

# Financial Report

London Pensions Fund Authority



2005-06

LPFA's Financial Report forms part of the five document Annual Report and Accounts 2005-06. The other documents are;

**Performance Report** which outlines LPFA's performance against the strategic objectives laid out in the Strategy Statement and key performance indicators

**Governance Report** which details LPFA's governance structure and methods to achieve accountability, representation and transparency.

**Investment Report** which identifies investment performance during 2005-06 and steps taken on the new investment strategy to improve investment returns.

**Annual Report** which is a summary of the other four reports and is sent to all Fund members.

**The Financial Report** details financial performance and compliance and should be read in conjunction with the other four reports in order to achieve an overall picture of LPFA's performance during 2005-06.

Copies of the other four documents are available by contacting the the Governance and Performance Team on 0207 369 6004 or can be downloaded from the Corporate Website [www.lpfa.org.uk/corporate](http://www.lpfa.org.uk/corporate)

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## Explanatory Foreword

### Format of the Statement of Accounts

The primary function of the London Pensions Fund Authority (LPFA) is as an Administering Authority within the Local Government Pension Scheme.

The 2005-06 accounts report three separate accounting statements:

- Pension Fund,
- Operational and
- Residual Liabilities.

Each accounting statement includes an income and expenditure account, a balance sheet (net asset statement for the pension fund) accompanied by the consolidated cashflow statement.

The accounts, subject to audit, were authorised for issue by the Audit Committee on 13th June 2006.

### Review of the Statements

The 2005-06 Budget had initial approval from the Board in December 2004 and was submitted to the Mayor for comment. No comments were made by the Mayor by the statutory deadline (of 31<sup>st</sup> January) and the final budget was approved by the Board in February 2005.

The budgets are monitored by managers and budget holders on a monthly basis with formal reporting to the Audit Committee on a quarterly basis. The out-turn of each reporting statement is summarised below.

### Budget overview (Pension Fund)

(excluding change in market value of investments)

	2004/05 out-turn £000's	2005/06 Budget £000's	2005/06 out-turn £000's	
Income	254,578	229,870	235,476	+2%
Expenditure	222,617	202,436	218,594	-2%
Net inflow to the Fund	31,961	27,434	16,882	-38%

### Budget overview (Operational Account)

	2004/05 out-turn £000's	2005/06 Budget £000's	2005/06 out-turn £000's	
Expenses	7,159	7,899	7,228	-8%
Funded by pension fund	4,218	4,964	4,114	-17%
Funded by residual liabilities	524	524	523	
Agency contracts	2,365	2,411	2,507	-4%
Other charges	52	0	84	

### Pension Fund (pages 11 to 15)

The net assets of the pension fund have increased by £479m to £3,468m (£2,989m in 2004-05) as a net result of the change in market value of the assets (£462m) and the net inflow of cash into the Fund (£17m).

The inflow into the Fund of £16.9m was 62% of the budgeted position of £27.4m.

The main factors affecting the decrease in the inflow to the Fund are set out below:

**Contributions** received in the year exceeded the budget by £20m. Of this, capital and augmented contributions of £7m were not budgeted as these are wholly dependent on the admitted or scheduled body decisions in the year. Employer contributions exceeded budget by £13m owing to a number of organisations paying lump sum contributions to fund their actuarial deficits.

The net inflow from **transfer values** receivable and payable was £14m less than budget. Regulatory changes in 2004/05, to deferred benefits not previously transferable, have generated greater movement in transfers out than previously experienced.

The transition to new investment managers and changes in investment strategy have impacted investment income resulting in an inflow of £9m less than budget.

### Operational Account (pages 18 to 23)

The operational account reports the costs of the Authority which are borne by the pension fund, residual liabilities and agencies (for work carried out on their behalf and for which costs are charged on a recoverable basis).

Year on year gross expenditure has decreased by £69k. The proportion of funding of the expenditure has remained stable year on year at some 57% by the pension fund, 7% by the levy, 35% by agency and 1% from other charges.

The actual spend for 2005-06 was £531k below budget, due mainly to lower staff costs resulting from vacant posts, lower than forecast pension contributions, and lower premises costs borne out of budgets in place to safe guard against price increases.

The LPFA continued to deliver pension administration contracts to 8 London Authorities. The cost of administering contracts is recovered through the amount charged for the service under each contract. There is a business reserve of £100,000 which is used to even out minor fluctuations where pricing of contracts on an annual basis may differ from actual costs and for variations in workloads over the life of the contracts.

### Residual Liabilities Account (pages 24 to 27)

LPFA is responsible for compensation payments in respect of former GLC, ILEA and LRB staff. These payments are not chargeable to the pension fund and are recovered by a levy on London boroughs.

### Budget overview Greater London

The budgeted levy requirement in 2005-06 was increased by £223k, some 3%. The contribution required from balances of £820k was £102k less than budgeted leaving a balance of £809k at the year end.

The decreased contribution from balances is due to higher than forecast interest on the revenue balance and benefits paid being less than forecast. However, the full effect of this has not been realised as a further provision for asbestosis cases has been required.

## Budget overview Inner London

The budgeted levy requirement in 2005-06 was held the same as in 2004-05. Actual expenditure was £463k less than budget, due to lower Premature Retirement Compensation payments than anticipated. As a result, the revenue reserves at the year end increased to £2,153k.

Revenue balances remain available to reduce the levy requirement in future years whilst maintaining prudent funds to meet unexpected expenditure.

In addition to these balances the Authority has set aside a combined provision of £1,061k to meet potential claims for personal injury, related mainly to the incidence of asbestosis in staff of the former Greater London Council.

## Accounting for retirement benefits (FRS 17)

The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities under FRS 17.

The effect of recognising FRS17 in the 2005-06 financial statement is a net liability and a pension reserve of £7.1m in the operational accounts and £288.2m in the combined residual liabilities account. The latter relates to the compensation payments which are met on an annual basis by levies on London boroughs.

These liabilities reflect the current actuarial value of future payments and do not affect income and expenditure in 2005-06.

## Creditor payment policy

The Authority's current policy concerning payments to suppliers of goods and services is to follow the Prompt Payers code. It is the Authority's practice that suppliers are paid on time in accordance with their terms and conditions or within 30 days.

## The 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 responsibility for the administration of those affairs. In this Authority, this is the Director of Corporate Resources who is responsible for the preparation of the Authority's Statement of Accounts, to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2006.

