



the accounts 2007-08



part 2 of the pension fund annual report

Statement of Accounts 2007-08

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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 2007-08 accounts report three separate accounting statements:

- Pension Fund;
- Operational Account; and
- Residual Liabilities.

Each accounting statement includes an income and expenditure account, a balance sheet (net asset statement for the pension fund), a cashflow statement and a statement of recognised gains and losses.

The accounts, subject to audit, were authorised for issue by the Audit Committee on 12th June 2008.

### Review of the Statements

The 2007-08 budget had initial approval from the Board in December 2006 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 2007.

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

#### Budget overview (Pension Fund)

(excluding change in market value of investments)

	2006-07 Outturn £000's	2007-08 Budget £000's	<b>2007-08 Outturn £000's</b>
Income	309,068	217,186	230,685
Expenditure	250,457	238,873	230,758
Net inflow (outflow) to the Fund	58,611	(21,687)	(73)

#### Budget overview (Operational Account)

	2006-07 Outturn £000's	2007-08 Budget £000's	<b>2007-08 Outturn £000's</b>
Expenses	8,497	8,378	8,941
Funded by pension fund	5,126	5,269	5,268
Funded by residual liabilities	523	523	523
Agency contracts	2,639	2,494	2,779
Other charges	209	92	371

#### Pension Fund

The net assets of the pension fund have reduced by £24m to £3,573m (£3,597m in 2006-07) largely as a result of the change in market value of the assets (£24m).

The income very nearly matched expenditure which compares favourably to the budgeted outflow of £22m.

The main factors affecting the outturn on the Fund are set out below:

**Investment income** was well below budget due to a downturn in the investment market. This was also reflected in an underspend on **investment fees** (£5m) due to significantly lower performance bonuses.

**Contributions** received in the year were £32m above budget. Employer contributions have increased in the final year affected by the 2004 valuation results.

**Benefits payable** were under budget by £3m.

### Operational Account

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).

The net cost of activities has increased by £0.2m. This was mainly due to increased expenditure in relation to agency contracts, and was more than offset by additional income. The proportion of funding of the expenditure has remained largely as in previous years at some 59% by the pension fund, 6% by the levy, 31% by agency contracts and 4% from other charges.

The surplus for the year is £0.4m and this will be transferred to a general reserve, to support the strategic objective of moving the LPFA from a good to an excellent organisation.

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.

### Residual Liabilities Account

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 2007-08 was 10% higher than the 2006-07 level. This was due mainly to the increase in the LPFA's liability to pay compensation and legal fees in relation to asbestosis claims – a change in legislation now means that the claimant can be awarded full damages against one party (rather than have to claim against each former employer).

### Budget overview Inner London

The budgeted levy requirement in 2007-08 was 8% lower than the 2006-07 level, following the application of reserves. Revenue balances remain available to reduce the levy requirement in future years whilst maintaining prudent funds to meet unexpected expenditure.

### 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 2007-08 financial statement is a net liability and a pension reserve of £3.1m in the operational accounts and £245m 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 2007-08.

## 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 of receipt. The number of invoices paid within contract terms or 30 days (whichever is the sooner) was 82%. (The reported figure in 2006-07 was 95%, although this was simply invoices paid within 30 days of receipt.)

## Statement of responsibilities for the Statements of Accounts

### 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 Head of Finance 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 2008. The Head of Finance was appointed on 1 June and took over responsibility from the Director of Corporate Resources who retired on 30 June 2008.

In preparing this Statement of Accounts, the Head of Finance 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 2008 and its income and expenditure for the period.

Adrian Bloomfield, Head of Finance

Date: 12 November 2008

**Annual Governance Statement**

## Introduction

LPFA is a single purpose authority employing 124 staff. The resources applied to the current system of annual governance 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 governance across this small authority with a core of functional specialists for each of the three areas of activity, viz: pensions operations, corporate resources, and investment.

## Scope of responsibility

The London Pensions Fund Authority is responsible for ensuring 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. The London Pensions Fund Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Pensions Fund Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and includes arrangements for the management of risk.

The London Pensions Fund Authority has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is posted on our website ([www.lpfa.org.uk](http://www.lpfa.org.uk)). This statement explains how the London Pensions Fund Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and the activities through which it is accountable. It enables the authority to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 London Pensions Fund Authority 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 governance framework has been developed at the London Pensions Fund Authority during the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

## The Governance Framework

The key elements of the systems and processes that comprise the authority's governance arrangements:

- Identifying and communicating the Authority's vision of its purpose and intended outputs for stakeholders and service users.

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 ensuing three-year period.

Through the business planning process and performance management arrangements, a framework of procedures and control points exists as a means of ensuring all staff work towards, and identify with, common aims and to deliver targeted outputs.

- **Reviewing the authority's vision and implications for the authority's governance arrangements.**

Annually, Board Members and senior management meet and jointly contribute to the planning process including input to the strategic objectives, combined with consideration of the impact of updated, new or proposed legislation.

Senior management refines this output to produce a draft Strategic Plan and budget including financial commitments and key performance targets, for approval by the Board. Through the business planning process, the management team cascades all the issues through to managers and their teams and individuals through the team business plans, using also performance appraisal and personal achievement and development plans.

LPFA's Board and 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:

- (1) regulatory and statutory compliance;
- (2) strategic, operational and financial risks;
- (3) social, environmental and equalities policies and
- (4) communication issues

- **Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources.**

The Authority currently has five strategic objectives underpinned by the two fundamental management principles that require the identification of

- (1) areas of continuous improvement and
- (2) the reduction of costs by optimising efficiency and effectiveness.

Key tasks and projects are identified each year under these objectives and form an integral part of the LPFA's Strategic Plan.

These tasks and projects cascade into team business plans which contain target dates and KPI's. The KPI's which cover a range of quality and performance measures are monitored:

- ~ At the team level by managers to ensure performance targets are achieved on a day to day basis, including in Pensions Administration by use of the PROWS workflow system
- ~ At the group level by the relevant member of the management team to ensure exceptions are dealt with swiftly and trends identified
- ~ At a formal level by members of the Performance and Administration Committee on a quarterly basis who will question officers on trends and ensure required performance levels are achieved

A programme of continuous review of procedures is maintained to ensure that necessary performance is achieved by cost effective processes. The Investment Function is not immune from this consideration. The year under review brought with it extensive press coverage of the problems in global markets. The last few months have certainly been challenging with the credit crunch presenting a financial blot on the landscape, but this can be put in perspective. The actuarial valuation is a triennial occurrence and this is our fundamental point of reference for overall governance purposes, not the swings in sentiment and seasonal gyrations around stock market norms. As long term investors the valuation provides stops on the journey and an opportunity to review strategy. Asset allocation strategies are as efficient as possible in providing the best returns for the appropriate amount of risk.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, and officer functions, with clear delegation arrangements and protocols for effective communication.**

~ Clear job descriptions for all staff, together with staff handbooks and relevant Codes of Practice are promulgated as the basis upon which the Authority conducts operations, and authorises officers to act on behalf of the Authority within a defined framework of procedural governance. See also the revised Constitutional Document detailed below and agreed scheme of delegations to officers.

