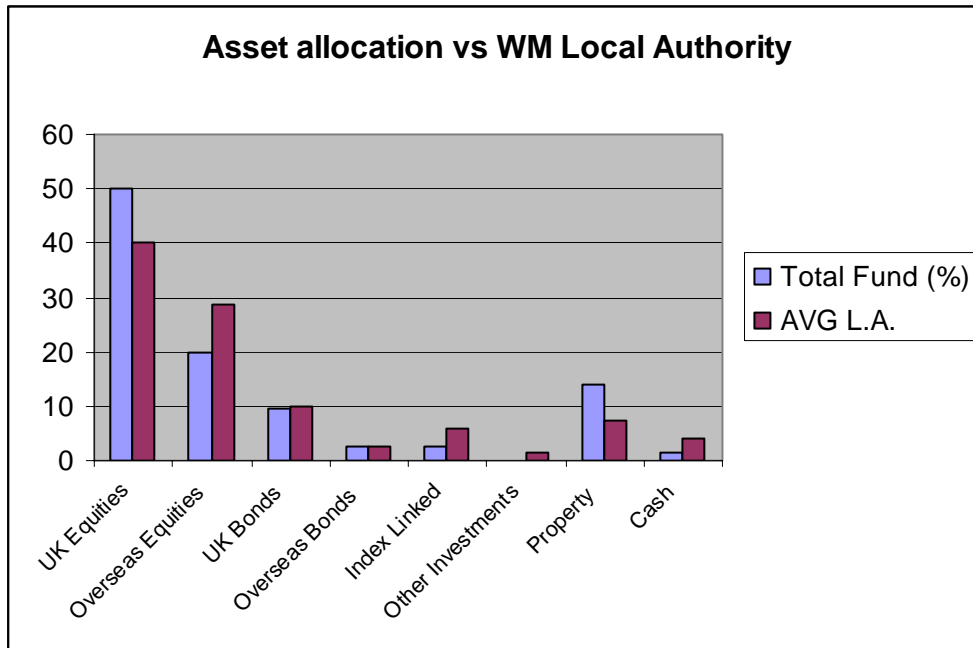


Asset	LBH % increase	Benchmark % increase
UK Equities	15.5	15.6
North America	6.5	7.4
Continental Europe	17.8	17.5
Japan	-2.2	1.0
Pacific	12.3	20.6
UK Bonds	6.3	6.2
O/S Bonds	5.5	2.3
Index Linked	5.9	5.7
Property	13.2	18.0
Cash	0.9	
Total Fund	12.5	13.4

Over the longer term the fund has performed basically in line with its benchmark over a 3 year period with a marginal underperformance of 0.1%, but over a 5 year period showing a 0.2% outperformance with the Fund up 1.4% p.a. versus benchmark of 1.2% p.a.

Compared against other local authority funds the Hackney Fund outperformed the average Local Authority by 0.8% with the Hackney Fund up by 12.5% over the year compared to 11.7% for the average fund. This places the fund in the 11th percentile versus the local authority universe. Over the longer term, the performance relative to local authority pension funds also looks positive, where the percentile ranking is 14th over 3 years and 26th over 5 years.

The asset allocation versus the WM Local Authority Universe is shown below:



Post Balance Sheet Events

Since the date of the balance sheet, the Fund has appointed an independent external investment advisor to provide investment advice to the Pensions Sub-committee. Hymans Robertson has been appointed for a 2 year period from the 1st May 2005.

Investment markets have also continued the upward momentum and hence the value of the Fund's investments as at 30th June 2005 stood at £497.4m versus £470.7m as at 31st March 2005, an increase of 5.7%.

STATEMENT OF ACCOUNTS

The formal statement of accounts for the Pension Fund for the year ended 2004/05 is appended to this report showing the Revenue Account and Net Assets of the Fund. The statement is subject to the normal auditing of accounts process. The notes to the Accounts provide more detail on the changes to the Fund's position over the year. The total value of the Fund as at 31st March 2005 was £482.3m.