In preparing this Statement of Accounts, the Director has:

- ~ selected suitable accounting policies and then applied them consistently;
- ~ made judgements and estimates that were reasonable and prudent;
- ~ stated whether applicable accounting standards and the CIPFA Code have been followed, subject to any material departures disclosed and explained in the statement of accounts
- ~ 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 the statement of accounts presents fairly the financial position of the Authority at 31<sup>st</sup> March 2006 and its income and expenditure for the period.

Amanda Walker, Director of Corporate Resources  
Date: 5<sup>th</sup> September 2006

# Statement on Internal Control 2005-06

## 1. Scope of responsibility

The London Pensions Fund Authority is responsible for ensuring that a sound system of internal control is maintained; that its business is conducted in accordance with the law and proper standards; and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

## 2. The purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at LPFA for the year ended 31st March 2006 and up to the date of the approval of the annual report and accounts.

## 3. The internal control environment

LPFA is a single purpose authority employing 130 staff. The resources applied to the system of internal control take into account that

- ~ the majority of staff are dedicated to pensions administration and there is therefore a large degree of uniformity in process and practice.
- ~ there are formal management arrangements which place responsibility for maintaining effective communication, co-ordination and control across this small authority with a small core of functional specialists for each of the three areas of activity, viz: pensions operations, corporate resources, and investment.

The key elements of the internal control environment include:

### Procedures for setting the Authority's objectives and monitoring their achievement

The Authority has an established planning process in place. The objectives of the organisation are reviewed annually by the Board and key responsibilities and actions are identified for the following three-year period.

Through the medium of the staff handbook and performance management arrangements, a framework of procedures and control points is a means of ensuring all staff work towards, and identify with, common aims.

Codes of Practice are issued to establish the sole basis upon which the Authority conducts operations, and authorises officers to act on behalf of the Authority within a defined framework of procedural control.

Developments in risk management policy and strategy have been further consolidated during the year;

- the risk management process is used to identify the principal risks to the achievement of the organisation's objectives;
- to evaluate the nature and extent of those risks
- and, to manage them efficiently, effectively and economically.

The production of a risk policy statement and strategy (including risk appetite statement) together with management guidance notes has been a key priority. Coinciding with risk awareness sessions, registers have been compiled which now summarise the main risks assessed by the Board and staff. Each entry in the register has been assessed to identify control measures currently in place to reduce or mitigate the risk and controls to be developed where gaps are pinpointed. The risk register is a standing item for the Audit Committee who focus on changes to the register in the period under review i.e. new risks, risks which are no longer recorded, implemented actions and new actions identified.

### The facilitation of policy making and decision making

Board Members and senior management jointly contribute to the business planning process including reviews of strengths, weaknesses, opportunities, threats and risk combined with consideration of the impact of updated, new or proposed legislation.

Senior management refines this output to produce a draft Performance Plan, including financial commitments and key performance targets, for approval by the Board. Lead Officers cascade the Plan down to Managers and their teams and individuals through the team business plans, performance appraisal and personal development plans.

**Ensuring compliance with established policies, procedures, laws and regulations**  
LPFA's Board and its associated committees meet regularly to consider plans and the strategic direction of the organisation through formal quarterly monitoring reports against the Performance Plan.

The requirement that all Board and Committee reports have a governance appraisal is now part of the new corporate governance framework to ensure full consideration is given to:

- ~ regulatory and statutory compliance;
- ~ strategic, operational and financial risks; and
- ~ social, environmental and equalities policies.

**Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Authority are exercised.**  
The Authority has two, long-standing, objectives that require the identification of areas of continuous improvement and the reduction of costs by optimising efficiency and effectiveness. Key tasks are identified each year under these objectives and form an integral part of the LPFA's Performance Plan.

The Annual Efficiency and Quality Plan (a three year rolling plan) has three main thrusts, i.e. to improve standards and quality, to sharpen management and working methods and to reduce unit costs. The key actions 2006-07 include:

- Equality in action (developing diversity)
- Improving efficiency, quality and effectiveness (right first time)
- The new LGPS (managing regulation changes)
- A strategy for business (growth)
- Communication and consultation (refresh)

This mechanism also provides a positive way of emphasising senior managers collective responsibilities.

**The financial management of the Authority and its reporting.**

The system of financial management is based on a financial control framework, a financial handbook of procedures, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. Managers within the Authority undertake maintenance of, and input to, the system. In particular the system includes:

- ~ Comprehensive budgeting systems
- ~ Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- ~ Setting targets to measure financial and other performance
- ~ The preparation of regular financial reports which indicate actual expenditure against the forecasts

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

**The performance management of the Authority and the reporting of performance management**

The performance of the Authority against the Performance Plan is reported quarterly to the Performance Committee and then to the Board. Team Business Plans are monitored quarterly and individual performance is monitored formally twice a year. A summary of overall annual performance against the Plan is produced and published annually.

#### 4. Review of effectiveness

The LPFA has responsibility for conducting at least annually, a review of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is explained by reference to:

## Statement on Internal Control

The Performance Committee prepares and presents the Board with a rolling three year plan covering all LPFA business activities; reviews the effectiveness of the internal control system to ensure that the aims, objectives and key performance targets of the organisation are achieved in the most economic and effective manner.

The Audit Committee reviews the internal and external financial statements and reports to ensure they reflect best practice; discusses with the appointed external and internal auditor the nature and scope of each forthcoming audit and considers all reports.

Internal Audit is outsourced to a provider of internal audit services to carry out specified internal audit work:

- The work is performed to standards defined in the Government Internal Audit Standards and meets the requirements of the Chartered Institute of Public Finance and Accountancy.
- The work of internal audit is informed by an analysis of the risks to which LPFA is exposed and the internal audit plans are approved by the executive and endorsed by the Audit Committee.
- During the year the Head of Internal Audit reports include internal audit's independent opinion on the adequacy and effectiveness of the LPFA's system of control.

A system is in place to ensure senior management both input to, and advise on, the implications of the review of effective operation of the system of internal control.

### 5. Significant internal control issues

The reviews undertaken and reported by internal audit concluded that the framework of controls is adequate. No material areas have been identified during 2005-06 which challenge management practice in terms of the overall control environment.

A number of actions are to be carried out during the next financial year which will enhance the existing control framework;

- 1) The constitution will be reviewed during 2006-07 to reflect the new senior management
- 2) Coinciding with the new senior appointments a risk management advisory group will analyse risk cycles including the key risks which might jeopardise the achievement of objectives and hence the degree of priority to be attached to the internal control objectives.
- 3) Indirect services, which are now grouped within a new directorate, will be further developed to ensure that planning, service levels and performance indicators are an explicit part of the internal control framework.
- 4) The strategic planning process will clearly link to financial and personnel resources to ensure that policy priorities are adequately resourced.
- 5) The equalities and diversity programme will be completed, including all policies and procedures tested to comply with best equalities practice.
- 6) Marketing and communications plans will develop the ways that LPFA activities can be promoted and stakeholders informed and consulted.
- 7) Project management skills will be enhanced within the authority with particular attention to project monitoring arrangements.

