

Statement of Accounts  $\frac{10}{11}$



# Statement of Accounts 2010/11

	Page
Explanatory Foreword	2
Statement of Responsibilities for the Statements of Accounts	9
Annual Governance Statement	10
Auditor's report to the LPFA (blank page)	19
Pension Fund Accounts	22
Notes to Pension Fund Accounts	24
Actuarial Report	45
Participating Employers	47
Operational Accounts	53
Notes to Operational Accounts	55
Residual Liabilities Accounts	78
Notes to Residual Liabilities Accounts	82

# 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 Authority's Statement of Accounts for the financial year 2010/11 consists of:

- the **Statement of Responsibilities**
- the **Annual Governance Statement**
- three separate sets of financial statements
  - **Pension Fund Accounts;**
  - **Operational Accounts; and**
  - **Residual Liabilities Accounts.**

The **Pension Fund** statements consist of;

- the **Fund Account** which shows the Fund's income and expenditure for the year
- the **Net Assets Statement** which shows the net assets of the Fund at 31<sup>st</sup> March 2011
- Notes to support the Pension Fund accounts

The **Operational Account** and **Residual Liabilities** statements consist of:

- the **Comprehensive Income and Expenditure Account** which is a summary of the resources generated and consumed by the Authority/Residual liabilities in the year. The statement shows the accounting costs in the year or providing services in accordance with the generally accepted accounting practices, rather than the amount to be funded from taxation. The LPFA does not raise taxation to cover expenditure:
- the **Balance Sheet** which sets out the financial position of the Authority/Residual liabilities at 31<sup>st</sup> March 2011. The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the LPFA (assets less liabilities) are matched by the reserves held by the LPFA. Reserves are reported in two categories: 1) Usable – reserves that the LPFA may use to provide services, subject to the need to maintain a prudent level of reserves; 2) Unusable – these are not cash back reserves so the LPFA can not use these to provide services.
- the **Cash Flow Statement** shows the changes in cash and cash equivalent of the Authority during the reporting period. The statement shows how the Authority generate and uses cash and cash equivalents by classifying cash flows as operating and financing activities. The overall total agrees to the Cash position shown in the balance sheet.
- the **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Authority, analysed into usable reserves (i.e. those that can be applied to fund expenditure and other reserves. In the table above those reserves to the left of the General Reserve are non usable; the General Reserves and those to the right are usable reserves. The surplus on the Provision of Services line shows the true economic cost of

providing the Authority's services, more details of which are shown in the comprehensive Income and Expenditure Statement

- Note to support the accounts

## Relationship to the Authority's Annual Report

A copy of the Authority's Statement of Accounts is issued as a financial report and forms part of the Authority's Annual Report and Accounts together with the other statutory documents and other information in line with best practice guidance.

## Funding

The Authority incurs costs in the discharge of its functions as the administering authority of the Fund. These costs are detailed in the Operational Account. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998/1831) as amended, the Authority charges its costs to the Funds under its management as they are incurred and there is no formal recharge procedure.

Any costs, charges and expenses incurred in administering the Residual Liabilities are met by the Levy on the Greater London and Inner London authorities.

## Review of the Statements

The 2010/11 budget had initial approval from the Board in December 2009 and was submitted to the Mayor for comment. The final budget was approved by the Board on 3 February 2010.

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

## Pension Fund

Pension Fund	Actual	Budget	Variance
	£000's	£000's	£000's
Contributions	(216,500)	(231,942)	15,442
Actuarial Costs	67	124	(56)
Benefits Payable	281,476	276,988	4,488
Management Expenses	5,903	5,883	20
Investment Income	(45,072)	(42,674)	(2,398)
Investment Expenditure	7,300	9,592	(2,292)
<b>Net (Inflow)/Outflow to the Fund</b>	<b>33,175</b>	<b>17,971</b>	<b>15,203</b>

The net assets of the pension fund have increased by £272m to £4,127m from £3,855m in 2009/10. The budgeted elements saw a net outflow of

£15.2m before taking account of other items, primarily change in market value, to bring a 7.1% increase in the value of the fund.

The contributions were below budget mainly due to lower than budgeted transfers into the Fund, most likely due to the effects of the current economic climate. This is also being felt in the fact that the LPFA is now having discussions with a few employers on cessation valuations. The actuarial costs were well below budget and reflect a change in approach to providing data to the actuary, with the LPFA officers completing more data quality work as part of the preparations for the 2010 valuation. Benefits payable were over budget mainly due to transfers out, with significant members employed at Transport for London opting to transfer their pension into that fund. Investment income was above budget and with cost under budget delivered £4.7m more than budgeted.

During 2010/11 the LPFA continued discussions with the Department for Communities and Local Government to find a solution on the funding of the pensioner sub-fund. An interim position has been agreed but a long-term solution is still required.

## Operational budget

Management Expenses	Actual	Budget	Variance
	£000's	£000's	£000's
Board Expenses	202	165	36
Staff Expenses	5,132	4,987	145
Premises	1,193	1,215	(22)
Information Technology	655	655	(0)
Other Expenses	883	763	120
Office Expenses	427	482	(55)
Agency Non Contract Expenditure	7	38	(30)
<b>Total Expenses</b>	<b>8,499</b>	<b>8,306</b>	<b>194</b>
<b>Funded by:</b>			
Pension Fund	(5,903)	(5,883)	(20)
Levy Contribution (Residual Liabilities)	(497)	(497)	(0)
Agency Income	(1,609)	(1,643)	34
Other Income	(225)	(163)	(62)
Approved Use of Reserves	(340)	(120)	(220)
Compensated Absences reversal	(61)	0	(61)
<b>Total Income</b>	<b>(8,635)</b>	<b>(8,306)</b>	<b>(330)</b>
<b>Surplus in year</b>	<b>(136)</b>	<b>0</b>	<b>(136)</b>

The actual expenditure excludes adjustments for IAS19 charges (£350k difference) as these do not form part of the usual management accounting process. Although included in expenses these charges are reversed out later and do not have a direct impact on the overall bottom line.

The operation budget in total is showing an underspend of £136k against the budget for the year and before any contribution to reserves are taken in to account. This figure was largely consistent with forecasts supplied to both

Committee and Management during the latter part of the financial year. The main variations are considered below.

Board Expenses – although this appears to be overspending, the costs of advisors to the Investment Committee are now included here but were budgeted under staff expenses.

Staff Expenses outturn was over budget by £181k but this becomes £145k with the move of the costs of advisors to Board expenses. The outturn is approximately £30k higher than previously reported to Audit Committee. Of the overspend of £145k, £60k reflects a new requirement under International Financial Reporting Standards (IFRS) to charge in the year the value of untaken annual leave and flexi leave. Although this increases expenditure, there is an adjustment allowed in reserves for this which means the charge has no overall impact on the finances of the LPFA. The majority of the balance of other overspending within staff expenses reflects the additional costs associated with employing temporary staff for covering vacancies. This has been consistently reported throughout the year.

Premises costs underspent by £22k resulting from a saving on Non Domestic Rates for Dexter House. This is a net saving after payment of external consultant fees, who were engaged to review rates during LPFA's occupation of Dexter House.

Information Technology - The outturn position for IT come in spot on budget for the year.

Other Expenses out-turned more or less in line with previous forecasts other than for a provision created for costs anticipated to be awarded to claimants following the outcome of two employment tribunals. The tribunal, although it dismissed elements of the claims, ultimately found in favour of the claimants.

Office Expenses are underspent by £55k, in line with forecast expectations and reflects underspends on Printing £15k, Postage £17k and Scheme Member Communications £28k.

Agency income out-turned as expected, coming in under budget by £34k and is due to a negotiated reduction in the management fee relating to the extension of a third party administration contract.

Other income was higher than budget by £62k and reflects a net gain to the Authority in its ad hoc commercial business during the course of the year.

The LPFA continued to deliver pension administration contracts to six London Authorities. The cost of administering contracts is recovered through the amount charged for the service under each contract. During the year the LPFA was successful in bidding for two new commercial contracts to provide pension administration services to Hertfordshire County Council and the London Borough of Ealing.

## **Residual Liabilities**

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. These budgets contain significant uncertainties in the form of injury claims for asbestosis, dating back to the Greater London Council and the Inner London Education Authority. The LPFA has established a significant provision for known and

expected claims, the costs of which will be met through the levy on London boroughs.

### Greater London

The budgeted levy requirement in 2010/11 was £11,388k, and, with the exception of the asbestosis provision the spending during the year more or less came out on target. However, it remains extremely difficult to forecast the sums likely to be paid both in the year and the longer term for dealing with asbestosis claims. The Authority has engaged an expert to help not only with dealing with claims as they become due but also with forecasts of what these costs might be overall and, therefore, what charges to pass on to the London Boroughs.

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Greater London Levy			
Pension Retirement Costs	7,828	8,074	246
Direct Costs	245	177	(68)
Management Expenses	299	299	0
Asbestosis Provision (known cases)	1,910	1,165	(746)
Interest Payable and Receivable	(135)	(45)	90
Levy	(11,388)	(11,388)	(0)
<b>Net (Inflow)/Outflow to Balances</b>	<b>(1,242)</b>	<b>(1,718)</b>	<b>(477)</b>

### Inner London

The budgeted levy requirement in 2010/11 was £13,230k. The amount paid out in pension was lower than budgeted for by approximately £900k (6.7%). Other than that the budget against the actual year-end position was as expected. However, again as on the Greater London levy, the asbestosis claims remain a significant variable factor, although the total value of claims on the London levy is much lower than on Greater London.

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Inner London Levy			
Pension Retirement Costs	12,732	13,645	913
Direct Costs	29	53	24
Management Expenses	198	198	0
Asbestosis Provision (known cases)	(324)	510	834
Interest Payable and Receivable	1	(25)	(26)
Recharge to HEFCE	(607)	(686)	(79)
Levy	(13,230)	(13,230)	(0)
<b>Net (Inflow)/Outflow to Balances</b>	<b>(1,202)</b>	<b>464</b>	<b>1,666</b>

### Accounting for retirement benefits

The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities under IAS 19. In previous years there was a requirement to disclose this information under FRS 17 but this was replaced by IAS19, in moving to reporting financial information

under International Financial Reporting Standards, the outcomes from both give similar results. However, in line with directions from Government, future pensions liabilities are now measured using the Consumer Prices Index rather than the Retail Price Index and this has resulted in a lower value of future pensioner payments.

IAS19 requires the net pensions asset or liability be matched by a pensions reserve in the Balance Sheet.

The effect of recognising IAS19 in the 2010/11 financial statement is a decrease in the net liability to £8.878m (£14.814m 2009/10) in the operational accounts and a decrease to £331m from £358m in the combined residual liabilities account. These figures have no direct impact on the costs of providing a pension scheme as contribution rates are determined by the Actuary every three years. The new contribution rates effective from April 2011 actually dropped by approximately one percentage point to 17.3%. This will be reviewed again by the Actuary in three years time.

The change in the net pensions liability is analysed into the following components:

- Current service cost: the increase in pensions liabilities as a result of a year's service;
- Past service costs: The increase in liabilities as a result of changes to plan arrangements in the current year with subsequent effects to years of service earned by the employee in previous years;
- Interest cost: the increase in the present value of the liabilities during the year as a result of moving one year closer to being paid;
- Expected return on assets: the annual investment return on the fund assets attributable to the LPFA, based on the average expected long-term return;
- Gains /losses on settlements and curtailments: the result of actions that reduce the authority's liabilities or reduction in the future employees services or benefits;
- Actuarial gains and losses: changes in the net pension liability due to changes in the actuary's assumptions/calculations;
- Contributions paid to the fund: pensions contributions made by employers and employees to the pension fund.

### **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 (based on invoice receipt date) or within 30 days of receipt. The number of invoices paid within contract terms or 30 days of receipt (whichever is the sooner) was just under 97% (the reported figure in 2009/10 was 94.4%).

### **Accounting for an Associate**

The Director of Investments sits on the board of the Investors In the Community - Guernsey unit trust. The composition of that board is such that the LPFA are able to exert a significant amount of influence (there are four members altogether) over the entity and, therefore, we have an associate relationship. The value of investment in such is set out later in the Pension Fund section of this document.

## **Accounting Policies**

The Authority has moved to disclosing its accounts under International Financial Reporting Standards (IFRS), in line with other public sector bodies. This had led to substantial presentational changes however the only accounting change is the need to accrue for untaken annual leave and the hours built up by staff for flexi time. This amounts to £61k in 2010/11 and the equivalent figure for 2009/10 would have been £30k. The increase between years reflects a decision by management to allow a higher level of leave to be carried forward due to the higher workloads in the organisation during the year, for example the implementation of the new contracts won in providing pension administration services to Hertfordshire County Council and the London Borough of Ealing.

## **Date the Statement of Accounts were authorised for issue**

The Statement of Accounts were authorised for issue by the Audit Committee on 21 June 2011. This is the date up to which events after the balance sheet date have been considered.

## **Current Economic Climate**

The current economic climate is having an impact on the work of the LPFA and this is expected to continue over the coming years. In the pension fund activities there have been increased discussions with employers on their membership of the LPFA Fund – this may be employers with discretion to offer the Local Government Pension Scheme (LGPS) considering other options, and also employers having their future put into question and discussing cessation valuations. Also a further impact of the cuts in public spending is that employers are expected to employ less staff, reducing the number of active members in the Fund.

The future of the LGPS is also being discussed as part of the review of public sector pensions by Lord Hutton. The LPFA has played an active role in the consultation process and will continue to make its voice heard in the debate. The LPFA has also contributed to discussions on other pensions issues, including the planned 3% increase in employee contributions to public sector pensions.

With more authorities considering outsourcing to meet budget savings, this potentially provides opportunities for the LPFA in its third party administration business. The LPFA continues to work with existing and potential clients to meet their on-going pension administration needs.

## **Further Information**

Further information about these accounts is available from the Finance Manager, Dexter House, 2 Royal Mint Court, London EC3N 4LP.

# Statement of Responsibilities for the Statement 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 the responsibility for the administration of those affairs. In this Authority, this is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## The Chief Financial Officer's responsibilities

The Director of Finance is the Chief Financial Officer for the LPFA and is responsible for:

- the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC the Code of Practice on Local Authority Accounting in the United Kingdom (the Code);
- Ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control;
- Publishing annual accounts on a timely basis to communicate the organisation's activities and achievement, its financial position and performance

In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code, or made a statement where this is not the case;

The Director of Finance has also:

- 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 a true and fair view of the financial position of the Authority at 31<sup>st</sup> March 2011 and its income and expenditure for the year ended 31 March 2011.