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.**

~ During the year the Shaping-Up Programme has been completed with notable achievements including the launch of a new staff and managers' handbook with emphasis on conduct and behaviours; a newly formed management team working to a rigorous development programme to move the organisation forward; extensive and formal manager briefings to cascade through the organisation; relevant management issues published to staff via newsletters and for use in regular team meetings and, extensive liaison with staff representatives regarding the pay and reward structures. See also the revised Constitutional Document detailed below and board member/staff codes of conduct.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which define how decisions are taken and the processes and controls required to manage risks.**

~ The Authority's Constitutional Document sets out the standing orders, a scheme of delegation and other governance arrangements. It was reviewed and updated with legal support and approved by Board during the year and is effective from April 2008.

~ The new constitutional framework reflects a complete overhaul of all relevant practices, orders and instructions whilst risk continues to be a cornerstone of good governance at the LPFA.

~ Developments in risk management policy and strategy have been further addressed 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 changing 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 is in place. 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.

- **Undertaking the core functions of an audit committee.**

- ~ The terms of reference, protocol and reporting arrangements for the Audit Committee comply with best practice and are contained within the Constitutional document.

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

- ~ The system of compliance is based on the internal control framework, practice and procedure notes, administration (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 performance reports which indicate actual performance against plans plus setting targets to measure financial and specific performance.

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.

- **Whistle-blowing and receiving and investigating complaints from the public.**

- ~ The Authority has implemented a Code of Practice on Irregularity which incorporates LPFA's duties re whistleblowing under the Public Interest Disclosure Act 1998. All staff are made aware of the provisions, their rights and protections, and irregularity reporting channels using staff emails and posters. LPFA also sends the Code of Practice to all contractors every two years.

- ~ Complaint handling is carried out in line with the Internal Disputes Resolution Procedure/ Complaints Procedure which is a public policy statement and available on the internet. This sets out the channels available for stakeholders wishing to raise an issue, and the timescale in which LPFA is expected to provide a full reply

- ~ All complaints are reported to Performance and Administration Committee quarterly including a high level snap shot of LPFA's response.

- **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.**

- ~ Board members have met to consider their training needs and are developing an approach which includes identifying specific skills and knowledge required, self assessment on appointment and throughout their appointment. This will lead to tailored training and well as some joint training for all Members.

- ~ Senior staff have embarked upon a team building and personal development programme which includes some joint learning, one to one coaching and specific tailored personal development programmes.

- ~ Both members and senior staff will attend a joint away-day in September which will look at the strategic plan and any development needs arising from this.

- Establishing clear channels of communication with all stakeholders, ensuring accountability and encouraging open consultation.

Channels of communication are as follows:

- ~ Members of the scheme – newsletters, guides and the website provide information whilst the annual fund members forum, fund member panel and surveys provide opportunity for feedback.
- ~ Scheme employers – monthly newsletter, guides and website provide information whilst employer forums provide opportunity for feedback.
- ~ GLA – regular meetings plus submission of strategy and budget for comment
- ~ Wider pensions community – representation on national and local forums – Officers Advisory Group, CIPFA pensions panel, CLASS Management Team, London Pension Managers Group, plus attendance at all major pensions conferences provide opportunity to exchange information.
- ~ Wider community – publication of annual report and accounts including a performance report, website (Shaw trust accessibility accredited and browse aloud enabled)

- Incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the authority's overall governance arrangements.

Principles of good governance in use in partnership relationships (particularly agency clients) include:

- ~ Comprehensive and agreed Service Level Agreements with clear escalation routes and amendment procedures
- ~ Encouraging regular meetings covering – day to day issues, contractual/SLA issues and wider pensions issues
- ~ Monthly updates published to inform and invite comment
- ~ All significant changes to processes and documentation are passed to clients for consultation

## Review of effectiveness

The London Pensions Fund Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the internal auditors' annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied to maintain and review the effectiveness of the governance framework has entailed at least an annual review of the governance framework as informed by the work of internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, and also by comments made by the external auditors and other review agencies.

**The Board** approved a new code of corporate governance bringing together an underlying set of legislative requirements, governance principles and management processes which underpin the Board's confidence that there is an effective system in place.

**The Performance Committee** prepares and presents the Board with a rolling three year plan covering all LPFA business activities; reviews the effectiveness of the governance 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.

**The Corporate Management Team** review and refine the business planning and budget process annually. They also review, input to, agreed and finalised the Annual Governance Statement. They also highlight and review the connections linking governance, organisational objectives, risk and range of effectiveness of assurance reporting from audit, the risk management programme and performance management.

**The Governance and Performance Team** reviews the governance framework at least annually and lead on generating improvements in risk management and monitoring audit recommendations. They act as an independent conduit for all initiatives in this area informing Board Members, Principal Officers and staff and record, assess and report back on all feed back.

**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.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### **Actions planned for 2008-09**

#### **The governance team;**

~ will take forward implementation of the new constitutional framework to ensure that Board members, principal officers and staff are fully conversant with the requirements and their respective responsibilities.

~ will continue to drive improvements in risk management capability. The latest formal risk review recently conducted with the audit committee and internal plus external auditors has provided a new axis for developing risk definitions accompanied by renewed strategy and practice to be communicated across the LPFA. Plans are in place to drive further improvement, so that the management of risk is integrated into routine business processes and consistency of approach is achieved across all areas of the business. Specific risk actions include membership of a professional risk organisation is to be evaluated; potential for future partnership risks are to be analysed and, job descriptions are to include reference to risk management responsibilities.

~ a register of staff interests will be populated following the launch of the new staff code of conduct. All staff will be required to complete a declaration of interest form for vetting by the Monitoring Officer.