We have been advised of the review of the effectiveness of the internal control environment and the plans to ensure continuous improvements in the system of internal control.

Peter Scales

Chief Executive Date: 5<sup>th</sup> September 2006

Neil Newton

Chairman Date: 5<sup>th</sup> September 2006

## Independent auditor's report to the members of London Pensions Fund Authority

### Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the London Pensions Fund Authority for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Revenue Account, Balance Sheet and the related notes of the Operational Accounts, the Revenue Account, Balance Sheet and the related notes of the Residual Liabilities, and the combined Cash Flow Statement. The Pension Fund accounts comprise the Fund Account, the Net Assets Statement, the Cash Flow Statement and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the London Pensions Fund Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Director of Corporate Resources and auditors

The Director of Corporate Resources' responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the operating activities of the Authority and of the residual liabilities and the income and expenditure for the year; and
- 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 scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance

'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority'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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the operating activities of the Authority and of the residual liabilities as at 31 March 2006 and the income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006 and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Jon Hayes  
District Auditor  
Audit Commission, 1st Floor, Millbank Tower,  
Millbank, London, SW1P 4HQ  
20<sup>th</sup> September 2006

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

### Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, the London Pensions Fund Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

### 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.

Jon Hayes, District Auditor  
Audit Commission, 1st Floor, Millbank Tower,  
Millbank, London, SW1P 4HQ  
20<sup>th</sup> September 2006



## Pension Fund Accounts

Fund Account		2004-05	2005-06
	Notes	£000's	£000's
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable	D&E	115,069	135,043
Transfers in	F	67,426	34,065
		182,495	169,108
Benefits payable	G&H	163,049	171,074
Payments to and on account of leavers	I	51,497	38,518
Administration expenses		4,218	4,114
		218,764	213,706
Net additions/(withdrawals) from dealings with members		(36,269)	(44,598)
Returns on investments			
Investment income	J	72,083	66,368
Change in the market value of investments	K	162,842	461,900
Investment management expenses		(3,853)	(4,888)
Net return on investments		231,072	523,380
Net increase/(decrease) in the Fund during the year		194,803	478,782
Net assets of the scheme at 1 <sup>st</sup> April		2,794,717	2,989,520
Net assets of the scheme at 31 <sup>st</sup> March		2,989,520	3,468,302
<b>Net Asset Statement</b>			
Investment assets	K	2,968,716	3,453,353
Current assets	N	57,273	37,409
Current liabilities	O	(36,469)	(22,460)
Net current assets/(liabilities) of the Scheme at 31 <sup>st</sup> March		2,989,520	3,468,302
<b>Cashflow Statement</b>			
Net cashflow from operating activities	Q	(42,297)	11,045
Returns on investments			
Investment income		72,083	66,398
Investment expenses		(3,853)	(4,888)
		68,230	61,480
Financial investment			
Purchases		(2,300,938)	(9,336,251)
Sales		2,377,556	9,342,341
		76,618	6,090
Cash outflow before use of liquid resources		102,551	78,615
Management liquid resources			
Movement in money market investments		(89,112)	12,314
Increase/(Decrease) in cash in year		13,439	90,929

## Notes to the Pension Fund Account

### A Fund operations

The Fund is administered in accordance with the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. Pensions administration (administration expenses in the revenue account) is carried out in-house, while custodial arrangements and fund investment is mainly outsourced to external investment managers (investment management expenses in the pension fund account) under the guidance of LPFA's Investment Strategy Committee.

Fund Membership	2004-05	2005-06
Contributors	21,473	21,037
Deferred Beneficiaries	20,172	20,853
Pensioners / Dependants	32,155	32,235
<b>Total Fund Membership</b>	<b>73,800</b>	<b>74,125</b>

### B Statement of accounting policies

The accounts have been prepared in accordance with the Statement of Recommended Practice on Pension Scheme Accounts and the CIPFA Code of Practice on Local Authority Accounting.

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Board. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Fund, which does take account of such obligations, is set out in the Actuary's Report on page 16 and these accounts should be read in conjunction with it.

**Benefits** ~ are accounted for on an accruals basis on the date of retirement which is taken as the first day of retirement, rather than the last day of service.

**Transfers** ~ where the Board has agreed to accept liability in advance of the receipt of funds or are committed to make a material transfer of obligation the transfers are accrued in accordance with the terms of the agreement. In all other cases, transfers are accounted for on a cash basis.

**Contributions** ~ are accounted for on an accruals basis at the percentage rate recommended by the Actuary.

**Investment income** ~ Income from fixed interest and index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend.

**Foreign currencies** ~ Assets and liabilities in foreign currencies are translated into sterling at the closing rates of exchange on the last working day of the financial year.

**Market value of investments** ~ Securities listed on recognised stock exchanges are valued at middle market prices at the year end. Unlisted securities are valued having regard to the latest dealings, professional valuations, the advice of directors, asset values and other appropriate financial information. Unit Trust investments are stated at the mid point of the latest prices quoted by their respective managers prior to year end.

**Additional Voluntary Contributions (AVCs)** ~ AVCs are disclosed as a note only.

### C Compliance statement

- ~ Income and other taxes - The Fund is approved under the Income and Corporation Taxes Act 1988. The LPFA has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible overseas countries.
- ~ Pensions increase - The 2.7% increase applied to pensions in April 2005 was in accordance with the Pensions Increase (Review) Order 2005.

The LPFA is registered with the Register of Occupational and Personal Pension Schemes - Reference 100016237.