.....

**Adrian Bloomfield, Director of Finance**

**Date: September 2011**

# Annual Governance Statement 2010-11

## Introduction

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.

## 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 including arrangements for the management of risk.

## 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'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 governance framework has been developed by the London Pensions Fund Authority during the year ended 31<sup>st</sup> March 2011, 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 Policy Statement 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 Strategic Policy Statement. Monthly monitoring occurs via Programme Board and Corporate Management Team meetings.

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

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

- ~ areas of continuous improvement and
- ~ 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 Policy Statement.

These tasks and programmes cascade into team business plans which contain target dates and KPIs. The KPIs 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 continuing problems in global financial markets impact on the investments of the LPFA. Our investment strategy is designed for the long term but investments are monitored and performance reported to the Investment Committee on a quarterly basis. The actuarial valuation is a triennial occurrence and this is our fundamental point of reference for the investment strategy, rather than investment performance in the short-term. 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. Matters reserved for Board and delegations to senior officers are outlined in the Constitutional Document.
- **Developing, communicating and embedding codes of conduct, and defining the standards of behaviour for members and staff.**
  - ~ Significant developments have now been embedded including staff, governance and managers' handbooks with the emphasis on: conduct and behaviours; a corporate management team working to a 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.
- **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. Elements of this document were amended throughout the year.
- ~ The constitutional framework continues to be a cornerstone of good governance at the LPFA. During the year terms of reference of Committees were assessed, as were Matters Reserved for Board and the Scheme of Delegation to Officers.
- ~ 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;
  - evaluate the nature and extent of changing risks; and
  - manage them efficiently, effectively and economically.
- ~ The production of a risk management 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 Corporate Risk Register is a standing item for the Audit Committee which focuses 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. During 2010-11 the Audit Committee implemented an action plan, developed following a review of the committee's effectiveness.

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

- ~ The key area for compliance from an operational point of view is compliance with the Local Government Pension Scheme (LGPS) Regulations 2008. Compliance is assured through rigorous staff training programmes, a dedicated technical team who are members of the industry-wide Technical Group and a pensions administration computer system specifically designed for the LGPS. The LPFA's investments are managed in line with the LGPS (Management and Investment of Funds) Regulations 2009 with the Director of Investments and the Custodian monitoring compliance.

Other laws applicable to most organisations are managed via a combination of specific Corporate Management Team accountabilities or Manager accountabilities. LPFA's Monitoring Officer provides an over arching view of new legislation and reports actions to CMT when required.

The system of financial 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 whistle-blowing under the Public Interest Disclosure Act 1998. All staff are made aware of the provisions, their rights and protections, and irregularity reporting channels through induction training, staff emails and posters. Staff also have access to Public Concern at Work, the Chairman of Audit Committee, the Chief Finance Officer, and internal and external auditors.
- ~ LPFA sends the Code of Practice on Irregularity 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. The procedure 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 consider their training needs following each meeting, and this includes identifying specific skills and knowledge requirements, with self assessment on appointment and throughout their appointment. This has resulted in tailored training as well as some joint training for all Members. A Board member induction process is also in place.
- ~ Both members and senior staff attend an annual joint away-day, which looks at the strategic direction and any development needs arising from this.
- ~ Senior staff complete an annual appraisal process. The objectives included in appraisals for all staff are linked to the business plan, and helps ensure delivery of the corporate objectives. Appraisals also identify training needs.

▪ **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, quarterly fund member panel and regular surveys provide opportunity for feedback.
- ~ Scheme employers – monthly newsletter, guides and website provide information whilst an annual employer forum and meeting programme provide opportunity for feedback.
- ~ Greater London Authority – regular meetings plus submission of the Strategic Policy Statement for comment.
- ~ Wider pensions community – representation on national and local forums – Local Government Pensions Committee (LGPC) of the LGA, Officers Advisory Group to the LGPC, CIPFA Pensions Panel, CLASS Management Team, London Pension Managers Group, NAPF (National Association of Pension Funds), plus attendance at all major pensions conferences provide an 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; and
- ~ Implementation of Service Level Agreements with LPFA Fund Employers.

The LPFA seeks to comply with the principles set out in CIPFA’s *The Role of the Chief Finance Officer in Local Government*. The LPFA differs from local authorities in its structure and responsibilities, and this means that the role set out in the statement does not fit exactly in the LPFA. There are responsibilities that may in a local authority fall to the CFO but in the LPFA are managed by a specialist director e.g. investments are managed by the Investment Director and the tri-annual pension fund valuation is managed by the Director of Pensions. However, the Director of Finance, as the CFO, has responsibility for overall financial matters, and is responsible for reporting to the Board and the Corporate Management Team (CMT) on these matters. The Director of Finance is a member of the CMT and reports direct to the Chief Executive.

The LPFA has updated its accounting systems to comply with LGPS regulations requiring a separate bank account for the pension fund. Systems have been developed to enable all payments to and from the pension fund

to go through the pension fund bank account. Systems have also been put in place to ensure only pension fund transactions pass through the pension fund bank account. There is one area where this is not currently possible, on pension payments. Currently lump sum payments made on retirement are all paid from the pension fund bank account with a transfer made for elements to be funded from elsewhere. This will be addressed through the first upgrade to the LPFA's Case Management System, which will allow different elements to be paid from different bank accounts, where appropriate. The on-going pension payments will all be paid from the pension fund bank account.

It is not currently possible to separate out non-pension fund elements (added years) without introducing significant inefficiencies into the process, or incurring significant cost. The LPFA will continue to immediately transfer funds to meet the payments from the pension fund, as appropriate. The LPFA has raised the issue with the pensions administration software supplier, and the issue may be addressed in future releases/products.

### **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 Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

- **The Board** embedded the Constitutional Document, which brings together an underlying set of legislative requirements, governance principles and management processes, and underpins the Board's confidence that there is an effective system in place. During 2010-11 the Board undertook a review of its effectiveness, and also welcomed four new members, which brought new skills onto the Board. The Board Members also carry out an annual self-assessment and appraisal process with the Chairman.
- **The Performance and Administration Committee** prepares and presents the Board with a rolling three year plan covering all LPFA business activities; and 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, and monitors the implementation of audit recommendations. The Audit Committee includes an independent advisor.
- **The Investment Committee** ensures that due diligence is undertaken on new investments, and ensures they comply with LGPS investment regulations. The Committee is supported in the performance of its role by three independent advisors. During 2010-11 the due diligence checklist was reviewed with the Audit Committee.
- **The Corporate Management Team** reviews and refines the business planning and budget process annually. CMT also reviews, inputs to, agrees and finalises the Annual Governance Statement. It also highlights and

reviews the connections linking governance, organisational objectives, risk and range of effectiveness of assurance reporting from audit, the risk management programme and performance management.

- **The Corporate Development Team** reviews the governance framework at least annually and leads on generating improvements in risk management and monitoring audit recommendations.

The Team acts as an independent conduit for all initiatives in this area informing Board Members, Principal Officers and staff, and records, assesses and reports back on all feedback.

- **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.
- **External Audit** is provided by the Audit Commission.
  - ~ The work is performed to comply with international auditing standards.
  - ~ The Audit Commission will report on the LPFA's accounts and on arrangements for securing value for money.
  - ~ The audit will include a review of the systems of internal control.

### **Actions for 2010-11**

The Annual Governance Statement for the reporting period 2009-10 contained a number of action points to be completed during 2010-11. Progress against these actions is provided below.

- The whistle-blowing policy has been sent to all contractors on the contract register.
- A review of the constitutional document has been completed and confirmed the terms of reference, matters reserved and scheme of delegation to officers, all remain appropriate.
- An internal audit review of risk management in practice has been completed and an action plan prepared to better meet best practice.
- The LPFA's Governance Compliance Statement, under the LGPS regulations, has been reviewed and updated.
- An independent member has been appointed to the Audit Committee, induction has been completed and he is now an effective member of the committee.

- An internal audit review of ICT controls and document management, to inform work on acquiring ISO standards, has been completed – work on achieving ISO accreditation continues into 2011-12.
- The Pensions Administration Strategy went live from 1 April 2011, with a charging structure for employers not meeting the required standards.

### **Actions planned for 2011-12**

The following actions are planned for 2011-12.

- To continue work to achieve ISO standards in ISO 27001, data management, and 14001, environmental standards.
- To undertake an integration project for the Hertfordshire contract, to ensure the office at Hertford is part of the LPFA systems and procedures.
- To continue to maintain close contact with scheme employers during these difficult economic times, to identify early, where possible, those in financial difficulties.
- To continue to contribute to the discussions on the new scheme for the LGPS, addressing the recommendations made by the commission chaired by Lord Hutton.
- To implement new costing arrangements for commercial contracts to ensure appropriate systems are in place to collect cost and income details and prepare reports to support decision making.
- To review the arrangements for the separate pension fund bank account to ensure these are working effectively.
- The LPFA will review its banking arrangements as its accounts at the Royal Bank of Scotland have been identified for sale to Santander.

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** .....  
Anthony Mayer, Chairman

**Dated: September 2011**

**Dated: September 2011**

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON PENSIONS FUND AUTHORITY

### Opinion on the Authority accounting statements

I have audited the Authority accounting statements of London Pensions Fund Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority accounting statements comprise:

- The Operational Account Comprehensive Income and Expenditure Account, the Operational Account Balance Sheet, the Operational Account Cash Flow Statement and the related notes including the Operational Account Statement of the Movement in Reserves; and
- The Residual Liabilities Comprehensive Income and Expenditure Account, the Residual Liabilities Balance Sheet, the Residual Liabilities Statement of the Movement in Reserves, the Residual Liabilities Cash Flow Statement and the related notes.

These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Pensions Fund Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Pensions Fund Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Pensions Fund Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and auditor**

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the Annual Report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's 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 review regularly the adequacy and effectiveness of these arrangements.

*Auditor's responsibilities*

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

*Basis of conclusion*

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the criteria for other local government bodies published by the Audit Commission in October 2010.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

*Conclusion*

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Pensions Fund Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

**Certificate**

I certify that I have completed the audit of the Authority of London Pensions Fund Authority 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  
1<sup>st</sup> Floor  
Millbank Tower  
Millbank  
London SW1P 4HQ  
29 September 2011

# Pension Fund Accounts

## Pension Fund Account

2009/10 £'000		Notes	2010/11 £'000
	<u>Dealings with members, employers and others directly involved in the Fund</u>		
193,229	Contributions	7	191,262
34,464	Transfers in from other pension funds	8	25,238
<u>227,693</u>			<u>216,500</u>
226,858	Benefits	9	232,580
23,536	Payments to and on account of leavers	10	48,896
5,833	Administration expenses	11	5,970
<u>256,227</u>			<u>287,446</u>
<b>(28,534)</b>	Net additions/(withdrawals) from dealings with members		<b>(70,946)</b>
	<u>Returns on investments:</u>		
31,276	Investment income	12	45,845
(604)	Taxes on income	14	(773)
820,896	Profit and losses on disposal of investments and changes in the market value of investments	15	304,655
(8,175)	Investment management expenses		(7,300)
<u>843,393</u>	Net return on investments		<u>342,427</u>
<b>814,859</b>	<b>Net increase in the net assets available for benefits during the year</b>		<b>271,481</b>

## Net Assets Statement for the year ended 31 March 2011<sup>1</sup>

2009/10 £'000			2010/11 £'000
3,731,299	Investment assets	15	4,013,298
108,959	Cash Deposits	15	<u>12,850</u>
			4,026,148
13,320	Investments in Associate	15	18,762
(20,314)	Investment liabilities	15	(11,051)
36,842	Current assets	19	104,178
(15,056)	Current liabilities	20	(11,506)
<b>3,855,050</b>	<b>Net assets of the of the Fund available to fund benefits at the period end</b>		<b>4,126,531</b>

<sup>1</sup> The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

**Movement in Reserves Statement for the year ended 31 March 2011**

2009/10 £'000		2010/11 £'000
3,019,915	Balance at 1 April	3,855,050
814,859	Movement in net assets available for benefits during the year	271,481
20,276	Transfer from Residual Liability Fund in accordance with SI 2009/3150	13
<b>3,855,050</b>	<b>Balance at 31 March</b>	<b>4,126,531</b>

**Net Assets Statement for the year ended 31 March 2009  
( presented under IFRS-based Code)**

	£'000
Investment assets	2,897,762
Cash Deposits	143,723
	<b>3,041,485</b>
Investment liabilities	(14,601)
Current assets	26,801
Current liabilities	(33,770)
<b>Net assets of the of the Fund available to fund benefits at 31 March 2009</b>	<b>3,019,915</b>

The transfer from SORP-based Code to IFRS-based Code did not result in any material differences to the amounts presented in the Net Assets Statement for the year ended 31 March 2009 and 31 March 2010.

# **Pension Fund Accounts**

## **Notes to the Pensions Fund Accounts for the year ended 31 March 2011**

### **1. General information**

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.

No pension increase applied to pensions in April 2010. This was in accordance with The Pensions Increase (Review) Order 2010.

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

The LPFA makes payments of annual statutory compensation following the abolition of the former Greater London Council (Greater London) and Inner London Education Authority (Inner London). These payments are financed by way of a levy on all London Boroughs in respect of former Greater London liabilities and on Inner London Boroughs in respect of Inner London liabilities. These transactions are accumulated in the financial statements of the Residual Liabilities Fund.

The Pension Fund is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the actuary to ensure that in the long term the Pension Fund's assets match its liabilities. The Authority's actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown on page 42 and should be read in conjunction with these accounts.

The Fund is notionally divided into two sub-funds; the Active sub-fund and the Pensioner sub-fund. Each fund has different characteristics and liability profiles. The Active sub-fund comprises employers that continue to accept new members and has a younger age profile. As a result the investments are mostly in 'growth assets'. The Pensioner sub-fund comprises mostly employers that either no longer exist or that no longer provide access to the Fund. The underlying members are mostly deferred beneficiaries and pensioners, so have a higher average age. As a result the investments are mostly in cash flow matching assets, such as bonds and fixed income

### **2. Summary of significant accounting policies**

#### **General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at year-end as at 31 March 2011. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010 based upon International Financial Reporting Standards (IFRS). Therefore the Statement of Accounts for 2010/11 is the first set of LPFA accounts to be prepared on an IFRS basis. Adoption of the IFRS-based Code has

resulted in the restatement of some balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The accounts summarise the transactions of the Fund and report on the net assets at the disposal of the Authority. 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 42 and should be read in conjunction with these accounts.