Statement of Accounts

2003/04	Fund Account for the Year Ended 31st March			2004/05
£'000			Note	£'000
	Contributions and transfers in			
(5,673)	Employees' and members' contributions		3	(6,114)
(23,672)	Employers' contributions		3	(25,531)
(6,123)	Transfers in			(6,759)
(35,468)	Total contributions and transfers in			(38,404)
	Benefits			
23,958	Pensions		4	24,537
2,247	Lump sum retirement benefits		4	1,732
360	Lump sum death benefits		4	500
8,338	Transfers out			10,915
137	Refund of contributions			195
953	Administration and other expenses		5	725
35,993	Total benefits			38,604
525	Total net (additions)/withdrawals			200
	Return on investments			
(12,604)	Investment income		6	(12,135)
(66,941)	Change in market value of investments (including unrealised profits/losses)			(45,303)
1,039	Investment management expenses			1,995
(78,506)	Net return on investments			(55,443)
(77,981)	(Net additions to)/Net withdrawal from Fund in the year			(55,243)
(349,030)	Opening assets at 1st April			(427,011)
(427,011)	Closing assets at 31st March			(482,254)
23,954	Government Bonds			24,361
19,322	Corporate Bonds			20,714
	Fixed Interest Securities (Foreign)			
10,679	Government Bonds			11,584
0	Corporate Bonds			0
	Index Linked Securities (UK)			
10,441	Government Bonds			11,894
488	Corporate Bonds			513
	Equities			
200,187	United Kingdom			235,876
87,476	Foreign			95,196
	Property (UK)			
17,380	Freehold			760
2,680	Leasehold			0
35,521	Unit Trusts			65,506
144	Unquoted Management Funds			118
6,800	Fund Manager Cash			3,848
1,041	Fund Manager Debtors			427
(2,432)	Fund Manager Creditors			(56)
413,681	Total Investment Assets		8	470,741
	Net Current Assets			
6,350	Debtors			5,825
(2,074)	Creditors			(1,400)
9,054	Cash			7,088
13,330	Total Current Assets			11,513
427,011	Total Assets			482,254

1. Basis of preparation

The financial statements have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with net assets at the disposal of the Pensions Sub-Committee. They do not take account of the 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 dealt with in note 9 of this report and these financial statements should be read in conjunction with it.

2. Accounting Policies

The London Borough of Hackney Pension Fund is operated under regulations made by the Office of the Deputy Prime Minister under Section 7 of the Superannuation Act 1972. The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Pension Fund Accounts are not consolidated in the accounts of the Authority. The Pension Fund Accounts have been prepared on an accruals basis. However, they do not take account of pensions liabilities, or other liabilities, relating to periods after 31st March 2005.

Investments are shown in the accounts at market values (at the close of business on 31st March 2005) which have been determined as follows.

- a) Listed Securities are valued at mid market prices
- b) Unlisted Securities are valued by the respective Fund Managers using the most appropriate financial information.
- c) Unit Trusts are valued at the mid point price quoted by their respective Managers or at the global closing price where there is a single price point.
- d) Overseas Investments are valued at their sterling equivalent value at the Balance Sheet date.
- e) Property holdings are valued on the basis of open market value by CB Richard Ellis Ltd.

3. Contributions

Employee contributions are prescribed in the Local Government Pension Scheme Regulations 1997. For most employees, the rate is 6% of pensionable pay, although some employees have a lower rate of 5%, if employed before April 1998 in certain occupations.

Employer contributions are determined by the Fund's Actuary on the basis of triennial actuarial valuations of the Fund to take account of the current service cost of future pension liabilities and any deficits in the valuation of the Fund at the valuation date. The employer contribution rate in 2004/05 remained at 11.9% of pensionable pay and a lump sum of £12.0m in respect of a phased contribution towards the deficit shown in the valuation of the Fund on 31st March 2001.

The number of employees contributing towards the Fund in 2004/05 was 4,821 (4,523 in 2003/04) including 727 employees of 11 external organisations undertaking works or services transferred from the Council and who were treated as "Admitted Bodies" within the Pension Scheme Regulations. In addition there are two scheduled bodies.

The employer contribution rate for admitted bodies is set by the Actuary taking into account their respective employee profiles. The contributions received from the respective employees within the Fund are as follows.