## Notes to the Pension Fund Account

		2005-06 £000's
D	Contributions receivable	
	Employers - normal	82,734
	Members - normal	32,335
	(An analysis of special/additional contributions is not prepared)	
		115,069
E	Normal contributions	
	Administering authority	311
	Scheduled bodies	69,248
	Admitted bodies	45,510
		115,069
F	Transfers receivable	
	Group transfers	28,609
	Individual transfers	38,817
		67,426
G	Benefits payable	
	Pensions	144,054
	Commutation and lump sum retirement benefits	17,680
	Lump sum death benefits	1,315
		163,049
H	Benefits payable (excl. AVC's)	
	Administering authority	209
	Scheduled bodies	137,187
	Admitted bodies	25,653
		163,049
I	Payments to and on account of leavers	
	Refunds to members leaving service	437
	Payments for members joining state scheme	307
	Group transfers	20,472
	Individual transfers	30,281
		51,497
J	Investment income	
	Fixed interest securities	16,851
	Index linked securities	22,597
	Equity dividends	23,107
	Property rents	5,945
	Unit trusts	69
	Cash deposits	3,340
	Private equity income	-
	Other	174
		72,083
		135,043
		608
		85,533
		48,902
		135,043
		(6,150)
		40,170
		34,065
		150,046
		18,572
		2,456
		171,074
		506
		141,347
		29,221
		171,074
		262
		181
		290
		37,785
		38,518
		14,811
		12,929
		27,962
		5,135
		381
		4,190
		799
		161
		66,368

## Notes to the Pension Fund Account

### K Investments at Market Value

	Value at 01.04.05 £000's	Purchase at Cost £000's	Sale Proceeds £000's	Change in mkt value £000's	Value at 31.03.06 £000's
Fixed interest securities	353,509	1,298,269	(1,361,987)	12,219	302,010
Equities	995,288	4,923,872	(4,526,292)	271,856	1,664,724
Index-linked securities	862,332	1,503,377	(2,411,150)	45,441	
Managed & unitised funds	436,754	1,004,655	(487,183)	92,411	1,046,637
Property unit trusts	111,328	-	-	18,956	130,284
Private equity	43,449	220,731	(178,960)	21,200	106,420
Futures	-	-	(28)	28	-
Commercial paper	-	384,412	(376,741)	78	7,749
Purchased options	-	937	-	(289)	648
Investments before AVCs	2,802,660	9,336,253	(9,342,341)	461,900	3,258,472
<b>Total</b>	<b>2,802,660</b>	<b>9,336,253</b>	<b>(9,342,341)</b>	<b>461,900</b>	<b>3,258,472</b>
Debtors	17,889				14,073
Creditors	(23,663)				(67,392)
Cash	171,830				248,200
	<b>2,968,716</b>				<b>3,453,353</b>

**Note:** Purchase and sales reflected in this table are high due to the implementation of the new investment strategy and accounting transfers between incoming and outgoing managers as administered by the custodian JP Morgan.

	2004-05 £000's	2005-06 £000's
<b>Fixed interest securities</b>		
UK public sector quoted	118,592	-
UK quoted	55,296	47
Overseas public sector	179,621	301,963
	<b>353,509</b>	<b>302,010</b>
<b>Equities</b>		
UK quoted	388,651	707,989
Overseas quoted	606,637	956,735
	<b>995,288</b>	<b>1,664,724</b>
<b>Index-linked securities</b>		
UK quoted	862,332	-
	<b>862,332</b>	<b>-</b>
<b>L Investments analysed by Fund Manager</b>		
Henderson Global Investors	955,731	-
Goldmans Sachs Asset Management	333,806	583,111
Legal and General Investment Management	569,161	193,081
In House	943,962	236,750
Barclays Global Investors Ltd	-	424,538
European Credit Management Ltd	-	301,963
Insight Investment Management (Global) Ltd	-	429,019
MFS International (UK) Ltd	-	346,595
Merrill Lynch Investment Managers Ltd	-	188,278
Newton Investment Management Ltd	-	358,824
UBS Global Asset Management (UK) Ltd	-	196,313
	<b>2,802,660</b>	<b>3,258,472</b>
<b>M AVC investments</b>		
Prudential	6,128	6,849
<b>N Current assets</b>		
Investment income due	15,686	5,250
Contributions due - employees	2,105	2,161
Contributions due - employers	6,830	6,057
Transfer values receivables	30,000	22,759
Sundry debtors	2,672	1,215
Provision for bad debt on sundry debtors	(20)	(33)
	<b>57,273</b>	<b>37,409</b>

## Notes to the Pension Fund Account

O	<b>Current liabilities</b>		
	Sundry creditors	3,351	816
	Leavers	28,466	20,000
	Benefits payable	2,409	1,644
	Cash balance	2,243	-
		<b>36,469</b>	<b>22,460</b>
P	<b>Cash balances</b>		
	Short term deposits (under 3 months duration)	156,873	144,559
	Pooled deposits placed by investment managers	14,957	103,641
	Cash at bank	(2,243)	-
		<b>169,587</b>	<b>248,200</b>
Q	<b>Reconciliation operating surplus to net cashflow</b>		
	Surplus/(Deficit) in year	194,803	478,782
	Change in Market Value	(162,842)	(461,900)
	(Increase)/ Decrease in debtors	(23,952)	19,864
	(Increase)/ Decrease in investment debtors	34,861	3,816
	Increase / (Decrease) in creditors	17,036	(11,766)
	Increase / (Decrease) in investment creditors	(33,973)	43,729
	Investment Income / expenditure	(68,230)	(61,480)
	Net cashflow from operating activities	(42,297)	11,045
R	<b>Benefits reimbursed</b>		
	Non funded benefits are awarded at the employer's discretion either as enhanced benefits or as elements of pension increase and are borne by the employer and not the pension fund. Administrative economies are achieved by LPFA paying a combined pension and recovering the non funded part from the employer concerned. The payments are accounted for and shown in the accounts on an in and out basis.		
	Non funded benefits to employer bodies	8,229	8,231
	Non funded to HEFEC	646	647
		<b>8,875</b>	<b>8,878</b>
	Benefit payments reimbursed	8,874	8,878
	These were previously reported under the combined accounts. It is now reported under the pension fund as the activity is driven by the employer bodies within the pension fund even though the expenditure is fully reimbursed.		
S	<b>Related party transactions</b>		
	This disclosure note has been produced using a specific declaration obtained in respect of related party transactions. The LPFA has prepared this note in accordance with its interpretation and understanding of FRS8 and its applicability to the public sector using current advice and guidance. There are no declarable related parties with the exception that one of the Board members is in receipt of statutory pension benefit from the Fund.		
T	<b>Securities lending</b>		
	Securities in the UK amounting to £53m were loaned as at 31 <sup>st</sup> March 2006 against collateral of £55.7m. Securities internationally amounting to £15.2m were loaned as at 31 <sup>st</sup> March 2006 against collateral of £16m.		
U	<b>Participating employers</b>		
	A list of the employer bodies of the Pension Fund is set out on pages 28 and 29		
V	<b>Statement of Investment Principles</b>		
	A copy of the statement can be obtained by contacting LPFA at Dexter House or via the corporate website: <a href="http://www.lpfa.org.uk">www.lpfa.org.uk</a>		

## Introduction

The last valuation of the assets and liabilities of the London Pensions Fund Authority Pension Fund was carried out as at 31<sup>st</sup> March 2004 in accordance with the Fund's Funding Strategy Statement. The main conclusions from the valuation along with a summary of the methods and actuarial assumptions used are described in the Actuarial Statement below.