The Financial Statements and Accounts have been prepared on a "going concern" basis and valuations where applicable are at historical cost unless otherwise stated. The accounting convention adopted is historical cost.

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

### **Transition to IFRS**

The transfer to IFRS did not result in any differences between amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

### **Accruals**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees and charges are accounted for as income at the date the Authority provides the relevant services.
- Supplies are recorded as expenditure when they are consumed.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

### **Taxation**

The Pension Fund is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Tax deducted in some European countries is recovered.

The LPFA has a partial VAT recovery method agreed with HM Revenue & Customs. Any irrecoverable VAT is charged to the pension fund account.

### **Interest on balances**

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

### **Benefits**

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Scheme as appropriate.

### **Transfers**

Transfers are accounted for on an accruals basis and recognised when the receiving scheme agrees to accept the liability. The liability normally transfers when a payment is made, unless the receiving scheme has agreed to accept liability in advance of the receipt of funds.

Bulk transfers, where the receiving scheme has agreed to accept the liability prior to receipt and the necessary employee consents have been obtained, are accounted for in accordance with the bulk transfer terms signed by qualified actuaries appointed by the two pension schemes involved in the bulk transfer.

### **Contributions**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Actuary in the payroll period to which they relate.

Employers' augmentation contributions and capital cost contributions from the employer are accounted for in accordance with the regulations under which they are paid, or in the absence of such an agreement, when received.

Employers' deficit funding contributions in respect of London Boroughs in the Pensioner Sub fund are accounted for in accordance with the agreement under which they are being paid for or in the absence of an agreement on a receipt basis.

The LPFA is continuing discussions with the Department for Communities and Local Government (CLG) on the long term funding of the pensioner sub-fund deficit. There will not be a solution to this issue in the short-term, therefore the deficit pension contributions that were in place until 2008/09 will be re-instated, supported by statements from the fund actuary, for 2011/12. In 2009/10, supported by draft regulations published by CLG, the LPFA issued draft deficit charge notices. London boroughs challenged the CLG regulations and took differing approaches in making payments to the LPFA. The decision to revert to the deficit contributions, and retain only payments made in 2009/10 and 2010/11 that relate to these liabilities means the LPFA has a balancing liability to be paid to some London boroughs, which is being reimbursed in 2011/12.

### **Investment income**

All investment income receipts and payments are accounted for on an accrual basis.

Income from pooled investment vehicles accumulation units is not paid but is reinvested automatically.

Investment market value changes comprise all realised and unrealised profits/losses during the year.

### **Investment management expenses**

Investment management expenses are accounted for on an accruals basis.

## **Investment Valuation**

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.

Unquoted securities are valued by the fund managers at the year end in accordance with generally accepted guidelines. Unquoted private equities are valued by the investment managers using guidelines of the British Venture Capital Association. This includes the use of discounted cash flow models which are independently audited.

Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system.

## **Investment transaction costs**

Investment transaction costs are included in the cost of investments purchased or deducted from the proceeds of investments sold.

## **Accounting for an Associate**

In accordance with IAS28 and IAS39, the LPFA has included its associate relationship within its financial statements at fair value as a financial asset held at fair value through profit or loss.

## **Foreign currencies**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end.

Foreign currency transactions are translated to sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value.

## **Derivatives**

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Derivative contracts' changes in fair value are included in change in market value.

Futures contracts' value is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

Exchange traded options' value is determined using the exchange price for closing out the option at the reporting date. Over the counter (OTC) contract options' value is determined by the investment manager using generally accepted pricing models.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Fund managers invest on behalf of the LPFA in accordance with the Investment Management Agreement and the Statement of Investment principles, subject to the Local Government Pension Scheme guidelines (England and Wales).

### **Additional Voluntary Contributions (AVCs)**

Are not included in the accounts in accordance with S(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulation 1998 (SI 1998 No 1831) but are disclosed as a note only (Note 18). Contributions to AVCs are paid to the AVC providers by employers or contributors and are specifically for the provision of additional benefits for individual contributors.

### **3. Financial Instruments**

Financial instruments held by the Fund at the year end are categorised as follows:

<b>Category</b>	<b>Asset/liability</b>	<b>Market value 31 March 2011 £'000</b>
Financial assets at fair value through profit or loss	Investment assets (see note 15)	4,007,397
Financial assets at fair value through profit or loss	Investment in associate (see note 15)	18,767
Financial liabilities at fair value through profit or loss	Investment liabilities (see note 15)	(11,051)
Loans and receivables	Current assets (see note 19)	104,104
Financial liabilities at amortised cost	Current liabilities (see note 20)	(10,573)

The Fund held collateral of £20.2m at 31 March 2011.

The Authority has financial liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the net asset statement date is assumed to equate to the fair value.

The fair values of loans and receivables at 31 March 2011 have been reviewed and were assessed as being the same as the carrying amounts in the net asset statement. Assets are carried at fair value. When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised.

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

The LPFA's 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.
- Valuation risk – it is difficult to obtain an up-to-date valuation for some investments held in the In-House Diversifying Assets portfolio due to the nature of the underlying assets. Some of these assets are either not listed/quoted on any recognised stock exchanges or are designed to be held for the long term with ultimate exits via public floatation or trade sale. However, the current valuations are determined by the Fund Managers using

a combination of accepted accounting best practice and their expertise and experience.

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 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 manages 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. This includes the use of derivatives, further details of which are in note 15. Further information on the management and performance of these assets is included in the Investment Report, which is available on the LPFA's website.

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 are provided below. For the year ending 31st March 2011, 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.

### **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 deposits placed with any one class of Institution. The Authority also invests an agreed percentage of its funds in the Money Market to provide diversification. Money Market Funds chosen all have AAA rating from Fitch Ratings.

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 under its treasury management arrangements at 31 March 2011 was £99.4m. This was held with institutions as follows:

<b>SUMMARY:</b>	<b>RATING</b>	<b>AMOUNT £'000</b>
<b>MONEY MARKET FUNDS</b>		
Blackrock Asset Management Ireland Ltd	AAA	20,780
JP Morgan Asset Management	AAA	24,029
Fidelity International	AAA	24,048
<b>BANK DEPOSIT ACCOUNTS</b>		
Debt Management Office	N/a	15,000
Barclays Bank Plc	AA-	12,000
HSBC Plc	AA	3,521
<b>TOTAL: 31 MARCH 2011</b>		<b>99,378</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 cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments, particular for the diversifying assets portfolio.

The Authority has immediate access to its cash holdings, with the exception of holdings with the Debt Management Office and Barclays where periods are fixed when the deposit is placed.

All financial liabilities at 31 March 2011 are due within one year.

### **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 financial instruments that have a refinancing risk, as part of its treasury management.

### **Market Risk – Interest Rate 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.

The reduction in the interest rates led to the review of the spilt of cash invested between Money Market Funds and banks, and also to the decision to place some bank deposits for three months or longer.

The main risks of changes in rates are on the Operational budget where an income is assumed in the annual budget. This is however only about 1% of the total budget, and the budget set is reviewed annually.

## Market Risk – Foreign Exchange Risk

There is no foreign exchange risk for cash management as these investments are made in sterling with United Kingdom institutions. There are pension fund investments in foreign currencies and this is reflected in the Pension Fund policy statement.

## 4. Critical accounting estimates and judgment

### Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2011 was £422m.

### Pension Fund Liability

The pension fund liability is calculated every three years by the appointed Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on pages 43-44 of this report. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5. Segmental information

Management do not report segmental information in their monthly management accounts, hence the financial statements for the Pension Fund Account have been presented reflecting the non- segmental nature of the entity's operations.

## 6. Pension Fund information

The last full triennial valuation of the London Pensions Fund Authority ("LPFA") Pension fund was carried as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The common contribution rate was set at 18.1% of payroll. Details of the Participating employer bodies and their individual contribution rates are set out on pages 44 to 50.

Employees pay contributions determined by their full time equivalent pay at the rates set out below:

### 1 April 2009 to 31 March 2011

Pay Range	Contribution Rate
£0 – 12,600	5.50%
£12,601 - £14,700	5.80%
£14,701 - £18,900	5.90%
£18,901 - £31,500	6.50%
£31,501 - £42,000	6.80%
£42,001 - £78,700	7.20%
> £78,700	7.50%

The fund membership was as follows:

<u>2009/10</u>	<u>Fund Membership</u>	<u>2010/11</u>
19,648	Contributors	18,446
27,048	Deferred beneficiaries	27,108
33,911	Pensioner / Dependents	34,271

## 7. Contributions

By category:

<u>2009/10</u>		<u>2010/11</u>
<u>£'000</u>		<u>£'000</u>
151,419	Employers - normal	151,768
41,810	Members – normal	39,494
<u>193,229</u>		<u>191,262</u>

By authority:

<u>2009/10</u>		<u>2010/11</u>
<u>£'000</u>		<u>£'000</u>
126,763	Scheduled bodies	113,376
65,099	Admitted bodies	75,956
338	Community Admission Body	1,102
1,029	Transferee Admission Body	828
<u>193,229</u>		<u>191,262</u>

### Additional deficit contributions

The LPFA is continuing discussions with the Department for Communities and Local Government (CLG) on the long term funding of the pensioner sub-fund deficit. There will not be a solution to this issue in the short-term, therefore the deficit pension contributions, that were in place until 2008-09, will be re-instated, supported by statements from the fund actuary, for 2011-12. In 2009-10, supported by draft regulations published by CLG, the LPFA issued draft deficit charge notices. London boroughs challenged the CLG regulations and took differing approaches in making payments to the LPFA. The decision to revert to the deficit contributions, and retain only payments made in 2009-10 and 2010-11 that relate to these liabilities means the LPFA has a balancing liability to be paid to some London boroughs, which is being reimbursed in 2011-12.

## 8. Transfers in from other pension funds

<u>2009/10</u>		<u>2010/11</u>
<u>£'000</u>		<u>£'000</u>
6,457	Group transfers	516
28,007	Individual transfers	24,722
<u>34,464</u>		<u>25,238</u>

## 9. Benefits

### By category:

2009/10		2010/11
£'000		£'000
185,417	Pensions	189,193
38,864	Commutation and lump sum retirement benefits	38,625
2,577	Lump sum death benefits	4,762
<u>226,858</u>		<u>232,580</u>

### By authority

2009/10		2010/11
£'000		£'000
181,697	Scheduled bodies	189,472
44,590	Admitted bodies	42,776
8	Community Admission Body	7
529	Transferee Admission Body	318
34	Resolution Body	7
<u>226,858</u>		<u>232,580</u>

## 10. Payments to and on account of leavers

2009/10		2010/11
£'000		£'000
48	Refunds to members leaving service	36
3	Payments for members joining state scheme	(15)
(9,182)	Group transfers	(3,612)
32,667	Individual transfers	52,487
<u>23,536</u>		<u>48,896</u>

## 11. Administration expenses

2009/10		2010/11
£'000		£'000
	Administrative costs charged to the Residual Liabilities account by the operational account comprising of a share of board member and staff salaries, premises rental, supplies and services and IT	5,903
5,801		
32	Actuarial fees	67
<u>5,833</u>		<u>5,970</u>

## 12. Investment income

2009/10		2010/11
£'000		£'000
2,010	Fixed interest securities	12,821
23,361	Equity dividends	24,504
2,515	Pooled property investments	2,211
	Pooled Investments -Unit trusts and other managed funds	318
(95)		
978	Cash deposits	298
1,613	Private equity income	5,070
894	Other	623
<u>31,276</u>		<u>45,845</u>

### **13. Transfer from Residual Liability Fund in accordance with SI 2009/3150**

During 2007, some very old ex-London County Council stock was disposed of which generated a surplus of £20,276,466 and at that time it was held as investment income in the Residual Liability account. Since then legal direction (SI 2009/3150), has determined this sum belongs to the Pension Fund and this was transferred in accordingly during 2009/10.

### **14. Taxes on income**

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
(1)	Withholding Tax - Fixed Interest securities	-
(705)	Withholding Tax - Equities	(772)
102	Withholding Tax - Pooled	(1)
<b><u>(604)</u></b>		<b><u>(773)</u></b>

## 15. Investments

<b>Market Value 31 March 2010 £'000</b>		<b>Market Value 31 March 2011 £'000</b>
	<b>Investment assets</b>	
330,390	Fixed interest securities	348,854
1,080,286	Equities	1,183,056
1,766,520	Pooled investments	1,832,181
152,613	Pooled property investments	154,191
343,132	Private equity/infrastructure	420,480
27,871	Commodity funds	36,145
7,312	Liquidity fund (Time deposit)	18,280
1,495	Futures	2,497
-	Forward currency contracts*	6,531
-	Purchased/written options*	734
108,959	Cash deposits **	12,850
-	Investment income due ***	7,608
21,681	Amounts receivable for sales	2,741
<b>3,840,259</b>	<b>Total investment assets</b>	<b>4,026,148</b>
	<b>Investment in associate</b>	
<b>13,320</b>	Investors in the Community – Guernsey Unit Trust	<b>18,762</b>
	<b>Investment liabilities</b>	
-	Futures*	(1,348)
(18,072)	Forward currency contracts	(6,883)
(117)	Purchased/written options	(164)
(2,125)	Amounts payable for purchases	(2,656)
<b>(20,314)</b>	<b>Total investment liabilities</b>	<b>(11,051)</b>
<b>3,833,265</b>	<b>Net investment assets</b>	<b>4,033,859</b>

\* In the 2009/10 accounts the net values for derivative contracts were reported. For the 2010/11 accounts derivative contracts with a positive value are reported as an asset and those with a negative value as a liability unless there is a legal right of offset.

\*\* In the 2009/10 accounts Cash deposits included cash held with the investment managers and cash held on short term deposit which did not form part of the investment assets. For 2010/11 cash held on short term deposit which does not form part of the investment assets is reported in current assets.

\*\*\* In the 2009/10 accounts investment income due of £4.448m was reported within the Current Assets.