**The finance function** will be positioned to adapt and meet the needs of its customers throughout the organisation and beyond. An integrated programme of activity under the new Head of Finance is being planned with the intention of transforming the way in which Finance delivers its business in relation to the entity as a whole including:

~ ensuring everyone is clear about their accountabilities both for finance and non-finance staff which means ensuring that managers across the organisation have the capability and skills to take appropriate financial decisions and manage financial records for which they have a direct accountability. The implementation of Dimensions finance software has shown up gaps in functionality which has been addressed on an ongoing basis but will be a principal focus during the coming year.

~ lead the development of improvements in the process of accounting for pensions contributions, to ensure timely and accurate information is available to support the valuation.

~ enhancing the ability of this function to contribute to, and manage efficiencies and value for money. This will include input to training and compliance in contract standing orders.

~ deliver improvements in the processes for the preparation of the annual accounts, addressing points raised in the Annual Governance Report, in particular improving bank reconciliation procedures.

**The management team** will increase their focus on a medium term financial strategy to underpin new efficiencies, so that this is integrated across all LPFA functions. This includes attending to management information produced by medium-term financial modelling.

The business planning and budget process will be further consolidated to ensure internal resource allocation is better linked to policies and priorities. All team business plans will incorporate SMART key performance indicators. The process by which the management team obtain assurances on the effectiveness of key controls will be developed during the year to ensure continuous improvement in the overall governance system.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of the effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed** .....  
Mike Taylor, Chief Executive

**Signed** .....  
Neil Newton, Chairman

**Dated:** 12 November 2008

**Dated:** 12 November 2008

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

### Opinion on the accounting statements

I have audited the Authority accounting statements, pension fund accounts and related notes of the London Pensions Fund Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise:

- the Operational Account Income and Expenditure Account, the Operational Account Statement of the Movement on the General Reserve, the Operational Account Statement of Total Recognised Gains and Losses, the Operational Account Balance Sheet, the Operational Account Cashflow Statement and the related notes;
- the Residual Liabilities Income and Expenditure Account, the Residual Liabilities Balance Sheet, the Residual Liabilities Statement of Movement on the General Fund Balance, the Residual Liabilities Statement of Total Recognised Gains and Losses, the Residual Liabilities Cashflow Statement and the related notes.

The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 Head of Finance and auditor

The Head of Finance's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements, pension fund accounts and related notes 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 Authority accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its 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 governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority accounting 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 Authority accounting statements, pension fund accounts and related notes. 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 Authority accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, pension fund accounts and related notes, 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 Authority accounting statements, pension fund accounts and related notes 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 Authority accounting statements, pension fund accounts and related notes.

## **Opinion**

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- the pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## **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 regularly to 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.

### **Qualified conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I was unable to obtain sufficient appropriate evidence that the London Pensions Fund Authority performed prompt, regular and complete bank reconciliations.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, I am satisfied that, 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 2008 except that it did not put in place:

- arrangements to maintain a sound system of internal control.

## **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.

Andrea White  
District Auditor

Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

13 November 2008

Fund Account			2007-08
2006-07		Notes	£000's
£000's			
	Dealings with members, employers and others directly involved in the scheme		
155,010	Contributions receivable	D&E	179,480
31,236	Transfers in	F	17,904
186,246			197,384
182,649	Benefits payable	G&H	201,131
50,890	Transfers out and other payments	I	14,976
5,272	Administration expenses	W	5,366
238,811			221,473
(52,565)	Net additions/(withdrawals) from dealings with members		(24,089)
	Returns on investments		
122,822	Investment income	J	33,301
70,274	Change in the market value of investments	K	(24,450)
(11,645)	Investment management expenses		(9,285)
181,451	Net return on investments		(434)
128,886	Net increase/(decrease) in the Fund during the year		(24,523)
3,468,303	Net assets of the scheme at 1st April		3,597,189
<b>3,597,189</b>	<b>Net assets of the scheme at 31st March</b>		<b>3,572,666</b>
	Net Asset Statement		
3,602,486	Investment assets	K	3,576,358
39,508	Current assets	N	36,748
(44,805)	Current liabilities	O	(40,440)
<b>3,597,189</b>	<b>Net current assets/(liabilities) of the Scheme at 31st March</b>		<b>3,572,666</b>
Cashflow Statement			
£000's		Notes	£000's
(56,950)	Net cashflow from operating activities	Q	(52,478)
	Returns on investments		
122,822	Investment income		33,301
(9,929)	Investment expenses		(9,285)
112,893			24,016
	Financial investment		
(7,318,499)	Purchases		(6,556,052)
7,132,764	Sales		6,567,690
(185,735)			11,638
(129,792)	Cash outflow before use of liquid resources		(16,824)
	Management of Liquid Resources		
67,172	Movement in Money Market Investments		20,087
(62,620)	Increase/(Decrease) in cash in year		3,263

## Notes to the Pension Fund Account

2006-07	<b>Fund Membership</b>	2007-08
20,782	Contributors	20,477
24,571	Deferred Beneficiaries	25,456
32,690	Pensioners/Dependants	33,018
78,043	<b>Total Fund Membership</b>	<b>78,951</b>

Deferred beneficiaries includes frozen refunds and undecided leavers.

### Fund operations

The Fund is administered in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997 and the LGPS (Management and Investment of Funds) Regulations 1998, and for new members the LGPS (Benefit) Regulations, LGPS (Administration) Regulations and LGPS (Transitional) Regulations 2008. 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 Committee.

### 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 20 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. From 2008-09 investments will be stated at bid price and the notes to the accounts show the difference between mid and bid for 2007-08.

**Additional Voluntary Contributions (AVCs)**, are not included in the accounts in accordance with Pension Scheme Regulations but 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 3.6% increase applied to pensions in April 2007 was in accordance with the Pensions Increase (Review) Order 2007.

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

2006-07 £000's		2007-08 £000's
<b>D Contributions receivable</b>		
78,867	Employers - normal	89,886
41,500	Employers - deficit	54,000
34,643	Members - normal	35,594
155,010		179,480
<b>E Normal contributions</b>		
694	Administering authority	690
95,893	Scheduled bodies	80,638
58,423	Admitted bodies	98,152
155,010		179,480
<b>F Transfers receivable</b>		
11,402	Group transfers	(2,800)
19,834	Individual transfers	20,704
31,236		17,904
<b>G Benefits payable</b>		
156,736	Pensions	165,062
23,826	Commutation and lump sum retirement benefits	33,501
2,087	Lump sum death benefits	2,568
182,649		201,131
<b>H Benefits payable (excl. AVC's)</b>		
426	Administering authority	247
149,187	Scheduled bodies	165,375
33,036	Admitted bodies	35,509
182,649		201,131
<b>I Payments to and on account of leavers</b>		
66	Refunds to members leaving service	48
35	Payments for members joining state scheme	(5)
24,962	Group transfers	(3,000)
25,827	Individual transfers	17,933
50,890		14,976

## J Investment income

14,483	Fixed interest securities	3,166
(42)	Index linked securities	0
31,552	Equity dividends	31,676
4,659	Property rents	4,905
4,020	Unit trusts	1,117
66,513	Cash deposits	6,601
(1,538)	Loss on foreign currency	(18,014)
2,822	Private equity income	3,222
353	Other	628
<b>122,822</b>		<b>33,301</b>

Within this total figure includes the amount of irrecoverable withholding tax of £1.8m (2007/08).