## Valuation results

The active sub-fund had a funding level (ratio of assets to past service liabilities) as at 31<sup>st</sup> March 2004 of 74% (compared to 103% as at 31<sup>st</sup> March 2001). This corresponds to a past service deficit of £486m.

Assuming that a funding level of 100% is to be targeted over a period of 20 years the common employers' total contribution rate is 18.8% of pensionable pay. Different employers' deficits are spread over different periods according to their individual circumstances.

The pensioner sub-fund had a funding level (ratio of assets to past service liabilities) as at 31<sup>st</sup> March 2004 of 91.5%. This compares to 99% as at 31<sup>st</sup> March 2001, and corresponds to a past service deficit of £129m.

Assuming that a funding level of 100% is to be targeted over a period of 20 years the common employers' total contribution rate is 48% of pensionable pay. This rate is high, as a percentage of pay, partly because of the low pensionable salary; employers are, therefore, expected to make fixed monetary deficit payments.

## Valuation method

The actuarial method used to determine the required contribution rate at the actuarial valuation as at 31<sup>st</sup> March 2004 differed for individual employers depending on their individual circumstances. This was either the Projected Unit Method where there was an expectation that new employees were likely to join the Employer or the Attained Age Method for employers that were closed to new entrants.

## Valuation assumptions

The key financial assumptions adopted at the 2004 valuation are set out in the table below.

## Valuation of assets

For both the Active and Pensioner Sub-Funds the assets were valued at their market value as at the valuation date.

## Forthcoming actuarial valuation

The next formal actuarial valuation of the Fund will be carried out as at 31<sup>st</sup> March 2007 and the results known later in the year. This valuation will allow for the experience of the fund since 31<sup>st</sup> March 2004, and for the fall in bond yields since that date. If yields persist at their current low level, then the value placed on the Fund's liabilities will increase.

Allowance will also be made at that time for changes in the Regulations, including the abolition of the Rule of 85 and the new scheme, which is expected to be in place in 2008.

Prepared by:-  
Lorna Tonner FFA

Partner  
6<sup>th</sup> June 2006

For and on behalf of  
Hymans Robertson LLP

Financial Assumptions	Mar 2004 % p.a.	Real % p.a.
Investment Return / Discount Rate		
Active Sub-Fund	6.30%	3.40%
Pensioner Sub-Fund	6.20%	3.30%
Pay Increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	-

The accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The basis of preparation is consistent with last year.

#### Accruals

The Accounts have been prepared on an accrual basis; income and expenditure is included as it is earned or incurred, not as it is received or paid.

#### Contingencies

Contingent losses are accrued at an estimated amount in the financial statements where it is probable that a future event will confirm a loss.

#### Reserves and provisions

The personal injury provision is used to discharge relevant claims against the former GLC and ILEA.

#### Leasing

LPFA rents office accommodation under a lease agreement. Operating lease costs for the office at 2 Royal Mint Court are charged to the revenue account on a straightline basis.

#### Authority's assets

Fixed assets have been included in the Net Assets Statement at their estimated cost, net of depreciation. Depreciation is calculated using the straight-line method over three years for computers and five years for fixtures and fittings.

The value of stocks of office supplies and stationery was immaterial at 31<sup>st</sup> March 2006 and has not been included in the financial statements.

#### Loan stocks

Responsibility rests with the Authority for the administration of two outstanding undated loan stocks which were originally issued by the former London County Council. These loan stocks are included at their nominal value in the Net Asset Statement.

#### Pension scheme

The Authority operates the Local Government Pension Scheme (LGPS) for its employees. The Scheme provides members with defined benefits related to pay and service.

The pension costs included in the accounts have been determined by the Actuary and comply with the accounting requirements of FRS 17 (Accounting for pension benefits).

The Pension Fund Accounts are shown at pages 11 to 15.



## Operational Accounts

2004-05 £000's	2004-05 £000's		Notes	2005-06 £000's	2005-06 £000's
<b>Revenue Account</b>					
		LPFA	1		
103		Board members	2	116	
4,316		Staff	3	4,346	
1,283		Premises		1,235	
695		Information technology		578	
671		Supplies and services		598	
423		Other	4	495	
	7,491	Cost of activities			7,368
<b>Income</b>					
4,218		Funded by Pension fund		4,114	
524		Funded from levy statement		523	
2,365		Agency contracts	5	2,507	
52		Other charges	6	84	
	7,159				7,228
	332	Net cost of activities			140
	(50)	Pension interest cost & expected return on pension asset	7		111
	282	Net operating expenditure			251
	(282)	Movement on pension reserve	7		(251)
	0	(Surplus)/deficit	8		0
<b>Balance Sheet</b>					
		Fixed assets	9		
465		Tangible fixed assets		357	
	465				357
		Current assets			
666		Debtors		793	
358		Pre-payments		490	
		Cash		633	
	1,024				1,916
		Current liabilities			
557		Creditors amount falling due within one year	10	2,173	
832		Cash		-	
	(1,389)				(2,173)
	100	Total assets less current liabilities			100
	5,630	Represented by: Pension asset/liability	11		7,103
		Reserves			
100		Business reserve	8	100	
(5,630)		Pension reserve	8 & 11	(7,103)	
	(5,530)				(7,003)
	100	Total Reserves			100

## Consolidated Cashflow Statement

## Cashflow Statement - Operational

		£000's	2005-06 £000's
Net cashflow from operating activities	12	(2,001)	7,052
Returns on investments			
Interest received		2,234	2,004
Interest paid		(920)	(390)
		1,314	1,614
Capital expenditure		(339)	(162)
Cash outflow before use of liquid resources		(1,026)	8,504
Management liquid resources			
Movement in money market investments		0	(6,694)
Increase/(Decrease) in cash in year		(1,026)	1,810

## Notes to the Operational Accounts

- 1 The operational costs of the LFPA incurred in administering the pension fund, residual liabilities and agency contracts are wholly reimbursed from the respective source
- 2 **Remuneration and other costs - Board Members**  
Emoluments of all Board Members consist exclusively of allowances at a level determined by the Secretary of State. Members receive no other allowances.