## 15. Investments (continued)

### Net Investment assets

	Market value 1 April 2010 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in M.V during the year £'000	Market value 31 March 2011 £'000
Fixed Interest Securities	330,390	1,666,787	(1,656,820)	8,497	348,854
Equities	1,080,286	615,147	(585,803)	73,426	1,183,056
Pooled investments	1,766,520	917,868	(995,982)	143,775	1,832,181
Pooled Property investments	152,614	153,661	(152,853)	769	154,191
Private Equity/infrastructure	343,132	226,335	(185,628)	36,641	420,480
Liquidity Fund (Time Deposits)	7,312	3,471,076	(3,460,195)	87	18,280
Commodity Funds	27,871	24,966	(30,777)	14,085	36,145
Futures	1,495	5,160	(3,939)	(1,567)	1,149
Purchased/Written Options	(117)	3,517	(4,565)	1,735	570
Forward Currency Contracts	(18,072)	97,518	(90,426)	10,628	(352)
Investors In the Community - Guernsey unit trust *	13,320	15,324	(14,093)	4,211	18,762
	<b>3,704,751</b>	<b>7,197,359</b>	<b>(7,181,081)</b>	<b>292,287</b>	<b>4,013,316</b>
<b>Other Investment Balances:</b>					
Cash deposits	108,959			12,368	12,850
Amount receivable for sales of investments	21,681				2,741
Investment income due	-				7,608
Amounts payable for purchases of investments	(2,126)				(2,656)
<b>Net investment assets</b>	<b>3,833,265</b>			<b>304,655</b>	<b>4,033,859</b>

\* accounted for as an associate

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £987.7k (£835.5k in 2009/10). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

### Analysis of Investments

31 March 2010 £'000		31 March 2011 £'000
	<b>Fixed Interest Securities</b>	
	<b>UK</b>	
65	Public sector quoted	618
6,810	Corporate quoted	3,972
-	Corporate unquoted	106
	<b>Overseas</b>	
2,565	Public sector quoted	6,474
320,771	Corporate quoted	337,498
179	Corporate unquoted	186
<b>330,390</b>		<b>348,854</b>
	<b>Equities</b>	
	<b>UK</b>	
176,748	Quoted	246,394
	<b>Overseas</b>	
900,073	Quoted	933,067
3,465	Unquoted	3,595
<b>1,080,286</b>		<b>1,183,056</b>
	<b>Pooled Funds - Additional Analysis</b>	
	<b>UK</b>	
805,230	Fixed income unit trust	936,960
61,621	Unit trusts	79,420
	<b>Overseas</b>	
272,805	Fixed income	162,377
613,284	Unit trusts	639,671
6,131	Hedge funds overseas equity	6,092
7,449	Hedge Funds overseas fixed interest	7,661
<b>1,766,520</b>		<b>1,832,181</b>
152,614	Pooled property investments	154,191
343,132	Private Equity / Infrastructure	420,480
27,871	Commodity funds	36,145
7,312	Liquidity fund (Time deposit)	18,280
13,320	Investors In the Community - Guernsey unit trust	18,762

## 15. Investments (continued)

### Analysis of Derivatives

The large majority of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the Investment Management Agreement agreed between the LPFA and the various Investment Managers.

#### Futures

Outstanding exchange traded futures contracts are as follows:

<b>Type</b>	<b>Expires</b>	<b>Nominal value</b>	<b>Market value 31 March 2010</b>	<b>Nominal value</b>	<b>Market value 31 March 2011</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>					
UK equity	One to five years	-	-	2,319	363
Overseas equity	Less than one year	4,131	63	1,186	102
Overseas equity	One to five years	4,185	1,543	4,828	2,028
Overseas fixed interest	Less than one year	(7,197)	49	741	4
<b>Total assets</b>			<b>1,655</b>		<b>2,497</b>
<b>Liabilities</b>					
UK equity	Less than one year	(17,903)	(107)	(24,717)	(48)
UK fixed interest	Less than one year	(680)	(9)	(25,447)	(1,292)
Overseas fixed interest	Less than one year	(1,384)	(44)	(812)	(8)
<b>Total liabilities</b>			<b>(160)</b>		<b>(1,348)</b>
<b>Net futures</b>			<b>1,495</b>		<b>1,149</b>

## Open Forward currency contracts

Settlement	Currency bought	Local value '000	Currency sold	Local value '000	Asset value £'000	Liability value £'000
Up to one month	EUR	4,765	GBP	(4,060)	158	-
Up to one month	USD	4,070	GBP	(2,518)	21	-
Up to one month	JPY	63,859	GBP	(480)	1	-
Up to one month	AUD	11	GBP	(7)	-	-
Up to one month	ZAR	7,030	GBP	(640)	8	-
Up to one month	GBP	20,793	JPY	(2,748,900)	94	-
Up to one month	CHF	41	USD	(45)	-	-
Up to one month	GBP	84,990	USD	(133,563)	1,647	-
One to six months	EUR	1,664	GBP	(1,403)	70	-
One to six months	GBP	43,392	JPY	(5,701,600)	412	-
One to six months	GBP	233,215	USD	(366,604)	4,120	-
Up to one month	GBP	32,983	AUD	(51,755)	-	(318)
Up to one month	GBP	21,660	CAD	(33,831)	-	(32)
Up to one month	GBP	8,143	CHF	(12,239)	-	(207)
Up to one month	GBP	3,292	DKK	(27,892)	-	(19)
Up to one month	GBP	28,243	EUR	(32,843)	-	(830)
Up to one month	USD	9,250	GBP	(5,905)	-	(134)
Up to one month	GBP	9,039	HKD	(112,826)	-	(14)
Up to one month	GBP	1,528	JPY	(203,800)	-	(8)
Up to one month	GBP	2,677	NOK	(24,009)	-	(28)
Up to one month	GBP	10,167	SEK	(103,645)	-	(73)
Up to one month	GBP	6,144	SGD	(12,412)	-	(1)
Up to one month	GBP	4,209	USD	(6,819)	-	(46)
Up to one month	GBP	598	ZAR	(7,030)	-	(50)
One to six months	GBP	1,528	JPY	(203,800)	-	(8)
One to six months	USD	6,940	GBP	(4,461)	-	(128)
One to six months	GBP	92,640	EUR	(108,138)	-	(3,027)
One to six months	GBP	16,510	CHF	(24,478)	-	(206)
One to six months	GBP	125,861	USD	(204,224)	-	(1,746)
One to six months	GBP	633	ZAR	(7,030)	-	(8)
					<b>6,531</b>	<b>(6,883)</b>
<b>Net forward currency contracts at 31 March 2011</b>						<b>(352)</b>
<b>Prior year comparative</b>						
<b>Open forward currency contracts at 31 March 2010</b>						<b>14,534</b>
<b>Net forward currency contracts at 31 March 2010</b>						<b>(18,072)</b>

## Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding	Market value 31 March 2010	Notional holding	Market value 31 March 2011
			£'000	£'000	£'000	£'000
<b>Assets</b>						
UK fixed interest purchased	One to three months	Put	606	151	487	227
Overseas fixed interest purchased	Three to six months	Put	1,086	44	-	-
Overseas fixed interest purchased	One to three months	Put	-	-	639	507
Overseas fixed interest purchased	Less than one month	Call	171	157		
				<b>352</b>		<b>734</b>
<b>Liabilities</b>						
UK fixed interest written	Less than one month	Call	(132)	(396)	-	-
UK fixed interest written	One to three months	Put	(222)	(51)	(302)	(124)
Overseas fixed interest written	One to three months	Call	-	-	(62)	(40)
Overseas fixed interest written	Three to six months	Put	(728)	(19)	-	-
				<b>(466)</b>		<b>(164)</b>
<b>Net purchased/written options</b>				<b>(114)</b>		<b>570</b>

## 15. Investments (continued)

### Investments analysed by Fund Manager

Market value 31 March 2010 £'000		Market value 31 March 2011 £'000
(17,628)	Record Currency Management (includes FCC)	1,083
536,743	Legal and General Investment Management	587,187
732,658	Alternative assets	937,382
238,302	European Credit Management Ltd	247,744
779,704	Insight Investment Management (Global) Ltd	868,500
534,517	MFS International (UK) Ltd	541,699
479,676	Black Rock Management	406,051
420,779	Newton Investment Management Ltd	423,670
<b>3,704,751</b>		<b>4,013,316</b>
108,959	Cash deposits	12,850
21,681	Amounts receivable for sales	2,741
-	Investment income due	7,608
(2,126)	Amounts payable for purchases	(2,656)
<b>3,833,265</b>		<b>4,033,859</b>

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme:

Security	Market value 31 March 2010 £'000	% of Total Fund	Market value 31 March 2011 £'000	% of Total Fund
Insight LDI solutions plus LDI active '1'FD	335,233	8.78	532,253	12.95
Insight LDI solutions plus bonds plus FD CLS'S'SHS	350,274	9.17	336,276	8.18
Legal & General North America index	232,443	6.09	254,745	6.20
European Credit (LU VAR 15/NOV/2015)	238,302	6.24	247,744	6.03

## 16. Liquid Assets

LPFA define liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2011 the value of illiquid assets was £618.9m which represented 15% of the total LPFA assets (31 March 2010 £506.7m which represented 13.15% of the total LPFA assets).

## 17. Cash balances

<b>31 March 2010</b>		<b>31 March 2011</b>
<b>£'000</b>		<b>£'000</b>
52,451	Short term deposits (under 3 months duration)	88,027
56,508	Pooled deposits placed by investment managers	12,850
<b><u>108,959</u></b>		<b><u>100,877</u></b>

## 18. AVC investments

<b>Market value 31 March 2010</b>		<b>Market value 31 March 2011</b>
<b>£'000</b>		<b>£'000</b>
<b><u>8,557</u></b>	Prudential	<b><u>8,728</u></b>

AVC contributions of £1,247k were paid directly to Prudential during the year.

## 19. Current assets

<b>31 March 2010</b>		<b>31 March 2011</b>
<b>£'000</b>		<b>£'000</b>
-	Cash balances*	88,027
4,448	Investment income due**	-
2,976	Contributions due – employees	2,443
17,667	Contributions due – employers	7,532
3,809	Transfer values receivable (joiners)	1,463
7,801	Sundry debtors	4,924
156	Prepayments	159
(15)	Provision for bad debt on sundry debtors	(370)
<b><u>36,842</u></b>		<b><u>104,178</u></b>

\* In the 2009/10 accounts Cash balances of £52,451k were reported within Cash deposits as part of the investment assets. For 2010/11 cash held on short term deposit which does not form part of the investment assets is reported in current assets.

\*\* In the 2010/11 accounts investment income due has been reported within the investment assets.

The significant majority of debtors are with other Local Authorities.

### Provision for bad and doubtful debts

A bad debt provision is made within the Pension Fund Balance Sheet in respect of the possible non-recovery of pensioner death overpayments (20% of debts aged over 6 months) and potential non payment of cessation values where the employer is not backed up by a guarantee (20% of cessation values owed at the year end). No provision is made in respect of other debts which relate to sums due to the Authority from employers.

## 20. Current liabilities

<b>31 March 2010 £'000</b>		<b>31 March 2011 £'000</b>
(6,220)	Sundry creditors	(8,043)
(7,195)	Transfer values payable (leavers)	(2,030)
(1,642)	Benefits payable	(1,433)
<b><u>(15,057)</u></b>		<b><u>(11,506)</u></b>

The significant majority of creditors are with other entities and individuals.

## 21. 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 a straight through basis.

<b>2009/10 £'000</b>		<b>2010/11 £'000</b>
8,433	Non funded benefits to employer bodies	8,187
664	Non funded to HEFCE	636
<b><u>9,097</u></b>	<b>Benefit payments reimbursed</b>	<b><u>8,823</u></b>

## 22. 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 Board member in receipt of statutory pension benefit from the LPFA (Chairman - Anthony Mayer). There is also one Board member in receipt of statutory pension benefit from the City of Westminster Council (Chairman, Audit Committee - Bill Roots). The Director of Investment sits on the board of the Investors In the Community. The composition of that board is such that the LPFA are able to exert a significant amount of influence (there are four members altogether) over the entity and, therefore, we have an associate relationship. The LPFA Operational Account and Residual Liabilities account are deemed to be related parties and transactions relating to such are reflected elsewhere in these accounts.

## 23. Securities lending

Securities lending is governed by an agreement between the LPFA and the custodian. All loans are pre-collateralised and subject to daily valuation and calling of collateral. Cash is not accepted as collateral and a maximum of 35% of securities in the fund can be lent.

Securities in the UK amounting to £7.8m (2010:£11.5m) were loaned as at 31 March 2011 against collateral of £8.9m (2010:£12.2m). International securities amounting to £10.5m (2010:£15.6m) were loaned against collateral of £11.3m (2010:£16.9m) as at 31 March 2011.

## **24. Contingent liabilities and contractual commitments**

Outstanding capital commitments (investments) at 31 March 2011 totalled £346.618m [2010: £307.749m] based on:

- US\$ 237.032m at ER 1.602949 equals £147.872m in £GBP
- Euro 138.731m at ER 1.129553 equals £122.819m in £GBP
- £GBP 75.926m

These commitments relate to outstanding call payments due on unquoted Limited Partnership funds held in the Private Equity and Infrastructure parts of the portfolio. The amounts "called" by these funds are both irregular in size and timing over a period of between 4 and 6 years from the date of each original commitment.

## **25. 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).

## **26. Actuarial Valuation**

The latest valuation was carried out at 31 March 2010.

The active sub-fund employers of the LPFA fund had a funding level of 83% (2007 valuation: 82%), i.e. the assets amounted to 83% of the liability promises made as at that valuation date. This corresponded to a deficit of £480m (2007 valuation: £487m) at that time.

The pensioner sub-fund employers of the LPFA fund had a funding level of 77% (2007 valuation: 86%), i.e. the assets amounted to 77% of the liability promises made as at that valuation date. This was equivalent to a deficit of £390m (2007 valuation: £210m) at that time.

## **27. Post Balance Sheet Events**

There have been no events since 31 March 2011, and up to the date when these accounts were authorised, that require adjustments of, or disclosure in these accounts.

## **28. Participating employers**

A list of the employer bodies of the Pension Fund is set out on pages 44 – 50.

