



- Management Expenses
- Pension Fund
- Residual Employer Liabilities

BUDGET STATEMENT 2009 TO 2012
26th January 2009



Management Expenses

The management expenses budget covers the running costs of the LPFA and as such includes the costs of staff, premises, IT, etc. as well as investment expenditure.

There is a 4% reduction in the management expenses budget overall - the budget (excluding investment costs) has reduced by about 7%, mainly due to the reduction in agency contracts.

Board costs

This reflects the expected increase in Board Member remuneration.

Staff

This includes an annual pay uplift at XX% (to be completed following 5th February board meeting).

Premises

These costs have reduced mainly to do with a change in depreciation policy.

Information Technology

Costs have increased to fund the new pensions administration IT system – Altair - but are partly offset by the reductions in agency contracts.

Office costs

Costs have reduced due to efficiencies.

Other expenses

The additional costs are largely due to legal costs and audit fees, partly offset by efficiencies in insurance and consultancy.

Investment expenditure

Investment fees are difficult to predict in the current climate but assume no performance fee.

Income

This has increased due to tighter budget management in this area.

Reserves

Reserves are being used to meet some of the costs of a one off nature – in particular relating to improving financial management across the Authority.

Funding

The management expenses budget is funded from three main sources. Part of the levy charged on London households for the residual liabilities inherited by the LPFA includes a contribution to the LPFA's running costs. The LPFA also has a number of contracts for pensions administration which provide a significant income. Finally the remainder of the cost is met from the Pension Fund.

	2008/09 Budget £'000	2009/10 Budget £'000	
<u>Expenditure</u>			
Operational Expenditure	9,049	8,381	49%
Investment Expenditure	9,287	9,084	53%
Income	(149)	(142)	-1%
Use of Reserves	(170)	(100)	-1%
	18,017	17,223	100%
<u>Funded By</u>			
Pension Fund	(5,619)	(5,801)	34%
	<u>(9,287)</u>	<u>(9,084)</u>	53%
	(14,906)	(14,885)	87%
Agency Income	(2,588)	(1,815)	10%
Levy Contribution	(523)	(523)	3%
	(18,017)	(17,223)	100%

Budget Statement Summary 2009 - 10

Reconciliation of Management Expenses for 2009/10	
	Total
	£'000s
2008/09 Budget	8,730
2009/10 Budget	8,139
Movement between years	(591)
% Movement	(7)
Board	4
Staff	(471)
Premises	(43)
Information Technology	(9)
Other Expenses	(14)
Office Expenses	(135)
Net additional income	7
Use of Reserves	70
Movement between years	(591)

Management Expenses

Budget 2008/09 £'000s		Budget 2009/10 £'000s	Budget 2010/11 £'000s	Budget 2011/12 £'000s
156	Board	160	160	160
5,697	Staff	5,226	4,908	4,686
1,285	Premises	1,242	1,258	1,279
759	Information Technology	750	750	795
499	Other expenses	485	524	422
653	Office costs	518	518	518
(149)	Net additional income	(142)	(159)	(159)
(170)	Use of Reserves	(100)	(100)	0
8,730		8,139	7,859	7,701
9,287	Investment Expenses	9,084	9,084	9,084
18,017	Management Expenses	17,224	16,943	16,785

Pension Fund

The pension fund represents the accumulation of contributions and investment income available to meet current and future pension liabilities. The total number of scheme members in the fund amounts to some 78,000, including 33,000 pensions in payment, 25,000 deferred beneficiaries and 20,000 current contributors.

The Fund is divided for investment strategy and management purposes into two sub-funds with investment policy related to the asset/liability profile of each. The active sub-fund covers the majority of existing employers and the pensioner sub-fund relates mainly to the GLC, ILEA and ex-employers from whom no new contributors can join.