	2004-05 £000's	2005-06 £000's
Emoluments and other costs		
Emoluments	78	91
Employer's NI contributions	4	6
Reimbursable expenses	21	19
	103	116

Emoluments were paid in the following bands:

Up to £5,000	2	4
£5,000 to £10,000	8	7
£10,000 to £15,000	-	1
£20,000 to £25,000	-	-
£25,000 to £30,000	-	-
£30,000 to £35,001	1	1

- 3 **Remuneration and other costs - employees**  
The Chief Executive was appointed by the Board on a permanent contract of employment. Any compensation for redundancy or loss of office would be subject to the statutory provisions applicable.

<b>Remuneration and other costs</b>		
Salaries	3,438	3,586
Employer's NI contributions	288	296
Employer's pension contributions	458	379
Reimbursable expenses	21	22
Other costs	111	63
	4,316	4,346

Pension contributions represents the current service costs in accordance with FRS 17  
Employees receiving emoluments (excluding pension contributions) of £50,000 or more numbered:

£50,000 to £60,000	4	4
£60,000 to £70,000	0	1
£70,000 to £80,000	1	1
£80,000 to £90,000	1	0
£90,000 to £100,000	0	0
£100,000 to £110,000	1	1
£110,000 to £120,000	0	0

At 31<sup>st</sup> March 2006 LPFA employed 130 staff (126 at 31<sup>st</sup> March 2005)

- 4 **Other services**  
These include auditors fees as listed below
- |   |     |     |
|---|-----|-----|
| Internal Audit                          | 56  | 70  |
| External Audit - Code of Audit Practice | 46  | 46  |
| - Grant Certification                   | 2   | 2   |
|   | 104 | 118 |

Notes to the Operational Accounts

5	<p><b>Agency work</b>                  During the financial year LPFA provided pension administration and other services to the following organisations:                  - London Fire and Emergency Planning Authority (for the administration of unfunded Firemen's pension scheme)                  - Administration of Local Government Pension Scheme for:                  The London boroughs of Brent, Bexley, Hackney, Hammersmith and Fulham, Hounslow, Newham and the Westminster City Council</p>	2004-05 £000's	2005-06 £000's
	Direct costs of administration	(1,931)	(2,011)
	Contribution to overheads and fixed costs	(434)	(337)
	Total operating costs	(2,365)	(2,348)
	Total income	2,365	2,348
	Surplus/(deficit)	0	0
6	<p><b>Other charges</b>                  During the financial year LPFA provided services (non-agency) for the reinstatement to the LGPS of mis-sold private pensions (£2k) and external training for pensions administration (£16k)</p>		
7	<p><b>FRS17 - Analysis of amount charged to revenue</b></p> <p>Amount charged to net cost of activities</p>		
	Service cost	458	523
	Past service cost	-	-
	Curtailment and settlements	-	-
	Decrease in irrecoverable surplus	-	-
	Total operating charge	458	523
	Amount credited to below net cost of activities		
	Expected return on employer assets	694	826
	Interest on pension scheme assets	(644)	(937)
	Net return	50	(111)
	Net revenue account cost	408	634
	Movement in surplus/(deficit) in the year		
	Surplus/(Deficit) at the beginning of the year	(1,985)	(5,626)
	Current service cost	(458)	(523)
	Employer contributions	126	383
	Contributions for unfunded benefits	-	-
	Other income	-	-
	Other outgoings	-	-
	Past service costs	-	-
	Impact of settlement/curtailment	-	-
	Net return on asset	50	(111)
	Actuarial gains/(losses)	(3,363)	(1,226)
	(Deficit) at year end	(5,630)	(7,103)
8	<p><b>Statement of total movement in balances and reserves</b></p>		
		Pension reserve	Business reserve
	Balance at start of year	(5,630)	100
	Movement in year	(1,473)	-
	Balance at year end	(7,103)	100
			Total
			(5,530)
			(1,473)
			(7,003)

## Notes to the Operational Accounts

9	Fixed assets	Computer equipment £000's	Furniture and fittings £000's	Office refurbishment £000's	Total £000's
	Net book value at 31 <sup>st</sup> March 2005	212	119	134	465
	Additions	110	5	47	162
	Depreciation	(160)	(60)	(50)	(270)
	NBV at 31 <sup>st</sup> March 2006	162	64	131	357

The LPFA does not follow CIPFA's capital accounting regulations when accounting for fixed assets. Assets are financed from the pension fund.

10	Current liabilities	2004-05 £000's	2005-06 £000's
	Sundry creditors	537	2,173
	Fixed asset creditor	20	-
		557	2,173

### 11 FRS 17

The objectives of FRS17 are to ensure that:

- Financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit

-The operating costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by the employees, and the related finance costs and other changes in the value of assets and liabilities are recognised in the accounting period in which they arise; and

-The financial statements contain adequate disclosure of the cost of providing retirement benefits and related gains, losses, assets and liabilities.

#### Obligations and related funding:

The figures for the London Pensions Fund Authority's pension liability as at 31 March 2006 in respect of its pension obligations under the LGPS have been prepared by Hymans Robertson in accordance with Guidance Note 36: Accounting for retirement benefits under FRS17 issued by the Institute and Faculty of Actuaries.

	2004-05 LPFA £000's	2005-06 LPFA £000's
<b>Net pensions asset</b>		
Estimated employer asset	11,460	14,553
Present value of scheme liabilities	(17,090)	(21,656)
Present value of unfunded liabilities	-	-
Net pensions asset	(5,630)	(7,103)
<b>Assumptions</b>	31.03.05	31.03.06
Price increase	2.90%	3.10%
Salary increase	4.40%	4.60%
Pension increase	2.90%	3.10%
Discount rate	5.40%	4.90%

Notes to the Operational Accounts

	Assets (Active Fund)		Long Term Return	
	£000's			
	31.03.05	31.03.06	31.03.05	31.03.06
Equities	9,025	9,172	7.70%	7.30%
Bonds	1,236	2,771	4.80%	6.00%
Property	815	1,715	5.70%	6.50%
Cash	384	894	4.80%	4.60%
<b>Total</b>	<b>11,460</b>	<b>14,552</b>	<b>7.10%</b>	<b>6.80%</b>

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently, the valuation of the Authority's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change in the pension scheme

	2004-05	2005-06
	£000's	£000's
<b>12 Reconciliation of cash movements to revenue account</b>		
Surplus/ (deficit) in year	(673)	(77)
Depreciation	296	270
(Increase)/decrease in debtors	(258)	54
Increase/(decrease) in creditors	(188)	1,427
Interest paid/received	(1,314)	(1,614)
movement in provisions	136	299
movement in reserves	-	6,693
<b>Net cashflow from operating activities</b>	<b>(2,001)</b>	<b>7,052</b>
<b>13 Lease commitment of office</b>		
Under one year	690	690
Between two and five years	2,760	2,760
After five years	3,795	3,105
<b>Lease commitment</b>	<b>7,245</b>	<b>6,555</b>
<b>14 Related party transactions</b>		

This disclosure note has been produced using a specific declaration obtained in respect of related part transactions. The LPFA has prepared it in accordance with its interpretation and understanding of FRS8 and its applicability to the public sector using current advice and guidance. There are no declarable related parties with the exception that one of the Board members is in receipt of statutory pension benefit from the Fund.