# Actuarial Statement

## Introduction

The last full triennial valuation of the London Pensions Fund Authority ("LPFA") Pension fund was carried as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2011.

## 2010 Valuation Results

The results of the fund were as follows

- The active sub-fund employers of the LPFA fund had a funding level of 83%, i.e. the assets amounted to 83% of the liability promises made as at that valuation date. This corresponded to a deficit of £480m at that time.
- The common contribution rate was set at 18.1% of payroll assuming the funding level was to be restored over a 20 year period.
- The pensioner sub-fund employers of the LPFA fund had a funding level of 77%, i.e. the assets amounted to 77% of the liability promises made as at that valuation date. This was equivalent to a deficit of £390m at that time.
- The deficit in the pensioner sub-fund is to be recovered through a combination of employer contributions and levies.
- The funding level of the active sub-funds is broadly similar to the position at the 2007 triennial valuation, whereas the pensioner sub-fund level had decreased since that time.

## Valuation method

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method depending on the nature of the employers in each fund. Unless special circumstances prevail the employers remaining open to new entrants are valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join their section of the fund were valued using the Attained Age method.

## Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

## Key Financial Assumptions

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

### Active Sub-fund

Rate of return on investments	6.7% per annum
Rate of increases in pay	4.5% per annum
Rate of Increases to pensions in payment	3.0% per annum

### Pensioner Sub-fund

Rate of return on investments	1.5% above the swaps curve, being the duration dependant yields from the Sterling LIBOR swap curve at the valuation date.
Rate of increases in pay	4.5% per annum
Rate of Increases to pensions in payment	3.0% per annum

## Asset valuation

Assets were valued at their market values at the date of valuation. The smoothed market values of the assets of the Active Sub-Fund and the Pensioner Sub-fund as at 31 March 2010 for valuation purposes were £2,417.2m and £1,299.6m respectively.

## Post Valuation Events – Changes in market conditions

Since March 2010 investment returns have been better than assumed at the 2010 valuation although liabilities may have also increased due to an increase in the real discount rate underlying the valuation funding model. Overall we expect the financial position of the fund will be similar to that of the 2010 valuation.

The next actuarial valuation is due as at 31 March 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014. We will continue to monitor the financial position of the Fund.



**Alison Hamilton FFA**  
Partner



**Graeme D Muir FFA**  
Partner

29 April 2011

## Employers participating in the Fund

Based on any employer with whom the LPFA has had an economic transfer in 2010/11.

Employer Name	Type of Body	Employer Contribution Rate% 2010/2011
Age Concern London	Admitted Body	0
All England Netball Association	Admitted Body	20.8
All Saints Educational Trust	Admitted Body	14.1
Alleyns College/Dulwich College	Admitted Body	0
Alleyn's School	Admitted Body	19.2
Amicus Horizon Group	Admitted Body	0
Archbishop Tenison's School	Scheduled Body	19.2
Association of Colleges	Admitted Body	14.1
Association of Education Committees	Scheduled Body	0
Ave Maria School	Scheduled Body	0
BECTA	Admitted Body	18.2
Bethnal Green City Challenge	Admitted Body	0
Bishop Thomas School	Scheduled Body	19.2
Bondway Housing Association	Admitted Body	0
Borough Road College	Scheduled Body	0
British Athletics Federation	Admitted Body	0
British Film Institute	Admitted Body	14.1
British Institute of Recording Sound	Admitted Body	0
British Mountaineering Council	Admitted Body	0
	Community	
British Sports Trust	Admission Body	14.1
Broadacres Housing Association Ltd.	Admitted Body	19.7
Broxbourne B C	Scheduled Body	0
Brunel University	Admitted Body	21
BUFVC	Scheduled Body	14.1
Burntwood School	Scheduled Body	0
CACHE	Admitted Body	14.1
Cardinal Vaughan School	Scheduled Body	0
Caris Haringey	Admitted Body	0
	Community	
Castle Vale Community Housing Association	Admission Body	16.2
Castle Vale H.A.T.	Admitted Body	0
Central Council of Magistrate's Courts Committees	Admitted Body	0
Central Council of Physical Recreation	Admitted Body	14.1
Central School of Speech and Drama	Admitted Body	14.1
CFBT Advice & Guidance Ltd	Admitted Body	19.3
CfBT Education Trust	Admitted Body	20.1
CFBT Strategies	Admitted Body	0
Charlottle Sharman Primary School	Scheduled Body	19.2
Chartered Institute of Environmental Health	Admitted Body	19.7
Chartered Institute of Housing	Admitted Body	14.1
CILT	Admitted Body	14.1
City & Islington College	Scheduled Body	18.8
City of London	Scheduled Body	18.9
City of Westminster	Scheduled Body	24.3
City of Westminster College	Scheduled Body	19.3
City University	Admitted Body	17.1
Colfe's Grammar School	Admitted Body	27.1
College of St Mark and St John	Admitted Body	20.8
Commission for Local Administration	Scheduled Body	21.9
Community Care Enterprises	Admitted Body	0
Coram's Fields	Admitted Body	14.1

Cordwainers College	Admitted Body	0
Corpus Christi Primary School	Scheduled Body	19.2
Council of National Academic Awards	Admitted Body	0
Dept for Constitutional Affairs	Scheduled Body	0
Digby Stuart College	Scheduled Body	0
Downland Housing Association Limited	Admitted Body	16.4
Dulwich College	Admitted Body	19
Dulwich Picture Gallery	Admitted Body	19.5
Duncroft Approved School	Scheduled Body	0
Dunraven School	Scheduled Body	19.2
Durand Academy	Scheduled Body	19.2
Ealing, Hammersmith & West London College	Scheduled Body	16.9
Eardley Grant Maintained School	Scheduled Body	0
East London Waste Authority	Scheduled Body	18.3
East Thames Housing Group	Admitted Body	0
Elliott Grant Maintained School	Scheduled Body	0
Emanuel School	Admitted Body	36.4
English Institute of Sport	Admitted Body	12.5
English Sports Council	Admitted Body	15
Epping Forest District Council	Scheduled Body	0
Family Service Units	Admitted Body	0
FireBuy Limited	Scheduled Body	15
Food Standards Agency	Admitted Body	17.9
Forest Hill VSA	Admitted Body	21.7
Friars School	Scheduled Body	19.2
Futures Careers Guidance	Admitted Body	0
G.L. Employers Association Ltd	Admitted Body	0
Gallions Housing Association	Admitted Body	30.9
Geffrye Museum Trust	Admitted Body	14.1
Genesis Housing	Admitted Body	19.1
Gilbert Place Centre	Admitted Body	0
GLA	Scheduled Body	14.8
GLE Ltd.	Admitted Body	15.3
Godolphin & Latymer School	Admitted Body	
Godolphin and Latymer School	Admitted Body	0
Goldsmith's University	Admitted Body	19.8
Gorseway Care Limited	Admitted Body	0
Grafham Grange School	Admitted Body	14.3
Graveney Grant Maintained School	Scheduled Body	0
Greenwich Community College	Scheduled Body	16.3
Greenwich Leisure Ltd.	Admitted Body	0
Greenwich Young People's Theatre Ltd.	Admitted Body	0
Guinness Trust	Admitted Body	15.3
Guinness Hermitage Limited	Admitted Body	15.3
Habedasher's Askes	Admitted Body	0
Hackney Downs Scholl	Scheduled Body	0
Hermitage Care Ltd.	Admitted Body	15.3
Hermitage Housing Association	Admitted Body	15.3
Hertsmere Borough Council	Scheduled Body	0
Hillbrook School	Scheduled Body	0
Honeywell Infants School	Scheduled Body	0
Honeywell Junior School	Scheduled Body	0
Horniman Museum	Admitted Body	15.9
Hounslow Welcare	Admitted Body	9.1
Ibstock Place School	Admitted Body	14.1
Immanuel C of E Primary School	Scheduled Body	19.2
Incorporated Froebel Educational Institute	Admitted Body	14.1
	Community	
Infrastructure Planning Commission	Admission Body	14

Inner London Magistrates Court	Scheduled Body	0
Inner London Probation & After Care	Scheduled Body	0
Institute of Careers Guidance	Admitted Body	0
Jewish Free School	Scheduled Body	0
John Paul II RC School	Scheduled Body	0
Julian's Primary School	Scheduled Body	19.2
Kelly House Bail Hostel	Admitted Body	0
Kettering Community Leisure Ltd	Admitted Body	0
King's College London	Admitted Body	22.5
Kingston University Service Co Ltd	Admitted Body	20.3
La Retraite's Girl School	Scheduled Body	19.2
La Sainte Union Convent School	Scheduled Body	19.2
Lambeth College	Scheduled Body	18.5
LASER	Admitted Body	0
Laser Advisory Council Ltd.	Scheduled Body	0
LB of Barking & Dagenham	Scheduled Body	21.8
LB of Barnet	Scheduled Body	0
LB of Bexley	Scheduled Body	0
LB of Brent	Scheduled Body	25.2
LB of Bromley	Scheduled Body	24.1
LB of Camden	Scheduled Body	22.9
LB of Ealing	Scheduled Body	0
LB of Enfield	Scheduled Body	23.3
LB of Greenwich	Scheduled Body	22.8
LB of Hackney	Scheduled Body	23.1
LB of Hammersmith & Fulham	Scheduled Body	24
LB of Haringey	Scheduled Body	23.2
LB of Harrow	Scheduled Body	0
LB of Havering	Scheduled Body	0
LB of Hillingdon	Scheduled Body	0
LB of Hounslow	Scheduled Body	0
LB of Islington	Scheduled Body	22.4
LB of Kingston on Thames	Scheduled Body	0
LB of Lambeth	Scheduled Body	21.8
LB of Lewisham	Scheduled Body	23
LB of Merton	Scheduled Body	0
LB of Newham	Scheduled Body	0
LB of Redbridge	Scheduled Body	0
LB of Richmond Upon Thames	Scheduled Body	0
LB of Southwark	Scheduled Body	22.8
LB of Sutton	Scheduled Body	22.6
LB of Tower Hamlets	Scheduled Body	22
LB of Waltham Forest	Scheduled Body	24.3
LB of Wandsworth	Scheduled Body	21.8
Lee Valley Regional Park Authority	Scheduled Body	17.5
Lewisham College	Scheduled Body	18.8
LFEPA	Scheduled Body	26.8
Liverpool Housing Action Trust	Admitted Body	0
Local Authorities Mutual Investment Trust	Admitted Body	0
London & East Anglican Group	Admitted Body	0
London Arts Board	Admitted Body	0
London Artscom Ltd.	Admitted Body	17.3
London Councils	Admitted Body	15.9
London Diocesan Board	Admitted Body	0
London Diocesan Fund	Admitted Body	15.6
London Docklands Development Corporation	Scheduled Body	0
London Metro Uni (North)	Scheduled Body	0
London Metro University	Scheduled Body	0
London Metropolitan University	Scheduled Body	19.6

London Nautical School	Scheduled Body	19.2
London Oratory School	Scheduled Body	0
London Regional Examination Board	Scheduled Body	0
London Sinfonietta	Admitted Body	0
London South Bank Careers	Admitted Body	0
London Thames Gateway	Scheduled Body	12.5
London Transport Executive	Scheduled Body	0
London Transport User's Committee	Resolution Body	0
London Waste Regulation Authority	Scheduled Body	0
LPFA	Scheduled Body	18.2
Maryward Settlement	Admitted Body	15
Methodist Colleges & Schools	Admitted Body	25
Mid Sussex Housing Association	Admitted Body	0
Middlesex Area Magistrates Court	Scheduled Body	0
Middlesex Area Probation Court	Scheduled Body	0
Middlesex Association for the Blind	Admitted Body	17.4
Middlesex Regional Exam Board	Admitted Body	0
	Transferee	
MITIE Managed Service Ltd.	Admission Body	0
Morley College	Scheduled Body	17.3
Mountain Training Ltd.	Admitted Body	19.6
Myrrh Ltd.	Admitted Body	16
NACRO	Admitted Body	0
National Advisory Board for Public Sector Higher Education	Admitted Body	0
National Crime Intelligence Service	Resolution Body	0
National Probation Board	Admitted Body	22.8
National Probation Service	Scheduled Body	21.1
National Probation Services	Scheduled Body	0
NE London Magistrates Court	Scheduled Body	0
NE London Probation Committee	Scheduled Body	0
Neighbour Dispute Mediation Scheme	Admitted Body	0
New Islington and Hackney Housing Association	Scheduled Body	0
Nexus Community	Admitted Body	15.8
NIACE	Admitted Body	18.5
NLWA	Scheduled Body	0
North Hull housing Action Trust	Admitted Body	0
North London Hospice Group	Admitted Body	14.1
Notre Dame School	Scheduled Body	19.2
Octavia Housing and Care	Admitted Body	0
Old Ford Housing Association	Admitted Body	19.8
	Community	
Olympic Park Legacy Company	Admission Body	14.7
Open College Network London Region	Admitted Body	14.1
Our Lady of Victory RC Primary School	Scheduled Body	0
Peabody Trust	Admitted Body	15.7
Phillipa Fawcett College	Scheduled Body	0
Pimlico Village Housing	Admitted Body	0
Poplar Harca	Admitted Body	14.5
Prospects Services Ltd.	Admitted Body	26.4
Radicle	Admitted Body	15.6
Raine's Foundation School	Scheduled Body	19.2
Rathbone Training	Admitted Body	18.2
RB of Kensington & Chelsea	Scheduled Body	23.4
Reigate & Banstead District Council	Scheduled Body	0
RICS BEV FUND (LIONHEART)	Admitted Body	16.6
Roehampton University	Admitted Body	17
Royal Institute of Public Administration	Admitted Body	0
Royal London Aid Society	Admitted Body	0