## K Investments at Market Value

	Value at 01.04.07 £000's	Purchase at Cost £000's	Sale Proceeds £000's	Change in mkt value £000's	Value at 31.03.08 £000's
Fixed interest securities	289,333	11,009	(7,257)	(34,272)	258,813
Equities	1,644,235	1,715,658	(2,352,285)	6,387	1,013,995
Pooled investment vehicles	1,244,528	942,768	(404,106)	24,341	1,807,531
Property	114,901	61,456	(29,851)	(8,572)	137,934
Liquidity Fund	42,478	2,518,440	(2,557,373)	-	3,545
Private equity	168,144	92,723	(18,539)	13,508	255,836
Long futures	-	-	-	53	53
Short Futures	(1,356)	-	-	(566)	(1,922)
Commodity Funds	6,259	9,200	-	(151)	15,308
Commercial Paper	5,704	1,202,875	(1,196,029)	206	12,756
Purchased Options	255	1,923	(2,250)	72	-
Forward currency contracts				(25,456)	(25,456)
<b>Total</b>	<b>3,514,481</b>	<b>6,556,052</b>	<b>(6,567,690)</b>	<b>(24,450)</b>	<b>3,478,393</b>
Debtors	5,402				4,124
Creditors	(35,806)				(7,744)
Cash	118,409				101,585

2006-07  
£000's

	<b>Fixed interest securities</b>
	UK quoted
289,333	Overseas public sector
<b>289,333</b>	
	<b>Equities</b>
600,988	UK quoted
1,043,247	Overseas quoted
<b>1,644,235</b>	

**2007-08**  
**£000's**

5,269
253,544
<b>258,813</b>
289,151
724,844
<b>1,013,995</b>

The value of investments at £3,504m is calculated on the basis of mid pricing. This will be calculated on bid pricing from 2008-09. The value of the investments on the basis of bid pricing is £3,497m, a difference of 0.2%.

In some cases investments are stated net of transactions costs. The LPFA continues to work with the investment managers and its custodian, JP Morgan, to be able to account for these separately. Irrecoverable withholding tax for 2007/08 was £1.8m.

At 31 March 2008, the market value of outstanding investment contracts were:

- ~ Forward currency contract receivables of £1,831m offset by forward currency contract payables of £1,856m. The purpose of the contracts is to hedge against the currency risk of the schemes overseas investments and to add value by using an active management style.
- ~ Short futures liabilities of £1.9m. The purpose of the contracts is to take delivery of underlying financial instruments at a fixed date in the future, at an agreed price.

2006-07  
£000's

2007-08  
£000's

L Investments analysed by Fund Manager

42,477	Record Currency Management	30
623,543	Goldmans Sachs Asset Management	-
190,466	Legal and General Investment Management	742,885
376,309	Alternative assets	412,592
404,394	Barclays Global Investors Ltd	420,998
285,626	European Credit Management Ltd	246,710
411,199	Insight Investment Management (Global) Ltd	424,307
386,289	MFS International (UK) Ltd	419,953
217,356	Black Rock	226,072
355,712	Newton Investment Management Ltd	390,497
221,110	UBS Global Asset Management (UK) Ltd	219,339
-	RCM Forward Currency Contracts	(24,990)
<b>3,514,481</b>		<b>3,478,393</b>

M AVC investments

7,642	Prudential	8,360
-------	------------	-------

N Current assets

5,642	Investment income due	5,030
2,685	Contributions due - employees	2,393
8,617	Contributions due - employers	8,638
20,700	Transfer values receivables	17,900
2,071	Sundry debtors	2,812
(207)	Provision for bad debt on sundry debtors	(25)
<b>39,508</b>		<b>36,748</b>

O Current liabilities

4,197	Sundry creditors	3,003
40,000	Leavers	37,002
608	Benefits payable	435
<b>44,805</b>		<b>40,440</b>

P Cash balances

81,940	Short term deposits (under 3 months duration)	85,204
36,469	Pooled deposits placed by investment managers	16,382
<b>118,409</b>		<b>101,586</b>

#### Q Reconciliation operating surplus to net cashflow

128,886	Surplus/(Deficit) in year	(24,523)
(70,274)	Change in Market Value	24,450
(2,099)	(Increase)/ Decrease in debtors	2,148
8,671	(Increase)/ Decrease in investment debtors	1,890
22,345	Increase / (Decrease) in creditors	(4,365)
(31,586)	Increase / (Decrease) in investment creditors	(28,062)
(112,893)	Investment Income / expenditure	(24,016)
(56,950)	Net cashflow from operating activities	(52,478)

#### R Benefits reimbursed

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.

2006-07  
£000's

8,339	Non funded benefits to employer bodies
<u>637</u>	Non funded to HEFEC
8,976	
8,976	Benefit payments reimbursed

2007-08  
£000's

8,284
<u>655</u>
8,939
8,939

#### S Related party transactions

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 is one of the Board members in receipt of statutory pension benefit from the City of Westminster Council and payments due administered by the LPFA, an his spouse is a deferred pensioner from the Greater London Council. LPFA is a related party.

#### T Securities lending

Securities in the UK amounting to £8.4m were loaned as at 31<sup>st</sup> March 2008 against collateral of £8.9m. Securities internationally amounting to £55.3m were loaned as at 31<sup>st</sup> March 2008 against collateral of £59.6m.

#### U Participating employers

A list of the employer bodies of the Pension Fund is set out on pages 44 to 47.

#### V Contingent Liability

As at year end two employers in the fund were in administration. The payment of the current and future pension liabilities accrued to the date the employers ceased to be active will remain payable from the Fund. As at year end, sufficient assets remained in the Fund in respect of these employers to meet the liabilities currently payable and the administration process had not been finalised. The position will be monitored regularly.

There is a potential future liability to pay refunds of contributions that have previously been frozen.