The fund is operated in accordance with statutory regulations and subject to actuarial valuation every three years. The valuation as at 31st March 2007 showed an improvement on the funding position in 2004. The next valuation is due as at 31st March 2010. The rate of contribution varies for each individual employer but will rise over the next three years. This is due primarily to longer life expectancy and lower investment returns in future.

Contributions and Benefits

Contributor numbers are forecast to remain stable for budget purposes but may increase with the assignment of new bodies to the LPFA fund.

Transfer Values Receivable/Payable

There is a continuing high level of transfer activity reflecting the widespread portability available for pension rights and changes in organisational structure.

Benefits Payable

The increasing maturity of the Fund shows a high level of benefits payable relative to income from contributions. Provision is included for the statutory increase expected to be 5% effective from April 2009.

Net withdrawals from dealings with Members

The longer term financing requirement each year is regularly monitored and reviewed. This is so that investment strategy can be refined and the funding position maintained ahead of the next triennial valuation.

Return on Investments

The total value of the net assets of the fund is subject to the performance of investment markets and investment managers, and the asset allocation agreed. The change in market value has been assumed at nil for budget purposes in view of the significant volatility that could occur.

Investment Manager	at	%
LGIM	442	14
Newton	295	10
MFS	372	12
RCM	(60)	(2)
Blackrock	198	6
Diversifying Assets	483	16
Opportunistic portfolio	19	1
Cash	214	7
Active Sub Fund	1,963	
BGI	394	13
ECM	221	7
Insight	417	13
Legal and General	92	3
Cash	(11)	(0)
Pensioner Sub Fund	1,113	
Total Scheme assets	3,076	

Pension Fund

Budget 2008/09 £'000s		Budget 2009/10 £'000s	Budget 2010/11 £'000s	Budget 2011/12 £'000s
(179,323)	Contributions receivable	(187,000)	(195,500)	(202,000)
(16,677)	Transfer values receivable	(25,000)	(25,000)	(25,000)
(196,000)	Contributions and benefits	(212,000)	(220,500)	(227,000)
180,235	Pensions payable	189,571	189,551	189,551
27,931	Retirement grants	40,000	40,000	40,000
1,964	Death grants	2,500	2,500	2,500
17,110	Transfer Values payable	28,000	28,000	28,000
31	Refunds to contributors	32	32	32
14,906	LPFA Management costs	14,885	14,605	14,447
242,177	Benefits payable	274,988	274,688	274,530
(50,833)	Investment Income	(27,000)	(27,000)	(27,000)
(4,656)	(increase)/decrease in the fund	35,988	27,188	20,530

Residual Employer Liabilities

Non-Funded Pension Benefits

LPFA is responsible for compensation payments (e.g. added years) in respect of former staff of the Greater London Council, the Inner London Education Authority and the London Residuary Body. These payments cannot be charged to the pension fund but are recoverable from levies on London borough councils. The ongoing expenditure commitments reflect the statutory increase of 5% (RPI September 2008) effective from 1st April 2009.

Injury Compensation

LPFA is also responsible for employment-related claims e.g. for injury compensation relating to asbestosis.

A provision is set up to cover expected cases, including compensation payments and legal costs

A policy of self-insurance has been adopted and general provisions have been set aside to cover crystallised liabilities.

Allocations of Management Expenses

The charge for management expenses fully recovers LPFA costs in processing the payment of these benefits and dealing with compensation claims.

Recharge to HEFCE

Benefits in respect of staff formerly employed in higher education institutions are recoverable from the Higher Education Funding Council for England (HEFCE).

Fees and Charges

Sundry income is generated from advisory (e.g. bad advice cases) and general administrative services.

Levy Requirement

The net liabilities are financed by a levy on the London boroughs in relation to the origin of the liabilities and is allocated to individual boroughs in proportion to their Band D council tax base as prescribed by statute.