RPS Rainer	Scheduled Body	0
S.O.C.A.	Scheduled Body	0
Sacred Heart School	Scheduled Body	28.5
Salesian College	Scheduled Body	0
Samuel Lewis Housing Trust	Admitted Body	0
Schools Council	Admitted Body	0
SDP Regeneration Services 2 Limited	Admitted Body	16.2
SE London Magistrates Court	Scheduled Body	0
SE London Probation Committee	Scheduled Body	0
Search Careers Limited	Admitted Body	0
SENSE	Admitted Body	17.2
	Transferee	
Serco Ltd. Marine Services	Admission Body	22.2
Shenley Leisure Centre Trust Ltd.	Admitted Body	18.3
Shoreditch College	Scheduled Body	0
Sidney Webb College	Scheduled Body	0
SKILL	Scheduled Body	0
Slough Borough Council	Scheduled Body	0
SOCA	Resolution Body	14.9
South Bank University	Scheduled Body	20.8
South Thames College	Scheduled Body	19.5
Southern Archeology Chichester Ltd.	Admitted Body	0
Southfields Community College	Scheduled Body	0
Southwark College	Scheduled Body	18.5
Southwest London College	Scheduled Body	0
Sports Council	Admitted Body	0
SSAFA Forces Help	Admitted Body	22.9
St Thomas's C of E JMI School	Scheduled Body	0
St. Andrew's RC School	Scheduled Body	19.2
St. Anne's School	Scheduled Body	19.2
St. Anthony's School	Scheduled Body	19.2
St. Bede's School	Scheduled Body	19.2
St. Bernadette's School	Scheduled Body	19.2
St. Christopher's Fellowship	Admitted Body	18.6
St. Edmund's Hostel	Admitted Body	0
St. Francesca Fabrini Primary School	Scheduled Body	19.2
St. Francis Xavier School	Scheduled Body	16.5
St. Joseph's Infant School	Scheduled Body	19.2
St. Joseph's Junior School	Scheduled Body	19.2
St. Margaret's House	Admitted Body	0
St. Martin In The Field School	Scheduled Body	19.2
St. Mary's RC Primary School	Scheduled Body	19.2
St. Michael's School	Scheduled Body	19.2
St. Pantile Housing Association	Admitted Body	0
St. Thomas The Apostle School	Scheduled Body	19.2
Stondebridge HAT	Admitted Body	0
Sulgrave Charitable Trust	Admitted Body	0
Surrey Square Junior School	Scheduled Body	19.2
Surrey Square Primary School	Scheduled Body	19.2
Sutton Centre for Independent Living	Admitted Body	0
Sutton Performing Arts Network	Admitted Body	0
SW London Magistrates Court	Scheduled Body	0
SW London Probation Committee	Scheduled Body	0
SWK DIOCESAN CNCL SOCIAL AID	Admitted Body	0
Tandridge Leisure Ltd.	Admitted Body	16.4
Tenant Housing Trust Ltd.	Admitted Body	0
Thames Conservancy	Scheduled Body	0
Thames Water Utilities Ltd.	Admitted Body	0
Thamesmead Town Ltd	Admitted Body	0

The City Literary Institute	Admitted Body	13.9
The Community College Hackney	Scheduled Body	20.5
The English & Media Centre	Admitted Body	24.3
The London Development Agency	Scheduled Body	12.5
The Museum Association	Scheduled Body	0
The Probation Boards Association	Admitted Body	14.1
Three Rivers District Council	Scheduled Body	0
Thurlow Park School	Scheduled Body	0
Thurrock Borough Council	Scheduled Body	0
Tilfen Regeneration Ltd	Admitted Body	30.9
Tower Hamlets College	Scheduled Body	14.8
Tower Hamlets HAT	Admitted Body	0
Transport For London	Scheduled Body	15.8
Trinity Laban	Admitted Body	15.7
Trust Thamesmead	Admitted Body	30.9
Turney School	Scheduled Body	19.2
Turnham School	Scheduled Body	19.2
	Community	
UK Anti Doping Ltd.	Admission Body	10.5
UK Film Council	Admitted Body	12.1
UK Housing Trust	Admitted Body	0
UK Sports Council	Admitted Body	10.2
United Welsh Housing Association Ltd	Admitted Body	0
University Association for Contemporary European Studies	Admitted Body	15.7
University of Greenwich	Scheduled Body	22.3
University of Reading	Scheduled Body	0
University of Surrey	Admitted Body	0
University of the Arts London	Scheduled Body	17.3
University of Westminster	Scheduled Body	17.3
Urban Learning foundation	Admitted Body	0
Valuation Office Agency	Scheduled Body	18.8
Valuation Tribunal Service	Scheduled Body	23.4
Waltham Forest CBHA Ltd.	Admitted Body	17.8
Welcare Community Projects	Admitted Body	0
West London Waste Authority	Scheduled Body	18
Wester Riverside Waste authority	Scheduled Body	16.8
Westminster Kingsway College	Scheduled Body	20.4
Whitelands College	Scheduled Body	0
Willowfield School	Scheduled Body	0
Woking Borough Council	Scheduled Body	0
Woughton Leisure Trust	Admitted Body	17.3

# Operational Account Comprehensive Income & Expenditure Statement for the year ended

31 March 2010 £000's	Notes	31 March 2011 £000's
(6,324) Income	6	(6,400)
(2,022) Other income	7	(1,834)
8,226 Expenditure	8	8,849
		(3,753)
<b>(120) Cost Of Services</b>		<b>(3,137)</b>
<b>Other Operating Expenditure</b>		
453 Financing and Investment Income and Expenditure		610
Surplus or Deficit of Discontinued Operations		
Taxation and Non-Specific Grant Income		
<b>333 (Surplus) or Deficit on Provision of Services</b>		<b>(2,527)</b>
<b>333 Total Comprehensive Income and Expenditure</b>		<b>(2,527)</b>

## Exceptional Item

The government announced in its Budget on Tuesday 22 June 2010 that the consumer Price Index (CPI), as opposed to the then current Retail Price Index (RPI), was to be adopted for the indexation of public service pensions from April 2011. The impact of this change has been reflected in the IAS19 figures supplied by the Actuary and has reduced the projected pension fund deficit and is shown above accordingly.

# Operational Account Balance Sheet as at

(Restated) 1 April 2009 £000's	(Restated) 31 March 2010 £000's	Notes	31 March 2011 £000's	
24	322	Property, Plant & Equipment	14	426
364	452	Intangible Assets	14a	394
<b>388</b>	<b>774</b>	<b>Non-current assets</b>		<b>820</b>
852	669	Debtors		660
585	644	Prepayments		652
<b>1,437</b>	<b>1,313</b>	<b>Current Assets</b>		<b>1,312</b>
(511)	(859)	Bank overdraft	19	(1,099)
-	(30)	Provision		(100)
(428)	(419)	Creditors		(420)
<b>(939)</b>	<b>(1,309)</b>	<b>Current Liabilities</b>		<b>(1,619)</b>
		<b>Non-current liabilities</b>		
(5,839)	(14,814)	Pension liability		(8,878)
<b>(4,953)</b>	<b>(14,035)</b>	<b>Net assets</b>		<b>(8,365)</b>
		<b>Reserves</b>	13	
		<b>Usable reserves</b>		
908	334	General Reserve		172
	100	Business reserve		86
	25	Valuation reserve		
	250	Organisation reserve		140
	100	New Premises Reserve		100
		Invest to Save		76
		<b>Unusable reserves</b>		
(22)	(30)	Compensated Absences		(61)
(5,839)	(14,814)	Pension Reserve		(8,878)
<b>(4,953)</b>	<b>(14,035)</b>	<b>Total Reserves</b>		<b>(8,365)</b>
<b>(4,953)</b>	<b>(14,035)</b>			<b>(8,365)</b>

# Operational Account Cashflow Statement for the year ended

31 March 2010 £000's		Notes	31 March 2011 £000's
(8,345)	Cash flows from Operating Activities	6 & 7	(8,234)
5,046	Cash paid to and on behalf of employees	9	5,565
3,465	Cash paid for goods and to suppliers		2,611
166	Net cash flows from Operating Activities	15	(58)
(516)	Investing Activities - acquisition on non-current assets		(182)
(349)	Net increase or decrease in cash and cash equivalents		(240)
(510)	Cash and cash equivalents at the beginning of the reporting period		(859)
<b>(859)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(1,099)</b>

## Notes to the financial statements for the year ended 31 March 2011

### 1. General information

The operational costs incurred by LPFA in administering the pension fund, residual liabilities fund and agency contracts are accumulated in the operational accounts and are reimbursed from the respective source.

### 2. Summary of significant accounting policies

#### General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at year-end of 31 March 2011. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010: based upon International Financial Reporting Standards (IFRS). The Statement of Accounts for 2010/2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the statements of Accounts for 2009/2010.

The accounting convention adopted is historical cost.

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

#### Transition to IFRS

The following explain the difference between amounts presented in the 2009/2010 financial statements and the equivalent amounts presented in the 2010/2011 financial statements.

Short-term accumulating compensated absences:

The authority in accordance with IAS19 now makes accruals for short term employee compensated absences such as untaken holiday and accumulated flexi time as at the period end. These balances are recognised within the provisions and under statutory

guidance an offsetting balances is included within the reserves section of the balance sheet. If this policy change was implemented for 2009/10, it would have led to a provision of £30k (£22k for 2008/09).

### **Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees and charges are accounted for as income at the date the Authority provides the relevant services.
- Supplies are recorded as expenditure when they are consumed.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

### **Cash and cash equivalents**

Cash is represented by cash in hand and on deposit with financial institutions and repayable without penalty on immediate notice. Cash equivalents are deposits that are only available on demand after suffering a loss of interest.

Cash balances not required for immediate use are invested in accordance with the Authority's Treasury Management Strategy. Interest earned on the Authority's balances is credited to the Comprehensive Income and Expenditure Statement during the year and appropriate accruals are made at year-end.

### **Employee benefits**

#### Benefits payable during employment

Employee benefits are those due to be settled in the financial year. They include salaries, bonuses, paid annual leave and paid sick leave for employees and are recognised as an expense in the year in which the employee renders services to the Authority. An accrual is made for leave and flexi-time carry-forward at the end of the financial year. This is reversed out through the movement in reserves statement.

#### Post employment benefits

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, Barnett Waddingham. The pension liabilities of the LPFA are included on the Balance Sheet on an actuarial basis i.e. an assessment of the future payments (retirement benefits) based on assumptions made by the Actuary about mortality rates, employee turnover rates etc and projections of earnings for current employees.

The assets of the LPFA pension fund are included in the Balance Sheet at their fair value as follows:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities under IAS 19. In previous years there

was a requirement to disclose this information under FRS 17 but this was replaced by IAS19, in moving to reporting financial information under International Financial Reporting Standards, the outcomes from both give similar results. However, in line with directions from Government, future pensions liabilities are now measured using the Consumer Prices Index rather than the Retail Price Index and this has resulted in a lower value of future pensioner payments.

IAS19 requires the net pensions asset or liability be matched by a pensions reserve in the Balance sheet.

The effect of recognising IAS19 in the 2010/11 financial statement is a decrease in the net liability to £8.878m (£14.814m 2009/10) in the operational accounts and a decrease to £331m from £358m in the combined residual liabilities account. These figures have no direct impact on the costs of providing a pension scheme as contribution rates are determined by the Actuary every three years. The new contribution rates effective from April 2011 actually dropped by approximately one percentage point to 17.3%. This will be reviewed again by the Actuary in three years time.

The change in the net pensions liability is analysed into the following components:

- Current service cost: the increase in pensions liabilities as a result of a year's service;
- Past service costs: The increase in liabilities as a result of changes to plan arrangements in the current year with subsequent effects to years of service earned by the employee in previous years;
- Interest cost: the increase in the present value of the liabilities during the year as a result of moving one year closer to being paid;
- Expected return on assets: - the annual investment return on the fund assets attributable to the LPFA, based on the average expected long-term return;
- Gains /losses on settlements and curtailments - the result of actions that reduce the authority's liabilities or reduction in the future employees services or benefits;
- Actuarial gains and losses – changes in the net pension liability due to changes in the actuary's assumptions/calculations;

Contributions paid to the fund – contributions made by employers and employees to the pension fund.

Although the Authority is required to incorporate notional charges determined by the Actuary in to its Accounts, these are then reversed out again under statutory provisions that require the actual amounts payable by the Authority to be charged to its Comprehensive Income and Expenditure Statement.

### **Post balance sheet events**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

### **Provisions**

Provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by transfer of economic benefits, but where the timing of the transfer is uncertain. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or payment of compensation.

Provisions are charged to the comprehensive income and expenditure statement in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made they are charged directly to the provision set up on the balance sheet. Estimated settlements are reviewed at the end of each financial year and the provision increased or

reversed back to the revenue account if it becomes more likely than not that a transfer of benefits will not be made or a lower settlement than anticipated could be made.

### **Contingent liabilities**

Contingent liabilities arise where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. These are not recognised as liabilities in the accounts but disclosed in the financial statements where it is probable that an outflow of economic benefit to settle the obligation is more than remote.

### **Leases**

LPFA rents office accommodation under an operating lease agreement. Operating lease costs for the office at 2 Royal Mint Court are charged to the revenue account on a straight-line basis over the term of the lease.

### **Tangible Fixed Assets**

#### Recognition

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Expenditure is capitalised on an accruals basis, provided that it yields benefits to the Authority and its services for more than one financial year.

#### Measurement

Assets, including those under construction, are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset in to working condition for its intended use. Assets are then carried in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.

#### Impairment

Asset values are reviewed at the end of each financial year for evidence of reductions in value.

#### Depreciation

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 the economic life of the investment to reflect the pattern of the consumption of economic benefits. All furniture, fittings and office refurbishments will be depreciated fully over the remaining lease term for Dexter House, lease expires 31/12/2014. Whilst assets are under construction they are not depreciated but a valuation will be made at the time the asset is brought into use;

#### **Classification:**

Computers  
Servers  
Multi Functional Devices  
Furniture & fittings and office  
refurbishment

#### **Useful life of asset:**

3 years  
5 years  
5 Years  
8 years (or by  
31/12/14)

Tangible fixed assets exclude expenditure on routine repairs and maintenance of fixed assets which is charged direct to the Comprehensive Income and Expenditure Statement.

The Authority was successful in a number of commercial contracts to start from 1 April 2011 and any assets (tangible or intangible) used in support of these contracts will be depreciated as set out in these policies but where specific to the contract no longer than the life of that contract, subject to the usual impairment review.