#### W Administration Expenses

Included in this charge to the Pension Fund is an actuarial cost of £98k.

#### X Statement of Investment Principles

A copy of the statement can be obtained by contacting LPFA at Dexter House or via the corporate website: [www.lpfa.org.uk](http://www.lpfa.org.uk)

## Y Post Balance Sheet Events

There has been a substantial downturn in the financial markets since the balance sheet date, and this has had an adverse affect on the value of the pension fund assets. This is a global issue, and therefore is not unique to the LPFA. It is estimated that these issues have led to a reduction in the value of the pension fund from the £3.6bn stated in the accounts to about £3bn, based on best estimates provided by Fund managers in mid October.

## Z Disclosure of nature and extent of risks arising from Financial Instruments

The LPFA activities expose it to a variety of financial risks in respect of financial instruments:

- Credit risk – the possibility that other parties might fail to pay amounts due;
- Liquidity risk – the possibility that the Authority may not have the funds available to meet its commitments to make payment;
- Refinancing risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates or stock market movements.

The LPFA's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund its services. This is managed by the way of an investment strategy. The procedures for risk management in relation to key financial instruments is set out through the legal framework detailed within the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance. Overall, the Authority is required to manage risk in the following ways: -

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators which limit the LPFA's overall borrowing;
- by following treasury management guidelines; and
- by approving an investment strategy.

In order to comply with the requirement that the LPFA set a balanced budget (Local Government Finance Act 1992) a draft budget is approved by the Corporate Management Team for submission to the Board. The draft budget once approved by Board is submitted to the Mayor of London for comment. The final budget is set by the Board bearing in mind any comments made by the Mayor.

The LPFA has significant pension fund assets and these are managed in line with the Authority's investment strategy. Further information on the management and performance of these assets is included in the Investment Report, which is available of the LPFA's website. <http://view.vcab.com/showvcab.aspx?vcabid=ecpSragpSeccpe>

The LPFA also holds some pension fund assets in cash and these are held in line with treasury management guidelines agreed at the Cash Management Meeting and reported to the Audit Committee. Further details on this is provided below.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The Authority has also set limits as to the maximum percentage of the investment portfolio, which is placed with any one class of Institution.

The Authority believes it has managed its exposure to credit risk, and has had no experience of default and uncollectable deposits over the past five financial years. The LPFA's cash holding at 31 March 2008 was £108m. This was held with institutions as follows.

Institution	Rating	Amount £000s
<b>Money Market Funds</b>		
Barclays Global Investors	Aaa	31,380
JP Morgan	Aaa	15,869
Fidelity	Aaa	19,114
<b>Deposit accounts</b>		
Bank of Scotland	AA+	23,447
Abbey	AA-	9,598
Alliance & Leicester	AA-	7,634
Clydesdale	AA-	1,009
<b>Total</b>		<b>108,051</b>

### Liquidity Risk

The Authority ensures it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cashflow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments, particular for the alternative asset portfolio.

The cash holding have immediate access, with the exception of the majority of the money at the bank of Scotland which is on seven days notice.

### Refinancing Risk

The key risk is that the Authority will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Authority does not have any refinancing risk as part of its treasury management.

### Market Risk

The Authority regularly reviews the returns available from its Money Market Funds and Deposit Accounts to provide reassurance that the best market rates are being obtained. This is balanced against the requirement to ensure security of the deposits.

## Actuarial Statement

### Introduction

The last valuation of the assets and liabilities of the London Pensions Fund Authority Pension Fund was carried out as at 31 March 2007 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 this Actuarial Statement.

### Valuation results

The Active Sub-fund had a funding level (ratio of assets to past service liabilities) as at 31 March 2007 of 82% (compared to 74% as at 31 March 2004). This corresponds to a past service deficit of £487m.

Assuming that a funding level of 100% is to be targeted over a period of 20 years the common employers' total contribution rate is 19.3% 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 March 2007 of 86%. This compares to 91.5% as at 31 March 2004, and corresponds to a past service deficit of £210m. There is a recovery plan in place to meet the long-term objectives set out in the Funding Strategy Statement and this is detailed in the valuation report.

Assuming that a funding level of 100% is to be targeted over a period of 20 years the common employers' total contribution rate is 103% 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 March 2007 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 2007 for the purpose of the funding valuation are set out in the table below.

Financial assumptions	Mar 2007 (% pa)	Real (% pa)
Investment Return / Discount Rate		
Active Sub-Fund	6.3%	3.00%
Pensioner Sub-Fund	Assumed to be 1.5% p.a. above the swaps curve, where the swaps curve is the yield available on the sterling LIBOR nominal swaps curve as provided by Barclays Capital as at the valuation date	-
Pay Increases		
Active Sub-Fund	4.70%	1.50%
Pensioner Sub-Fund	Assumed to be 1.5% p.a. in excess of price inflation	1.50%
Price Inflation/Pension Increases		
Active Sub-Fund	3.20%	-
Pensioner Sub-Fund	Market expectation of long term future inflation as measured by reference to the sterling LIBOR nominal breakeven inflation curve as provided by Barclays Capital as at the valuation date	-

## Valuation of assets

For both the Active and Pensioner Sub-Funds the assets were valued at their market value as at the valuation date. In the Pensioner Sub-Fund, allowance was made in the asset value for assets of £21m received just after the valuation date, in respect of LCC stock.

## Demographic assumptions

Some demographic assumptions were updated in the 2007 valuation, compared to those used in the 2004 valuation, to reflect updated expectations of future experience. In particular, longer life expectancy was assumed.

## Benefit structure

The benefit structure of the scheme is changing from 1 April 2008. Allowance has been made for the new structure based on our understanding of the provisions of the new scheme as at the date of signing the formal valuation report.

## Forthcoming actuarial valuation as at 31 March 2010

The next formal actuarial valuation is to be carried out as at 31 March 2010. The valuation will allow for the actual experience of the Fund (both in terms of demographic experience and financial experience) since 31 March 2007.

Prepared by:-

Lorna Tonner FFA  
8 April 2008

For and on behalf of Hymans Robertson LLP

## Statement of Accounting Policies

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).

These policies apply to the Operational Accounts and the Residual Liabilities accounts. 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.

### 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 straight-line 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 furniture & fittings and office refurbishment (the furniture was re-lifed in 2006-07 to add an additional five years to its life (making ten years in total)). The value of stocks of office supplies and stationery was immaterial at 31<sup>st</sup> March 2008 and has not been included in the financial statements. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to the Income and Expenditure Account.