The levy has been held at about its 2008-09 level overall, with small reductions for inner and greater London boroughs. Maintaining the levy at this level has allowed for an increase in the reserve held on the greater London levy to better manage the significant, and unpredictable, compensation claims in relation to asbestosis. These injury claims potentially total up to £86m over the next 25 years. The LPFA has commissioned research of the London archives to identify the policies and procedures that were in place, to ensure that it is well placed to manage the claims submitted. The impact of this work on injury claims, over the short and long term, is not yet clear.


Additional charge for pensioner sub-fund deficit

In 2009-10 the LPFA will also be introducing a charge, alongside the levy, to address the deficit on its pensioner sub-fund. This charge has been the subject of consultation with London boroughs and the Department for Communities and Local Government during 2008-09. The charge alongside the levy replaces deficit contributions that were being paid by London boroughs totalling £4.3m. The charge will total £7m in 2009-10 and rise to its full level, of £17m, by 2011-12.

Budget Statement Summary 2009 - 10 Levy

Greater London Budget 2008/09 £'000s	Inner London Budget 2008/09 £'000s	Greater London Forecast 2008/09 £'000s	Inner London Forecast 2008/09 £'000s		Greater London Budget 2009/10 £'000s	Inner London Budget 2009/10 £'000s	Greater London Budget 2010/11 £'000s	Inner London Budget 2010/11 £'000s	Greater London Budget 2011/12 £'000s	Inner London Budget 2011/12 £'000s
8,599	14,010	8,314	13,851	Non Funded Pension Retirement	8,428	14,075	8,428	14,075	8,428	14,075
406	23	367	8	Direct Costs	402	3	402	3	402	3
315	208	315	208	LPFA Management Expenses	315	208	315	208	315	208
9,320	14,241	8,996	14,067	Expenditure	9,146	14,286	9,146	14,286	9,146	14,286
-	(633)	-	(633)	Income from HEFCE	-	(686)	-	(686)	-	(686)
(348)	(178)	(350)	(100)	Interest on Revenue Balances	(270)	(100)	(270)	(100)	(270)	(100)
(348)	(811)	(350)	(733)	Income	(270)	(786)	(270)	(786)	(270)	(786)
8,972	13,430	8,646	13,334	Net Expenditure	8,876	13,500	8,876	13,500	8,876	13,500
3,394	(831)	3,721	(734)	Contribution to/(from) balances	3,112	(811)	3,500	0	3,500	0
12,366	12,599	12,366	12,599	Levy	11,988	12,689	12,376	13,500	12,376	13,500

Greater London Budget 2008/09 £'000s	Inner London Budget 2008/09 £'000s	Greater London Forecast 2008/09 £'000s	Inner London Forecast 2008/09 £'000s		Greater London Budget 2009/10 £'000s	Inner London Budget 2009/10 £'000s	Greater London Budget 2010/11 £'000s	Inner London Budget 2010/11 £'000s	Greater London Budget 2011/12 £'000s	Inner London Budget 2011/12 £'000s
Revenue Balances										
(2,950)	1,125	(1,329)	1,815	Balance Brought Forward 1 April	112	1,081	3,224	270	3,224	270
3,394	(831)	3,721	(734)	Contribution to/(from) Balance	3,112	(811)	3,500	0	3,500	0
5	(25)	(2,280)	0	Contribution to provision	0	0	(3,500)	0	(3,500)	0
449	269	112	1,081	Balance Carried Forward at 31 March	3,224	270	3,224	270	3,224	270
Provision										
1,998	80	1,820	0	Provision held at 1 April	3,500	0	0	0	0	0
(1,993)	(105)	(600)	0	Movement predicted	(3,500)	0	(3,500)	0	(3,500)	0
(5)	25	2,280	0	Contribution to/from balances	0	0	3,500	0	3,500	0
0	0	3,500	0	Balance Carried Forward at 31 March	0	0	0	0	0	0



London Pensions Fund Authority
Dexter House
2 Royal Mint Court
London
EC3N 4LP

020 7369 6004