£'000		£'000
	Contribution received	
26,373	LB Hackney	28,470
2,759	Admitted Bodies	2,960
215	Scheduled Bodies	215
29,347		31,645

4. Benefits

Pensions paid out during the year amounted to £24.5m (£23.9m in 2003/04). At the end of 2004/05, there were 5,800 (5,563 in 2003/04) persons in receipt of pensions from the Fund, including 1,119 who were widow(ers) or dependants of former employees.

£'000		£'000
	Benefits paid	
26,277	LB Hackney	26,450
288	Admitted Bodies	315
0	Scheduled Bodies	4
26,565		26,769

Admitted Bodies during 2004/05 were Clapton Community Housing, Dolce Ltd, Hanover Housing Ltd, Hoxton Bibliotech, Kingsmead Homes, Learning Trust, Northgate Information Solutions UK Ltd, Renaisi Ltd, Wayman Court Tenants Management Organisation, Wetton Cleaning Services Ltd and Shoreditch Our Way. Separate scheduled bodies during the year were Brooke House 6th Form College and Mossbourne Community Academy.

5. Administration Expenses

The costs of investment management and pension administration are charged to the Pension Fund. With effect from February 2004 the London Pensions Fund Authority provides the pension administration and payroll function. An analysis of the administrative expenses is shown below.

2003/04		2004/05
£'000		£'000
	Expenses	
239	Finance Department Recharge	239
176	Payroll Recharge	0
511	Pension Administration	483
27	Miscellaneous	3
953		725

6. Investment Income

Dividend payments and interest on deposits is received by the Fund on its investments and the following is a breakdown of investment income.

2003/04		2004/05
£'000		£'000
	Investment Income	
1,168	Bonds	2,009
6,886	Equities	9,295
4,031	Property	162
78	Other Investments	9
441	Interest on Cash Deposits	660
12,604		12,135

7. 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 on sales of investments during the year. The movement in investments during the year was as follows.

	2004/05
	£'000
Unrealised profits	
Opening balance as at 1st April unrealised (profit)/loss	(15,408)
Closing balance as at 31st March unrealised (profit)/loss	(51,322)
Movement during the year unrealised (profit)/loss	(35,914)
(Profit)/Loss realised during the year	(9,389)
Net change in market value of investments	(45,303)

8. Investments

The Pension Fund holds a wide range of asset classes in order to ensure diversity within the portfolio ensuring that the Fund does not become overly exposed to one particular asset class. The breakdown of the investment assets is shown in the table below.

2003/04			2004/05	
£'000	%		£'000	%
		Investment Asset		
		Fixed Interest Securities		
23,954	5.79	UK Government Bonds	24,361	5.17
19,322	4.67	UK Corporate Bonds	20,714	4.40
10,679	2.58	Overseas Government Bonds	11,584	2.46
		Index Linked Securities		
10,441	2.52	UK Government Bonds	11,894	2.53
488	0.12	UK Corporate Bonds	513	0.11
		Equities		
200,187	48.39	UK	235,876	50.11
87,476	21.15	Overseas	95,196	20.22
		Property		
17,380	4.20	Freehold	760	0.16
2,680	0.65	Leasehold	-	0.00
35,521	8.59	Unit Trust	65,506	13.92
		Unquoted		
144	0.03	Managed Funds	118	0.02
5,409	1.31	Cash Deposits	4,219	0.90
413,681	-		470,741	-

Following the change of Fund Managers in the previous financial year (2003/04), the overall structure of the Fund has not changed significantly with the exception of the direct property holdings held by Credit Suisse First Boston (CSFB). During the year the remaining directly held properties have been disposed of and the proceeds re-invested into the Threadneedle Property Unit Trust. By the year end, with the exception of some small residual cash holdings, CSFB had ceased to manage property on behalf of the Fund.

The Fund's investments are managed by five principal Investment Managers. See below for breakdown of the investments.