## Residual Liabilities

2004-05 £000's		Notes		2005-06 £000's	
		Revenue Account			
Greater London	Inner London			Greater London	Inner London
9,196	14,568	Non funded benefits	1	9,610	14,087
920		Loan stock interest	2	390	
315	209	Administration expenses		315	208
10,431	14,777	Cost of activities		10,315	14,295
(2,085)	(97)	Interest and investment income		(1,819)	(138)
6,823	7,264	Pension interest cost & expected return on pension asset	3	6,866	7,757
4,738	7,167			5,047	7,619
15,169	21,944	Net operating expenditure		15,362	21,914
(6,823)	(7,264)	Movement on pension reserve	3	(6,866)	(7,757)
(7,453)	(14,900)	Amount met from local taxation		(7,676)	(14,900)
(14,276)	(22,164)			(14,542)	(22,657)
893	(220)	(Surplus)/deficit		820	(743)
<b>Balance Sheet</b>					
<b>Investments</b>					
10,243		War loans	8	-	
<b>Current assets</b>					
554	13	Debtors		249	5
21,200		Investments		24,749	
1,998	1,851	Cash		1,739	2,457
23,752	1,864	Total assets		26,737	2,462
<b>Current liabilities</b>					
546	195	amounts falling due within one year	4	463	89
23,206	1,669	Net Current Assets		26,274	2,373
33,449	1,669	Total Assets less Current liabilities		26,274	2,373
<b>Represented by:</b>					
131,586	147,726	Pension asset/liability	5	133,700	154,506
502	260	Provision	6	841	220
132,088	147,986			134,541	154,726
<b>Capital &amp; reserves</b>					
31,318		LCC stock	7	4,348	
1,629	1,409	Revenue reserves	9	809	2,153
-	-	Residual pension liability reserves	8	20,276	
(131,586)	(147,726)	Pension reserves	9	(133,700)	(154,506)
(98,639)	(146,317)			(108,267)	(152,353)
33,449	1,669	Total liabilities		26,274	2,373

Notes to Residual liabilities

1 Residual liabilities

The LPFA makes payments of annual statutory compensation following the abolition of the former GLC and ILEA.

These payments are financed by way of a levy on all London Boroughs in respect of former GLC liabilities and on Inner London Boroughs in respect of ILEA liabilities.

2 Loan stock interest

The Authority is responsible for both the interest payments and the management expenses incurred by the Bank of England in respect of undated loan stocks issued by the former London County Council.

3 FRS17 - Analysis of amount charged to revenue

Amount charged to net cost of activities	2004-05		2005-06	
	Greater London £000's	Inner London £000's	Greater London £000's	Inner London £000's
Service cost	-	-	-	-
Past service cost	-	-	-	-
Curtailment and settlements	-	-	-	-
Decrease in irrecoverable surplus	-	-	-	-
Total operating charge	-	-	-	-
Amount credited to below net cost of activities				
Expected return on employer assets				
Interest on pension scheme assets	(6,823)	(7,264)	(6,866)	(7,757)
Net revenue account cost	6,823	7,264	6,866	7,757
Movement in surplus/deficit in the year				
Surplus(deficit) at the beginning of the year	(128,594)	(136,207)	(131,586)	(147,726)
Current service cost	-	-	-	-
Employer contributions	-	-	-	-
Contributions for unfunded benefits	9,202	8,371	9,004	8,267
Other income	-	-	-	-
Other outgoings	-	-	-	-
Past service costs	-	-	-	-
Impact of settlement/curtailment	-	-	-	-
Net return on asset	(6,823)	(7,264)	(6,866)	(7,757)
Actuarial gains/losses	(5,371)	(12,626)	(4,252)	(7,290)
(Deficit) at year end	(131,586)	(147,726)	(133,700)	(154,506)

4 Current liabilities

Tax due on payments made	130	-	48	-
Unclaimed interest and principal	165	-	165	-
Sundry creditors	174	195	239	89
Accrued stock interest payable	77	-	11	-
	546	195	463	89

## Notes to Residual liabilities

### 5 FRS 17

The objectives of FRS17 are to ensure that:

- Financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit

-The operating costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by the employees, and the related finance costs and other changes in the value of assets and liabilities are recognised in the accounting period in which they arise; and

-The financial statements contain adequate disclosure of the cost of providing retirement benefits and related gains, losses, assets and liabilities.

obligations and related funding:

The figures for the London Pensions Fund Authority's pension liability as at 31<sup>st</sup> March 2006 in respect of its pension obligations under the LGPS have been prepared by Hymans Robertson in accordance with Guidance Note 36: Accounting for retirement benefits under FRS17 issued by the Institute and Faculty of Actuaries.

#### Levy borne

i) The LPFA is responsible for compensation payments arising from added years in respect of former staff of the Greater London Council (GLC), Inner London Education Authority (ILEA) and London Residuary Body (LRB). These payments are recoverable from levies on London Borough Councils

ii) The LPFA inherited some staff from the GLC, ILEA and LRB. In circumstances where staff leave the LPFA with retained benefit entitlement the cost of the discretionary added years is also levy borne.

The assets and liabilities relating to these two categories of staff are as follows:

#### Amount charged to net cost of activities

	2004-05		2005-06	
	GL £000's	IL £000's	GL £000's	IL £000's
Net pensions asset				
Estimated employer asset				
Present value of scheme liabilities				
Present value of unfunded liabilities	131,586	147,726	133,700	154,506
Total value of liabilities				
Net pensions asset	131,586	147,726	133,700	154,506
Assumptions	31.03.05		31.03.06	
Price increase	2.90%		3.10%	
Salary increase	4.40%		4.60%	
Pension increase	2.90%		3.10%	
Discount rate	5.40%		4.90%	
Long term return	31.03.05		31.03.06	
Equities	7.70%		7.30%	
Bonds	4.80%		6.00%	
Property	5.70%		6.50%	
Cash	4.80%		4.60%	
Total	7.10%		6.80%	

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently, the valuation of the Authority's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change in the pension scheme

## Notes to Residual liabilities

6	Provisions	2004-05 £000's	2005-06 £000's
	Greater London Account	502	841
	Inner London Account	260	220
		762	1,061

The amounts have been set aside against the expectation of potential personal injury claims arising from asbestosis.