### Pension scheme

The Authority participates in the Local Government Pension Scheme (LGPS) administered by the LPFA. This is a funded defined benefit scheme Employees' and employers' contributions are paid in to the LGPS. Employers' contribution rates are advised by the LPFA Fund's Actuary, Hymans Robertson LLP.

### Stock

The Authority holds no stocks or work in progress. The cost of all materials is charged to the Income and Expenditure Account when they are purchased.

### VAT

Figures in the accounts are net of recoverable VAT.

### Interest on Balances

Cash balances not required for immediate use are invested in accordance with the Authority Treasury Management Strategy. Interest earned on the Authority's balances is credited to the Income and Expenditure Account.

### Statement of Movement on General Fund Balances

The Authority is not required to be compliant with BVACOP (Best Value Accounting Code of Practice) under the Local Government Act 2003.

### Financial Instruments

Financial Instruments represents transactions, with a contract, which result in a financial asset for one entity and a financial liability for another. For the year ending 31<sup>st</sup> March 2008, the authority has undertaken no repurchase or early settlement of borrowing, incurred no premiums

and discounts, entered into no financial guarantees, not defaulted on any loans and not held or pledged any collateral in respect of the repayment of any loans. Responsibility rested 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 were included at their nominal value in the Net Asset Statement. The loan stocks were substantially repurchased in 2005-06.

### Reserves

The Pension Reserve has been set up as part of the requirement to comply with FRS17 accounting for the pension costs. It represents the actuarially calculated deficit between the value of all pension liabilities and the assets held.

The Levy Reserve has been set up to ensure that any surpluses or deficits on the levies are not chargeable to the pension fund and are recovered by a levy on London boroughs.

The General Reserve has been set up to ensure that any surpluses or deficits in the operation accounts are transferred there.

## Operational Accounts

2006-07

£000's

Notes

**2007-08**

**£000's**

**2007-08**

**£000's**

### Income & Expenditure Account

	LPFA	1		
113	Board members	2	126	
5,278	Staff	3	5,349	
1,225	Premises		1,114	
744	Information technology		652	
590	Supplies and services		618	
550	Other	4	879	
<b>8,500</b>	<b>Cost of activities</b>			<b>8,738</b>
	<b>Income</b>			
5,126	Funded by Pension fund		5,268	
523	Funded from levy statement		523	
2,639	Agency contracts	5	2,779	
<u>209</u>	Other charges	6	371	
8,497				8,941
3	<b>Net cost of activities</b>			<b>(203)</b>
79	Pension interest cost & expected return on pension asset	7		21
82	<b>Net operating expenditure</b>			<b>(182)</b>
(375)	Transfer from pension reserve	8		(222)
<b>(293)</b>	<b>(Surplus)/deficit</b>	<b>8</b>		<b>(404)</b>

## Statement of Movement on the General Reserve

2006-07

£000's

Notes

**2007-08**

**£000's**

(375)	(Surplus)/Deficit on the Income and Expenditure Account			(404)
-	Net additional amount required by statute and non- statutory proper practices to be debited or credited to the General Fund Balance for the year			-
(375)	<b>Change in General Fund Balance for the year</b>			<b>(404)</b>
(18)	General fund Balances Brought Forward			(393)
(393)	<b>General fund Balances Carried Forward</b>			<b>(797)</b>



	<b>Cash inflows</b>		
5,126	Pension fund	5,268	
523	Levies	523	
-	Cash received for goods and services	2,779	
<u>2,480</u>	Other fees and charges	455	
8,129			9,025
507	Net cashflow from operating activities	12	(190)
	<b>Capital activities</b>		
<u>131</u>	Payments to acquire fixed assets	136	
131			136
638	Net (increase)/decrease in cash in year		(54)

### 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 Mayor of London. Members receive no other allowances.

2006-07  
£000's

	<b>Emoluments and other costs</b>	
84	Emoluments	
7	Employer's NI contributions	
22	Reimbursable expenses	
113		

#### Emoluments were paid in the following bands:

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

2007-08  
£000's

98
9
19
126

3
6
-
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. Included in staff costs are:

	<b>Remuneration and other costs</b>	
3,611	Salaries	3,896
306	Employer's NI contributions	332
389	Employer's pension contributions	448
25	Reimbursable expenses	14
419	FRS17 costs	201
528	Other costs	458
5,278		5,349

Pension contributions represent the current service costs in accordance with FRS17.

2006-07  
£000's

Employees receiving emoluments (excluding pension contributions) of £50,000 or more numbered:	
4	£50,000 to £60,000
5	£60,000 to £70,000
-	£70,000 to £80,000
-	£80,000 to £90,000
1	£90,000 to £100,000
1	£100,000 to £110,000
-	£110,000 to £120,000
-	£120,000 to £130,000

2007-08  
£000's

4  
5  
-  
-  
-  
2  
-  
1

At 31<sup>st</sup> March 2008 LPFA employed 135 staff (124 at 31<sup>st</sup> March 2007).

#### 4 Other services

These include auditors fees as listed below

62	Internal Audit		56
57	External Audit	- Code of Audit Practice	54
2		- Grant Certification	1
121			111

#### 5 Agency work

During the financial year LPFA provided pension administration and other services under the provisions of the Local Authorities (Goods and Services) Act 1970 to the following organisations:

**London Fire and Emergency Planning Authority** (for the administration of unfunded Firefighter'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**

The total value of agency income for 2007/08 was £2.78m (£2.64m 2006/07). Due to the commercial sensitivity, individual contracts are not disclosed.

#### 6 Other charges

During the financial year LPFA provided services (non-agency) for external training for pensions administration (£37k).