### **Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licences) is capitalised when it will bring benefits to the Authority for more than one financial year. The balance is amortised to the Comprehensive Income and Expenditure Statement through a straight-line depreciation charge over the economic life of the investment to reflect the pattern of the consumption of economic benefits:

<b><u>Classification:</u></b>	<b><u>Useful life of asset:</u></b>
Software licenses	5 years
Altair related	10 years

During the 2009/2010 financial year the Authority purchased and developed equipment, software and licences for the Altairpensions administration system. Altair will enable the integration of new business processes and technology which are adaptable for client needs. It will mean the LPFA is able to deliver a more efficient service to fund members and employers as well as help us retain and increase third party contracts. This asset remains "under construction" as the Authority awaits the release of the supplier's next software upgrade which will make the asset more aligned to the Authority's needs. Although this asset is not currently depreciated, the Authority is aware that recent changes suggested by Lord Hutton to the Local Government Pension Scheme may impact of the useful life of this asset.

### **Stock**

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

### **Value Added Tax**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

### **Overheads**

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

### **Financial Assets / Liabilities**

Financial Assets/Liabilities represents transactions, with a contract, that result in a financial asset for one entity and a financial liability for another.

Financial assets are recognised by the Authority on the Balance Sheet, at their fair value, only when goods or services have been provided or rendered to a third party.

Financial liabilities are recognised, at their fair value, when the goods or services ordered from a third party have been received by the Authority and the third party has performed its contractual obligations.

## **Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the General Fund Balance in the Movement on Reserves Statement. Where expenditure to be financed from a reserve is incurred, it is charged to the Comprehensive Income and Expenditure Statement and the reserve is then applied to offset this charge.

Certain reserves are kept to manage accounting processes and do not represent usable resources for the Authority. These are the pensions reserve and the accumulated leave reserve.

### Pension reserve

The Pension Reserve has been set up to ring-fence the accounting for the pension costs. It is not a cash backed reserve and merely represents the actuarially calculated deficit between the value of all pension liabilities and the assets held.

### Accumulated leave reserve

The accumulated leave reserve has been set up to ring fence the accounting for the untaken leave accruals. It is not a cash backed reserve.

### General reserve

The General Reserve is used to fund unexpected short term costs.

### Premises reserve

This reserve was established as the LPFA lease on Dexter House expires in December 2014. The reserve would be used to fund work to consider the options, and, should a move to new premises be agreed, fund the possibly significant costs in re-instating Dexter House to its original state.

### Valuation Reserve

The carrying out of the fund triennial valuation adds about £100 000 to the LPFA's costs in the valuation year. From 2011-12 the LPFA will put resources into the reserve to fund the 2013 valuation (in 2013-14).

### Business Reserve

A business reserve will cope with planned one off and unexpected additional costs on our commercial operations. The reserve would be used to fund investment in obtaining new contracts, any costs of the loss of a contract, and any short-term additional resources to meet any problems on a existing contracts.

### Organisational Development Reserve

The reserve supports improvements in working practices, and the development and retention of staff. The reserve could fund temporary staff, consultancy, departure costs, etc.

### Invest to Save Reserve

The reserve uses half of the excess surplus on value added business to fund invest to save projects suggested by LPFA managers.

## **3. Financial risk management**

There is a robust budget setting process in place that includes: strategic business direction set by the Board, budget challenge by both Officers and the Audit Committee prior to the draft budget being presented to Board for their initial comment and approval prior to dispatch to the Mayor of London for formal consultation. Subsequently a revised budget paper, including comments and other

changes is presented back to Board for final approval. Once approved budgets are profiled by spending officers and then monitored on a monthly basis, the outcome of such reported through to the Corporate Management Team and on a quarterly basis to Board through Audit Committee. The budget contains income generated from commercial contracts and assumptions have been made regarding renewal of those contracts. During the course of the year, as contracts are renewed, or not, then actual event may not accurately reflect the assumptions allowed for in the budget. Events affecting commercial contracts are reviewed as they happen and at least on a monthly basis as part of the budget monitoring arrangements.

#### **4. Critical accounting judgments and estimates**

##### **Useful lives of fixed assets**

The Authority estimates the useful lives of fixed assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of fixed assets are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of fixed assets would increase the recorded expenses and decrease the value of such within the Balance Sheet.

##### **Provision**

The Authority has set aside a provision for the outcome of two employment tribunals. This is based on legal advice a best estimate of the costs has been obtained, but there remains uncertainty on the amount of any final payments.

##### **Pensions Liability**

Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied. However, because these judgements cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

#### **5. Segment information**

Management do not report segmental information through to the Executive, (Board or with delegations to Audit Committee) in their monthly management accounts, hence the financial statements for the Operational Account have been presented reflecting the non- segmental nature of the entity's operations. IFRS requires disclosers in the accounts to reflect how internal reports are presented to the "Chief Operating Decision Maker" in order that financial performance can be assessed. The Authority has determined that the Board (with delegations to Audit Committee) fulfils this role and, therefore, it is appropriate to disclose information in the foreword of the Statement of Accounts in a similar style to that presented to Audit Committee. This will be kept under review for disclosure purposes in future years.

## 6 Income

<u>2009/10</u> £000's		<u>2010/11</u> £000's
	Income	
5,801	Funded by Pension Fund	5,903
523	Funded by Levies	497
<u>6,324</u>		<u>6,400</u>

## 7 Other Income

Other Income		
1,699	Agency work	1,609
33	Training Charges	34
7	Divorce Case Charges	6
20	Bank Interest	7
246	Non Contract Income	166
16	Other Fees and Charges	11
<u>2,021</u>		<u>1,833</u>

The LPFA run a number of agency contract won on a commercial basis and the total income received from these in the year was £1,609k (£1,699 for 2009/10). Additionally, the Authority is asked to provide various ad-hoc services for which it charges and this totalled £158k (£246k in 2009/10). During the course of the year the Authority won two further contracts (Hertfordshire County Council and the London Borough of Ealing), for providing pension administration services.

## Expenditure

### 8 Remuneration and other costs- Board Members

Emoluments of all Board Members consist of allowances at a level determined by the Mayor of London.

<u>2009/10</u> £000's		<u>2010/11</u> £000's
	<u>Emoluments and other costs:</u>	
108	Emoluments	108
7	Employer's NI contributions	7
32	Reimbursable expenses	33
<u>147</u>		<u>148</u>

Emoluments were paid in the following bands:

0	Up to £5,000	0
9	£5,000 to £10,000	13
0	£10,000 to £15,000	0
0	£15,000 to £20,000	0
1	£20,000 to £25,000	1
0	£25,000 to £30,000	0
1	£30,000 to £35,001	1

For 2010/11, the £5,000 to £10,000 band includes the annual equivalent sum for:

- One Board Member who left 31 August;
- Three Board Members who left 30 September; and
- Four Board Members that joined on 1 October 2010.

## 9. Remuneration and other costs – employees

Remuneration to staff during the year as follows:

2009/10 £000's		2010/11 £000's
	Remuneration and Other costs - employees	
3,949	Salaries	3,657
299	Employer's NI contributions	311
602	Employer's Pension Contributions	618
16	Reimbursable Expenses	15
(818)	Employer contributions (IAS19) *	350
336	Current service cost (IAS19)	
234	Settlements and curtailments	
191	Temporary staff	375
117	Training costs	101
35	Recruitment costs	32
29	Overtime	19
26	Other employee related costs	26
30	Accumulated compensated absences	61
<u>5,046</u>		<u>5,565</u>

\* This excludes the exceptional item relating to past service costs.

Pension contributions represent the current service costs in accordance with IAS19.

## Disclosure of remuneration for senior employees 2010/11

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 (there are no LPFA employees who are paid £150,000 or more) but equal to or more than £50,000 per year.

Post Holder	Salary (including fees & allowances) £	Total Remuneration excluding pension contributions 2010/11 £	Pension contributions £	Total Remuneration including pension contributions 2010/11 £
Chief Executive	140,349	140,349	25,544	165,893
Director of Finance	84,820	84,820	15,437	100,257
Director of Investments	109,523	109,523	19,933	129,456
Director of New Business	84,820	84,820	15,437	100,257
Director, Organisational Development*	104,242	104,242	18,972	123,214
Director of Pensions	84,820	84,820	15,437	100,257
Head of Commercial Pensions	58,740	58,740	10,691	69,431

\* The Director, Organisational Development is contracted to work four days a week, the whole time equivalent salary is £109,578.

## Disclosure of remuneration for senior employees 2009/10

The following table sets out the remuneration disclosures for those Senior Officers identified in 2010/11 whose salary is less than £150,000 (there are no LPFA employees who are paid £150,000 or more) but equal to or more than £50,000 per year.

Post Holder	Salary (	Total	Pension	Total
	including fees & allowances) £	Remuneration excluding pension contributions 2009/10 £	contributions £	Remuneration including pension contributions 2009/10 £
Chief Executive	140,321	140,321	25,538	165,859
Director of Finance	78,400	78,400	14,269	92,669
Director of Investments	113,844	113,844	20,720	134,564
Director of New Business	78,883	78,883	14,357	93,240
Director, Organisational Development*	93,683	93,683	17,050	110,733
Director of Pensions	78,883	78,883	14,357	93,240
Head of Commercial Pensions	57,175	57,175	10,294	67,469

\* The Director, Organisational Development is contracted to work four days a week, the whole time equivalent salary is £109,304.

**9c – The number of other senior employees whose remuneration, excluding employer’s pension contributions, was £50,000 or more in bands of £5,000**

<b>2009/10</b>	<b>Remuneration band</b>	<b>2010/11</b>
<b>Number of employees</b>		<b>Number of employees</b>
2	£50,000 - £54,999	2
2	£55,000 - £59,999	3
0	£60,000 - £64,999	0
1	£65,000 - £69,999	1

**10. Other services**

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
	Other Services	
54	Internal Audit	57
88	External Audit	76
427	Professional Fees (including consultancy)	527
45	Insurances	53
16	Bank Costs	20
31	Pensioner forum and meetings	34
58	Other Miscellaneous services	17
1,187	Operating lease, service charge, business rates	1,193
	Information Technology related	
269	Pension system charges	289
371	Equipment and external support	366
	Supplies and Services	
103	Business development	112
126	Printing and Stationery	177
111	Postage	117
68	Telephones	58
53	Subscriptions & Publications	54
13	Health and Safety Services	11
12	Courier Services	5
<b>3,032</b>		<b>3,166</b>

## 11. Disclosure of audit costs

2009/10 £'000		2010/11 £'000
	<b>DISCLOSURE OF AUDIT COSTS</b>	
86	External Audit - Code of Audit Practice	79
	External Audit - Grant Certification	
2	External Audit- Fees payable in respect of other services provided by the appointed auditor	(3)
	External Audit- Fees payable in respect of statutory certification - VFM	
<u>88</u>		<u>76</u>
	The audit fee includes an under provision on the 2009/10 fee. Other services includes a rebate from the Audit Commission.	

## 12. Retirement benefit obligations

### Employee Benefits

The LPFA has 88 out of 102 staff who are members of the Local Government Pension Scheme (LGPS). The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972. The benefits under the scheme are based on the length of membership and the final salary. Each member contributes a proportion of their salary, within a 5.5% to 7.5% range depending of their rate of pay. The LPFA, as the employing body, also contributes in to the scheme on the employee's behalf at approximately 18% of the employee's salary. The LGPS is currently being reviewed by Lord Hutton and this is expected to result in increased employee contributions and decreased benefits arising from the scheme.

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves

Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post Employment Benefits**

Employees of the Authority are members of the Local Government Pensions Scheme, administered by the London Pensions Fund Authority. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

#### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme: The liabilities of the LPFA pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 5.5%. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at the year-end date.

The assets of LPFA pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unlisted securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the LPFA pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### Amounts recognised in the balance sheet are determined as follows:

17,488	Estimated employer asset	19,357
(32,302)	Present value of scheme liabilities	(26,002)
0	Present value of unfunded liabilities	(2,233)
<b><u>(32,302)</u></b>	<b>Total Value of Liabilities</b>	<b><u>(28,235)</u></b>
<b><u>(14,814)</u></b>	<b>Net Pension liability</b>	<b><u>(8,878)</u></b>

#### The movement in the defined benefit obligation over the year is as follows:

2009/10 £ 000's		2010/11 £ 000's
19,004	<b>At 1 April</b>	32,302
336	Service cost	968
1,309	Interest cost	1,832
11,817	Actuarial Loss/(Gains)	(2,673)
234	Losses (gains) on curtailments	0
0	Liabilities extinguished on settlement	0
0	Liabilities extinguished in a business combination	0
(641)	Estimated benefits Paid (net of transfers in)	(567)
0	Past service cost	(3,753)
243	Contributions by scheme participants	244
0	Unfunded pension payments	(118)
0	Actuarial Gains / (Losses)	0
0		0
<b><u>32,302</u></b>	<b>At 31 March</b>	<b><u>28,235</u></b>

**The movement in the fair value of plan assets of the year is as follows:**

13,165	<b>At 1 April</b>	17,488
856	Expected return on scheme assets	1,222
3,047	Actuarial gain (loss)	353
	Contributions by employer including unfunded	
818	benefits	735
243	Contributions by scheme participants	244
	Assets acquired in a business combination	0
(641)	Estimated benefits paid including unfunded benefits	(685)
	Receipt of bulk transfer value	0
<u>17,488</u>	<b>At 31 March</b>	<u>19,357</u>

**Analysis of amount charged to revenue**

336	Service Cost	968
	Past Service Cost	(3,753)
234	Curtailment and Settlements	
	Decrease in irrecoverable surplus	
570	<b>Total Operating Charge</b>	(2,785)
(856)	Expected return on employer assets	(1,222)
1,309	Interest on pension scheme assets	1,832
453	<b>Net Interest Cost on Asset</b>	610
<u>1,023</u>	<b>Net revenue account cost</b>	<u>(2,175)</u>

**Movement in Pension Reserve in the year**

<b>2009/10</b>		<b>2010/11</b>
<b>£ 000's</b>		<b>£ 000's</b>
(5,839)	<b>At 1 April</b>	(14,814)
0		
(336)	Current service cost	(968)
818	Employer contributions	617
0	Contributions for Unfunded benefits	118
0	Other Income	0
0	Other outgoings	0
0	Past Service Costs	3,753
(234)	Impact of Settlement/Curtailment	0
(453)	Net Return on Asset	(610)
(8,770)	Actuarial gains/losses	3,026
<u>(14,814)</u>	<b>At 31 March</b>	<u>(8,878)</u>

**Amounts for the current and Previous Periods**

	<b>31 Mar 2011</b>	<b>31 Mar 2010</b>	<b>31 Mar 2009</b>	<b>31 Mar 2008</b>	<b>31 Mar 2007</b>
	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>
Defined benefit Obligation	(28,235)	(32,020)	(19,004)	(19,091)	(21,827)
Scheme assets	19,357	17,731	13,165	15,948	16,061
Surplus (deficit)	(8,878)	(14,814)	(5,839)	(3,143)	(5,766)
Experience adjustments on scheme liabilities	840	0	1	948	(6)
Percentage of liabilities	3%			5%	
Experience adjustments on scheme assets	353	3,047	(4,540)	(1,583)	141
Percentage of assets	1.8%	17.5%	34.1%	9.9%	0.9%
Cumulative Actuarial Gains / Losses	(8,057)	(11,081)	(2,311)	41	(2,808)

**The assumed life expectations from age 65 (years) are:**

The Assumed life expectations from age 65 are:		<b>31-Mar-10</b>	<b>31-Mar-11</b>
Retiring today			
	Males	19.6	20.3
	Females	22.5	22.8
Retiring in 20 years			
	Males	20.7	22.2
	Females	23.6	24.6

**Contributions to the Pension Fund during 2011/12**

The forecast contributions from both the employer and employees amounts to £987,000.