2003/04			2004/05	
£'000	%		£'000	%
		Investment Manager		
102,587	24.80	RCM (Global Equities)	115,778	24.59
105,506	25.51	AXA Rosenberg (Global Equities)	121,413	25.79
81,830	19.78	UBS (Indexed UK Equities)	95,482	20.28
66,249	16.01	ISIS (Fixed Interest)	70,310	14.94
35,500	8.58	Threadneedle Property Unit Trust	66,266	14.08
1,465	0.35	Other Direct Investments	1,360	0.29
20,500	4.96	Credit Suisse (Direct Property)	85	0.02
44	0.01	State Street Transition Account	47	0.01
413,681	-		470,741	-

The rate of return on the Fund (capital appreciation/depreciation and investment income) was 12.5% over the financial year ended 31st March 2005. The return on the Hackney Combined Benchmark was 13.4% over the year, however against the WM Local Authority Universe the Fund outperformed as the average local authority fund returned 11.7% over the year. Over the last financial year the Fund's performance was 11th percentile in the Local Authority sector and over the last 5 years the Fund was ranked at 26th percentile i.e. well within the top half of all local authority funds.

Transactions during the year were lower than the previous financial year due to the fact that the 2003/04 year saw a period of transition in which the structure was changed involving all the Fund Managers being changed. The value of purchases at cost in 2004/05 was £271.5m (£960.1m in 2003/04) and the value of disposals for 2004/05 was £257.9m (£973.8m in 2003/04).

9. Actuarial Valuation

The actuarial valuation of the Pension Fund is carried out every three years by an independent Actuary appointed by the Council. The valuation takes account of the amount of the current and future pension liabilities of the Fund, the expected contributions into the Fund and the expected investment returns on assets held by the Fund. Other factors taken into account include pay and price inflation and mortality rates.

The primary purpose of the valuation is to establish appropriate rates for each employer participating in the Fund. The contribution rates for payments into the Fund in 2003/04 were determined in the actuarial valuation undertaken at 31st March 2001. The valuation showed that the Fund's assets, £437.5m, covered 76% of past service liabilities, equivalent to a deficiency of £136.0m. The employer's contributions, certified by the Actuary to the Fund in respect of the Council's employees for each of the three years commencing on 1st April 2002, are 11.9% of pensionable pay plus a cash sum of £12.0m p.a. Separate contributions rates are set for each Admitted Body to take account of the age profile of their Scheme members. Contribution rates are calculated using the projected unit method of valuation and the main financial assumptions adopted were as follows.

- a) retail price inflation: 2.5% pa;
- b) increase in pay: 4.3% pa;
- c) increase in pensions in payment and deferred pensions: 2.5% pa;
- d) rate used to discount Scheme Liabilities: 6.1% pa.

During the year the Actuarial Valuation was undertaken by the Scheme's Actuary, Hymans Robertson, as at 31st March 2004. The valuation at that date showed that since the valuation in March 2001, the Funding level has fallen to 64% which corresponds to a past service deficit of £241.0m. The employer's contributions, certified by the Actuary in respect of the Council's employees for each of the three years commencing 1st April 2005 have been set at 11.9% of pensionable pay plus a cash sum of £19.2m for the financial year to 31st March 2006, £20.9m for the year ended 31st March 2007 and £21.8m for the year ended 31st March 2008.

10. Additional Voluntary Contributions (AVCs)

The Fund provides an AVC Scheme for its contributors, the assets of which are invested separately from the Fund. The scheme provider is Prudential where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions. The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

11. Post Balance Sheet Events

Since the year end the Fund has appointed an external investment advisor to the Pension Fund. Hymans Robertson has been appointed for a 2 year period from 1st May 2005.

12. Related Party Transactions

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. Of particular note is the £0.239m recharge (£0.239m in 2003/04) from Hackney Council to the Pension Fund included in the administration costs. During the year, no Council Members or Designated Officers have undertaken any declarable transactions with the Pension Fund.

13. Pension Fund Compliance

The Pension Fund has a Statement of Investment Principles (SIP) approved by the Pensions Sub Committee in July 2003. This is in the process of being reviewed and a new SIP is expected to be approved during the current financial year. A copy can be obtained from the Treasury and Pensions Section at Keltan House, 89-115 Mare Street, London, E8 4RU.

The Pension Fund is broadly compliant with the ten principles laid down by the Myners Report, although there are some aspects where the fund is not yet fully compliant but is working towards compliance.

The Pension Fund is largely compliant with the ten principles of investment practice set out in the CIPFA Pension Panel.