2006-07  
£000's

FRS17 - Analysis of amount charged to revenue	
Amount charged to net cost of activities	
685	Service cost
68	Past service cost
-	- Curtailment and settlements
-	- Decrease in irrecoverable surplus
753	Total operating charge
Amount credited to below net cost of activities	
1,000	Expected return on employer assets
(1,079)	Interest on pension scheme assets
(79)	Net return
832	Net revenue account cost

2007-08  
£000's

639  
-  
-  
-  
639  
  
1,171  
(1,192)  
(21)  
660

Movement in surplus/(deficit) in the year		
(7,103)	Surplus/(Deficit) at the beginning of the year	(5,690)
(685)	Current service cost	(639)
457	Employer contributions	438
-	- Contributions for unfunded benefits	-
-	- Other income	-
-	- Other outgoings	-
(68)	Past service costs	-
-	- impact of settlement/curtailment	-
(79)	Net return on asset	(21)
1,788	Actuarial gains/(losses)	2,845
(5,690)	(Deficit) at year end	(3,067)

#### 8 Statement of total movement in balances and reserves

	Pension reserve	General reserve	Total
Balance at start of year	(5,690)	393	(5,297)
In year surplus		404	404
Experience loss FRS17	(222)		(222)
Actuarial gain/loss	2,845		2,845
	(3,067)	797	(2,270)

#### 9 Fixed assets

	Computer equipment £000's	Office Furniture and fittings £000's	Total £000's
Net book value at 31st March 2007	116	175	291
Additions	78	58	136
Depreciation	(101)	(47)	(148)
NBV at 31st March 2008	93	186	279

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

2006-07

£000's

1,627 Sundry creditors

**2007-08**

**£000's**

1,190

#### 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 2008 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.

2006-07		2007-08	
£000's		£000's	
16,137	Net pensions asset	16,024	
(21,827)	Estimated employer asset	(19,091)	
-	Present value of scheme liabilities	-	
(5,690)	Present value of unfunded liabilities	(3,067)	
	Net pensions asset		
31.03.07 Assumptions		31.03.08	
3.20%	Price increase	3.60%	
4.70%	Salary increase	5.10%	
3.20%	Pension increase	3.60%	
5.40%	Discount rate	6.90%	

	Assets (Active Fund)		Long Term Return	
	£000's	£000's		
	31.03.07	31.03.08	31.03.07	31.03.08
Equities	10,050	9,570	7.70%	7.50%
Target Return Funds	3,608	3,093	6.40%	6.30%
Alternative Assets	2,046	2,880	6.80%	6.70%
Cash	433	481	4.90%	4.80%

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 the level of take-up of the change in the pension scheme will be 20%.

### 12 Reconciliation of cash movements to revenue account

2006-07		2007-08	
£000's		£000's	
293	Surplus/ (deficit) in year (Excluding FRS17)	404	
198	Depreciation	148	
(368)	(Increase)/decrease in debtors	84	
(84)	(Increase)/decrease in prepayments	(9)	
(546)	Increase/(decrease) in creditors	(437)	
(507)	Net cashflow from operating activities	190	

### 13 Lease commitment of office

690	Under one year	690
2,760	Between two and five years	2,760
2,415	After five years	1,725
5,865	Lease commitment	5,175

### 14 Related party transactions

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 related party transactions. Agency contracts and pension fund is a related party.

### 15 Change in VAT Status

The LPFA's VAT status changed on 1 August 2006 so that it is now the same as local authorities (S.33 status) and can now fully recover VAT on the Operational Accounts.

### 16 Publicity

The expenditure on publicity, which consists of website advertising of vacancies, and press advertisements relating to the annual report and accounts and public Board meetings, was £11k.

### 17 Post Balance Sheet Events

The notes to the pension fund accounts disclose the impact of a post balance sheet event on the value of the pension fund assets. This event also has a potential impact on pensions liability in the operational accounts, calculated under FRS17.

### 18 Statement of Movement on General Fund Balances

LPFA is not required to be compliant with BVACOP (Best Value Accounting Code of Practice) under the Local Government Act 2003.

### 19 Disclosure of nature and extent of risks arising from Financial Instruments

The LPFA activities expose it to a variety of financial risks in respect of financial instruments. These have been outlined in the Pension Fund accounts.

The LPFA has access to external borrowing which is set at £5m as the maximum amount that LPFA can afford to borrow and that limit is kept under review. As at 31<sup>st</sup> March 2008 LPFA had no borrowings.



## Balance Sheet

	2006-07 £000's		2007-08 £000's	
	Greater London	Inner London	Greater London	Inner London
Current assets				
69		7	82	4
24,676	-	2,569	3,428	-
1,001			21,985	2,033
	25,746	2576	25,495	2,037
Current liabilities				
	(365)	(223)	(380)	(222)
	<b>25,381</b>	<b>2353</b>	<b>25,115</b>	<b>1,815</b>
	<b>25,381</b>	<b>2353</b>	<b>25,115</b>	<b>1,815</b>
Represented by:				
124,083	146,616		114,372	130,989
2,221	11		1,820	-
	126,304	146627	116,192	130,989
Capital & reserves				
4,348	-		4,348	-
(1,464)	2,342		(1,329)	1,815
20,276	-		20,276	-
(124,083)	(146,616)		(114,372)	(130,989)
	(100,923)	(144,274)	(91,077)	(129,174)
	<b>25,381</b>	<b>2,353</b>	<b>25,115</b>	<b>1,815</b>

## Statement of Movement on the General Fund Balance

2006-07 £000's		2007-08 £000's	
Greater London	Inner London	Greater London	Inner London
2,273	(189)	(135)	527
-	-	-	-
<b>2,273</b>	<b>(189)</b>	<b>(135)</b>	<b>527</b>
(809)	(2,153)	1,464	(2,342)
<b>1,464</b>	<b>(2,342)</b>	<b>1,329</b>	<b>(1,815)</b>

## Statement of Total Recognised Gains and Losses

2006-07 £000's		2007-08 £000's	
Greater London	Inner London	Greater London	Inner London
2,273	(189)	(135)	527
-	-	-	-
-	-	-	-
(7,212)	(7,126)	(8,060)	(15,623)
(2,405)	(764)	(1,652)	(4)
<b>(7,344)</b>	<b>(8,079)</b>	<b>(9,847)</b>	<b>(15,100)</b>



		Movement in surplus/ deficit in the year		
(133,700)	(154,506)	Surplus(deficit) at the beginning of the year	(124,083)	(146,616)
-	-	Current service cost	-	-
-	-	Employer contributions	-	-
8,745	8,138	Contributions for unfunded benefits	8,135	7,716
-	-	Other income	-	-
-	-	Other outgoings	-	-
-	-	Past service costs	-	-
-	-	Impact of settlement/ curtailment	-	-
(6,340)	(7,374)	Net Return on asset	(6,484)	(7,712)
7,212	7,126	Actuarial gains/losses	8,060	15,623
(124,083)	(146,616)	(Deficit) at year end	(114,372)	(130,989)

#### 5 Current liabilities

2006-07  
£000's

Greater  
London

Inner  
London

		Tax due on payments made
72	-	Unclaimed interest and principal
164	-	Sundry creditors
120	223	Accrued stock interest payable
9	-	
365	223	

2007-08  
£000's

Greater  
London

Inner  
London

101	-	
165	-	
105	222	
9	-	
380	222	

#### 6 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 2008 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

- 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



## 10 Statement of Total Movements in Balances and Reserves

	Residual Pensions Liability Reserve £'000	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	20,276	(1,464)	2,342	(124,083)	(146,616)
Net surplus/(deficit) in year		135	(527)		
Movement in year				9,711	15,627
Balance at year end	20,276	(1,329)	1,815	(114,372)	(130,989)

### 11 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.

### 12 Post Balance Sheet Events

The notes to the pension fund accounts disclose the impact of a post balance sheet event on the value of the pension fund assets. This event also has a potential impact on pensions liability in the residual liabilities accounts, calculated under FRS17.