## 7 Loan stocks outstanding

The nominal value of the undated loan stocks were:

3% London County Consolidated Stock	25,875	3,876
2.5% London County Consolidated Stock	5,443	472
	31,318	4,348

## 8 Repurchase of undated loan stock

The repurchase of two outstanding loan stocks originally issued by the London County Council (LCC) was completed in 2005-06. This resulted in a repurchase of 91% of the outstanding amount of the 2.5% LCC stock and 85% of the 3% LCC stock.

A simultaneous disposal by auction of the 3.5% War Loan was used to finance the repurchase.

The "Residual Pension Liability Reserve" is held in the Greater London account, pending clarification of the legal position relating to LPFA's residual employer responsibilities for pension liabilities.

## 9 Statement of total movement in balances and reserves

	Greater London Revenue Reserve £'000	Inner London Revenue Reserve £'000	Greater London Pension Reserve £'000	Inner London Pension Reserve £'000
Balance at start of year	1,629	1,409	(131,586)	(147,726)
Net surplus/(deficit) in year	(820)	743		
Use in year				
Movement in year			(2,114)	(6,780)
Balance at year end	809	2,152	(133,700)	(154,506)

## Employers participating in the Fund

Age Concern London  
All England Netball Association Ltd  
All Saints Educational Trust  
Alleyns School / Dulwich College  
Archbishop Tenison's Church Of England School  
Association Of Colleges  
Association of London Government  
Bishop Thomas Grant School  
British Amateur Gymnastics Association  
British Educational Communications and Technology Agency  
British Film Institute  
British Sports Trust  
Broadacres Housing Association Limited  
Brunel University  
Castle Vale Community Housing Association  
Central Council of Physical Recreation  
Central School of Speech and Drama  
Centre Of Information On Language Teaching  
Centre for British Teachers  
Charlotte Sharman Foundation Primary School  
Chartered Institute of Environmental Health  
Chartered Institute of Housing  
City and Islington College  
City Literary Institute  
City of London  
City of Westminster College  
City University  
Colfe's School  
Commission for Local Administration in England  
Corpus Christi School  
Council For Awards In Children's Care and Education  
Dulwich Picture Gallery  
Dunraven School  
Durand Primary School  
East Thames Housing Group  
Emanuel School  
English Institute of Sport  
English Sports Council  
Family Service Units  
Film Council  
Forest Hill And Sydenham Voluntary Service  
Friars School  
Gallions Housing Association  
Geffrye Museum Trust Ltd  
Genesis Housing Group  
Goldsmiths College  
Grafham Grange  
Greater London Authority  
Greater London Enterprise Ltd  
Greenwich Community College  
Guinness Trust  
Haberdashers' Askes Hatcham College  
Hackney Community College  
Hammersmith & West London College  
Hermitage  
Hermitage Care Limited  
Home Office National Probation Directorate  
Horizon Housing Group Ltd  
(South London Family Housing Assoc )  
Horniman Museum & Gardens  
Hounslow Welcare  
Ibstock Place School  
Immanuel & St Andrew Church of England Primary School  
Incorporated Froebel Education Institute  
Institute of Careers Guidance  
Julian's Primary School  
Kettering Community Leisure  
Kings College / Chelsea College  
Kusco  
La Retraite Roman Catholic Girl's School  
La Sainte Union Convent School  
Lambeth College  
Lee Valley Regional Park Authority  
Lewisham College  
Lionheart  
London Artscom Ltd  
London Boroughs (18)  
London Dicesan Fund  
London Fire & Civil Defence Authority  
London Guildhall University  
London Institute  
London Metropolitan University  
London Nautical School  
London Pensions Fund Authority  
London South Bank Careers  
London Thames Gateway UDC  
Meat Hygiene Service  
Methodist Colleges and Schools  
Middlesex Association for the Blind  
MITIE Managed Services Ltd  
Morley College  
Mountain Training Ltd  
Myrrh Education & Training

National Crime Squad	The Mary Ward Centre
National Criminal Intelligence Service	The Probation Boards Association
National Institute of Adult Continuing Education	Tilfen Regeneration Ltd
National Probation Service (London)	Tower Hamlets College
New Downland Housing Association Limited	Transport for London
North London Hospice	Trinity Laban
Notre Dame School	Trust Thamesmead
Old Ford Housing	Turney School
Open College Network London Region	Turnham School
Parchment Housing Group	University of Greenwich
Peabody Trust	United Kingdom Sports Council
Poplar Harca	University Association For Contemporary European Studies
Prospects Services Ltd	University College Of St. Mark & St. John
R.B. of Kensington & Chelsea	University of North London
Radicle	University of Surrey Roehampton
Raines Foundation School	University of Westminster
Rathbone Training	Valuation Tribunal Services
Rent Officers Agency	Valuation Tribunals in London
Sacred Heart RC Secondary School	West London Waste Authority
SDP Regeneration Services 2 Limited	West Riverside Waste Authority
SENSE	Waltham Forest CBHA Ltd
Shenley Leisure Centre Trust Ltd	Westminster Kingsway College
South Bank University	Wroughton Leisure
South Thames College	Wycombe Leisure
Southwark College	
SSAFA	
St Andrew's Roman Catholic Primary School	
St Anne's Roman Catholic Primary School	
St Anthony's School	
St Bede's Infant And Nursery School	
St Bernardette's School	
St Christopher's Fellowship	
St Francesca Cabrini Primary School	
St Francis Xavier	
St Joseph Roman Catholic Infant School	
St Joseph Roman Catholic Junior School	
St Martin In The Field High School	
St Mary's Roman Catholic Primary School	
St Michael's Roman Catholic School	
St Thomas The Apostle College	
Stonebridge Housing Action Trust	
Surrey Square Infants School	
Surrey Square Junior School	
Sutton Community Leisure Ltd	
Tandridge Leisure Ltd	
The Council of Management of Coram's Field	
The English & Media Centre	
The London Development Agency	

In addition to the employers shown here, pensions are being paid in respect of retired employees (or deferred benefits accrued) from a further 137 former authorities, most notably the GLC and ILEA



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