### 13 Accounting Policies

The Pension Fund Accounting policies apply to the Residual Liability accounts.

### 14 Disclosure of nature and extent of risks arising from Financial Instruments

The LPFA activities expose it to a variety of financial risks in respect of financial instruments. These have been outlined in the Pension Fund accounts.

The LPFA has £4.3m of undated loan stocks on residual liabilities. These are long term investments that have been held for a number of years. The loan stocks are matched by an investment which provides income to cover dividends and also covers the capital value.

## Employers participating in the Fund

Age Concern London  
All England Netball Association  
All Saints Educational Trust  
Alleyns School  
Amicus Horizon Group Ltd  
Archbishop Tenison's CFE School  
Association for Colleges  
Association of Colleges  
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  
Caris Haringey  
Castle Vale HAT  
Central Council of Magistrates Courts Committee  
Central Council of Physical Recreation  
Central School of Speech and Drama  
Centre of Information on Language Teaching  
CFBT Advice and Guidance  
Centre for British Teachers  
Charlotte Sharman GM Primary School  
Chartered Institute of Environmental Health  
Chartered Institute of Housing  
City and Islington College  
City Literary Institute  
City of Westminster College  
City University  
Colfe's Grammar School  
College of St Mark and St John  
Commission for Local Administration in England  
Community Care Enterprises  
Corpus Christi RC Primary School  
Council for Awards in Children's Care and Education  
Dulwich College  
Dulwich Picture Gallery  
Dunraven School  
Durand Primary School  
Ealing Hammersmith and West London College  
East Thames Housing Group  
Emmanuel School  
English Institute of Sport  
English Sports Council  
Family Service Units  
Firebush Ltd  
Forest Hill and Sydenham Voluntary Service Association  
Friars School  
Futures Career Guidance  
Gallions Housing Association  
Geffrye Museum Trust Ltd  
Genesis Housing Group  
Gilbert Place Centre

Goldophine and Latymer School  
Goldsmiths College  
Gorsway Care Ltd  
Grafham Grange  
Greater London Authority  
Greater London Employers Association Ltd  
Greater London Enterprise Board  
Greater London Magistrates Courts Authority  
Greenwich Community College  
Greenwich Young People's Theatre Ltd  
Guinness Trust  
Haberdashers' Askes Hatcham College  
Hackney Community College  
Hermitage Care Limited  
Hermitage Housing Association  
Horniman Museum & Gardens  
Hounslow Welcare  
Ibstock Place School  
Immanuel & St Andrew Primary School  
Incorporated Froebel Educational Institute  
Inner London Probation Service  
Institute of Careers Guidance  
Julian's Primary School  
Kettering Community Leisure Ltd  
Kingsway College  
Kusco (Kingston University Service Company Ltd)  
La Retraite School  
La Sainte Union Convent School  
Lambeth College  
Lee Valley Regional Park Authority  
Lewisham College  
Liverpool Housing Action Trust  
Lionheart (Rics Benevolent Fund)  
London and South East Library Region (LASER)  
London Arts Board  
London Boroughs (29)  
London Councils  
London Diocesan Fund  
London Fire & Emergency Planning  
London Guildhall University  
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  
Mid Sussex Housing Association  
Middlesex Association for the Blind  
Middlesex Probation Service  
MITIE Managed Services (North & Scotland) Ltd  
Morley College  
Mountain Training Ltd  
Myrrh Ltd  
National Crime Squad  
National Criminal Intelligence Service  
National Probation Directorate  
National Probation Service (London)

New Downland Housing Association Limited  
NIACE Hospice Group  
North East London Probation Service  
Notre Dame School  
Old Ford Housing Association  
Open College Network London Region  
Parchment Housing Group  
Peabody Trust  
Pimlico Village Housing Cooperative TMO  
Poplar Housing and Regeneration Community  
Association Ltd  
Prospects Services Ltd  
Radicle  
Raine's Foundation School  
Rathbone Training  
Sacred Heart School  
SDP Regeneration Services 2 Limited  
SENSE  
Search Careers Ltd  
Shenley Leisure Centre Trust Ltd  
SLChurch Fund and Southward Diocesan  
Board of Finance  
South Bank University  
South East London Probation Service  
South Thames College  
Southwark College  
South West London Probation Service  
SSAFA Forces Help  
St Andrews Primary School  
St Annes Primary School  
St Anthonys School  
St Bede's RC Primary School  
St Bernardette's School  
St Christopher's Fellowship  
St Francesca Cabrini Primary School  
St Francis Xavier 6th Form College  
St Joseph Infant School  
St Joseph Junior School  
St Martin in the Field High School  
St Mary's Primary School  
St Michael's School  
St Thomas the Apostle  
St Thomas's C of E JM School  
Stonebridge  
Surrey Square Infants School  
Surrey Square Junior School  
Sutton Centre for Independent Living &  
Learning  
Sutton Community Leisure Ltd  
Sutton Performing Arts Network  
Tandridge Leisure Ltd  
The Council of Management of Coram's Field  
The English & Media Centre  
The London Development Agency  
The Probation Boards Association  
The Rent Service  
Tilfen Regeneration Ltd  
Tower Hamlets College  
Tower Hamlets HAT  
Transport for London  
Trust Thamesmead

Turney School  
Turnham Primary School  
United Kingdom Film Council  
United Kingdom Sports Council  
University of Greenwich  
University Association for Contemporary Euro-  
pean Studies  
University of North London  
University of Surrey Roehampton  
University of Westminster  
Urban Learning Foundation  
Valuation Tribunal Service  
London Waste Authority  
Waltham Forest CBHA Ltd  
Welcarn Community Projects  
Western Riverside Waste Authority  
Westminster College  
Westminster Kingsway College  
Willowfield School  
Woughton Leisure Trust  
Wycombe Leisure Ltd

In addition to the employers shown here,  
pensions are being paid in respect of retired  
employees (or deferred benefits accrued)  
from a further 130 former authorities, most  
notably the GLC and ILEA





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