## 13. Statement of Movement in Reserves

### Operational Account

Notes	<==Other Reserves==>		<===== Usable Reserves =====>						
	Pension Reserve £000's	Compensated Absences reserve £000's	General Reserve £000's	Business Reserve £000's	Valuation Reserve £000's	Organisational Development Reserve £000's	Invest to Save Reserve £000's	New Premises Reserve £000's	Total Reserves £000's
<b>Balance at 31 March 2009</b>	(5,839)	(22)	907						(4,954)
Movement in reserves during 2009/10									
Surplus or (deficit) on the provision of services			142						142
Other Comprehensive Income and Expenditure			(453)						(453)
<b>Total Comprehensive Income and Expenditure</b>			(311)						(311)
Adjustments between accounting basis & funding basis under regulations		(8)	8						
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		(8)	(303)						(311)
Transfers to/from Earmarked Reserves			(475)	100	25	250		100	
Experience gain/loss	9	(205)	205						
Actuarial gain/loss		(8,770)							(8,770)
Prior year adjustment - Accumulated Compensating Absences provision									
<b>Increase/Decrease in 2009/10</b>	(8,975)	(8)	(573)	100	25	250		100	(9,081)
<b>Balance at 31 March 2010 carried forward</b>	(14,814)	(30)	334	100	25	250		100	(14,035)
Movement in Reserves during 2010/11									
Surplus or (deficit) on provision of services			3,137						3,137
Other Comprehensive Income and Expenditure			(610)						(610)
<b>Total Comprehensive Income and Expenditure</b>			2,527						2,527
Adjustments between accounting basis & funding basis under regulations		(31)	31						
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		(31)	2,558						2,527
Transfers to/from Earmarked Reserves			73	(14)	(25)	(110)	76		
Experience gain/loss	9	(610)							(610)
Actuarial gain/loss		2,793	(2,793)						
Movement in year									
Accumulated Compensating Absences provision									
Past service cost		3,753							3,753
<b>Increase/Decrease in Year</b>	5,936		(161)	(14)	(25)	(110)	76		5,670
<b>Balance at 31 March 2011 carried forward</b>	(8,878)	(61)	172	86		140	76	100	(8,365)

The LPFA is not required to comply fully with CIPFA's Capital Accounting Regulations or the Statement of Recommended Practice when accounting for fixed assets as it does not have a Capital Reserve. All capital is funded from revenue sources.

## 14 Tangible Assets

	Servers £000's	Computer Equipment £000's	Furniture and Fittings £000's	Office Refurbishment £000's	Total £000's
<b>Cost or Valuation</b>					
At 1 April 2009	78	239	280	397	994
Additions		53		28	80
Donations					
Revaluation increases/(decreases) recognised in the Revaluation Reserve					
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services					
Write-off of historic assets		(118)			(118)
Derecognition - Disposals			(21)		(21)
Derecognition - Other					
Assets reclassified (to)/from Held for Sale					
Other movements in Cost or Valuation					
<b>At 31 March 2010</b>	<b>78</b>	<b>174</b>	<b>259</b>	<b>425</b>	<b>935</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2009	(9)	(176)	(241)	(204)	(631)
Depreciation charge	(16)	(45)		(40)	(101)
Depreciation written out to the Revaluation Reserve				0	
Depreciation written out to the Surplus/Deficit on the Provision of Services				0	
Impairment losses/ (reversals) recognised in the Revaluation Reserve				0	
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services				0	
Derecognition - Disposals				0	
Derecognition - Other				0	
Other movements in Depreciation and Impairment		118		0	118
<b>At 31 March 2010</b>	<b>(25)</b>	<b>(103)</b>	<b>(241)</b>	<b>(244)</b>	<b>(613)</b>
<b>Net Book Value</b>					
<b>At 31 March 2010</b>	<b>53</b>	<b>71</b>	<b>18</b>	<b>181</b>	<b>322</b>
<b>At 31 March 2009</b>	<b>68</b>	<b>63</b>	<b>39</b>	<b>193</b>	<b>364</b>
The LPFA is not required to comply fully with CIPFA's Capital Accounting Regulations or the Statement of Recommended Practice when accounting for fixed assets as it does not have a Capital Reserve. All capital is funded from revenue sources.					
Purchases	66	97		19	182
Internal transfers		44			44
Depreciation charge	(22)	(56)	(3)	(40)	(122)
<b>As at 31 March 2011</b>	<b>97</b>	<b>155</b>	<b>14</b>	<b>159</b>	<b>426</b>

## 14a. Intangible Assets

	31 March 2010			31 March 2011		
	Software and licences	Assets under construction	Total	Software and licences	Assets under construction	Total
	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April						
· Gross carrying amount	28		28	38	425	464
· Accumulated amortisation	(4)		(4)	(11)		(11)
Net carrying amount at start of year	<u>24</u>		<u>24</u>	<u>27</u>	<u>425</u>	<u>452</u>
Additions:						
· Internal development		425	425			
· Purchases	10		10			
· Acquired through business combinations						
Assets reclassified as held for sale						
Other disposals						
Revaluations increases or decreases						
Impairment losses recognised or reversed directly in the Revaluation Reserve						
Impairment losses recognised in the Surplus/Deficit on the Provision of Services						
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services						
Amortisation for the period	(7)		(7)	(11)		(11)
Internal Transfers				28	(75)	(47)
At 31 March	<u>27</u>	<u>425</u>	<u>452</u>	<u>44</u>	<u>351</u>	<u>394</u>

## 15 Reconciliation of cash movements to Income and Expenditure account

2009/10 £ 000's		2010/11 £ 000's
(333)	Total Comprehensive Income and Expenditure	2,527
	Adjustment for non-cash items:	
	Actuarial gains / losses on pension assets / liabilities	
101	Depreciation	122
7	Amortisation of intangibles	11
21	Proceeds on disposal of assets	3
182	Decrease/(increase) in debtors	9
(60)	(Increase)/decrease in prepayments	(7)
-	Provision	100
43	Increase/(decrease) in creditors	(30)
205	Transfer to pension reserve	(2,793)
<u>166</u>	<b>Net cash flow from operating activities</b>	<u>(58)</u>

## 16. Lease Commitment – Office accommodation

### Lease Commitments - Office Accommodation

690	Under One Year	690
2,760	Between two and five years	2415
345	After Five Years	
<u>3,795</u>		<u>3,105</u>

The Authority leases its premises at Dexter House and is approaching the end of its 25 year lease. The lease expires in December 2014 and at that stage the Authority can find

new premises or, if the Landlord decides to re-let the offices, it can re-negotiate another lease at that time. In order to provide resources to help the Authority deal with additional costs at that time, it has set aside £100,000 in an earmarked property reserve.

## 17. Related party transactions

This disclosure note has been produced using a specific declaration obtained in respect of related part transactions. Agency contracts and pension funds are related parties. LPFA Pension Fund, Residual Liabilities and the GLA are related parties and transactions relating to such are disclosed elsewhere within these accounts.

The Chairman of the Board and the Chairman of Audit Committee are both pensioners' who receive a pension where the LPFA are the administrators, the sum total of these payments were £161,428. The Finance Director of the London Borough of Camden is a Board member and the LB Camden contributes (£1,464,123) to the costs shown with Residual Liabilities via a levy.

## 18. Debtors

The LPFA does not have any transactions with NHS bodies and the significant majority of debtors are with other Local Authorities, the primary relationship with Central Government bodies is with Her Majesty's Revenues and Customs for VAT.

2009/10 £000's	Disclosure	2010/11 £000's
329	Central government bodies	269
179	Other Local Authorities	228
162	Other entities and individuals	162
<b>669</b>		<b>660</b>

## 19. Creditors

The LPFA does not have any transactions with central government bodies, NHS bodies or other local authorities and the significant majority of creditors are with other entities and individuals.

## 20. Post Balance Sheet events

The LPFA went through a procurement process that would select a single organisation to be on a pan London framework agreement for pension administration. The LPFA was not successful in this process and subsequently was not successful in re-bidding for new contracts for the London Boroughs of Hammersmith & Fulham and Brent.

## 21. Cash and Cash equivalents

2009/10 £ 000's	Cash at bank comprises an allocation of the total cash resources of the LPFA	2010/11 £ 000's
<b>(859)</b>		<b>(1,099)</b>

## 22. Reserves

2009/10 £ 000's	Reserves	2010/11 £ 000's
	Details of the movement on reserves reflected on statement of movement in reserves	
	<b>Usable reserves</b>	
	General Reserve	
334	Business reserve	172
100	Invest to Save	86
0	Valuation reserve	76
25	Organisation reserve	0
250	Capital Reserve	140
100	<b>Total Usable</b>	100
<u>809</u>		<u>574</u>
	<b>Unusable reserves</b>	
	Pension Reserve	
(14,814)		<u>(8,878)</u>
<u>(14,005)</u>		<u>(8,304)</u>

## 23. Provisions

The Authority has set aside a provision for the outcome of employment tribunals. The LPFA went through an Employment Tribunal process during the year. The tribunal, although it dismissed elements of the claims made by those staff, ultimately found in favour of the claimants. Work is underway in trying to reach a settlement with the individuals. The amount set aside is based on legal advice on best estimate of the costs but there remains uncertainty on the amount of any final payments.

## 24. 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.

## 25. Financial Instruments

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

Debtors, cash, creditors and provisions are at amortised cost. The details are disclosed elsewhere in the financial statements.

The LPFA has access to external borrowing which is set at £5m as the maximum amount the LPFA can afford to borrow and that limit is kept under review. As at 31 March 2011 the LPFA had no borrowings.

## 26. Prior year adjustment - Accumulated Compensated Absences Provision

<b>Prior year adjustment - Accumulated Compensated Absences Provision</b>	
	<b>2009/10</b>
	<b>£ 000's</b>
Prior to the implementation of the the Code of Practice on Local Authority Accounting in the United Kingdom 2010: based upon International Financial Reporting Standards (IFRS) LPFA did not account for Accumulated Compensated Absences	
<b>Provision for Accumulated Compensated Absences</b>	
Prior year adjustment	(22)
Current contribution	(8)
	<u>(30)</u>
<b>Total Comprehensive Income and Expenditure</b>	
Restatement	303
Reverse contribution from above	8
	<u>311</u>
<b>General reserve</b>	
Total Comprehensive Income and Expenditure	334
Prior year adjustment	0
Restatement	<u>334</u>

# Residual Liabilities Fund

## Comprehensive Income and Expenditure Statement for the year ended

31 March 2010 £ 000's			Notes	31 March 2011 £ 000's		
Greater London	Inner London	Total		Greater London	Inner London	Total
(11,988)	(12,689)	(24,677)	Unfunded benefits recovered	(11,388)	(13,230)	(24,618)
14,165	13,194	27,359	Unfunded benefits	9,982	11,830	21,812
			Exceptional Item - Past Service Cost	(3,832)	(8,421)	(12,253)
<b>2,177</b>	<b>505</b>	<b>2,682</b>	<b>Cost Of Services</b>	<b>(5,238)</b>	<b>(9,821)</b>	<b>(15,059)</b>
315	208	523	Administration costs	299	198	497
			<b>Financing and Investment Income and Expenditure</b>			
137		137	Loan stock interest	136	-	136
6,344	13,593	19,937	Interest on Pension scheme assets	6,010	13,113	19,123
(368)	(3)	(371)	Interest and investment income	(203)	1	(203)
<b>8,605</b>	<b>14,302</b>	<b>22,908</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,004</b>	<b>3,490</b>	<b>4,494</b>
343		343	Surplus or deficit on revaluation of stock	(68)		(68)
			Actuarial gains / losses on pension assets / liabilities			
<b>343</b>		<b>343</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>(68)</b>		<b>(68)</b>
<b>8,948</b>	<b>14,302</b>	<b>23,250</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>936</b>	<b>3,490</b>	<b>4,426</b>

### Exceptional Item

The government announced in its Budget on Tuesday 22 June 2010 that the consumer Price Index (CPI), as opposed to the then current Retail Price Index (RPI), was to be adopted for the indexation of public service pensions from April 2011. The impact of this change has been reflected in the IAS19 figures supplied by the Actuary and has reduced the projected pension fund deficit and is shown above accordingly.

# Residual Liabilities Fund

## Balance Sheet as at

31 March 2010			Notes	31 March 2011			
Greater London £ 000's	Inner London £ 000's	Total £ 000's		Greater London £ 000's	Inner London £ 000's	Total £ 000's	
23,550	3,600	27,150	<b>Longterm Asset</b>				
			Asbestosis Reimbursement	6	22,085	3,600	25,685
<b>23,550</b>	<b>3,600</b>	<b>27,150</b>	<b>Non-current assets</b>		<b>22,085</b>	<b>3,600</b>	<b>25,685</b>
57	80	136	Debtors		53	22	76
3,250		3,250	Current Reimbursement due	6	1,465		1,465
3,182		3,182	Investments		3,250		3,250
8,754	521	9,276	Cash		11,648	1,340	12,988
<b>15,243</b>	<b>601</b>	<b>15,844</b>	<b>Current Assets</b>		<b>16,416</b>	<b>1,363</b>	<b>17,779</b>
(256)	(208)	(464)	Short term creditors	7	(118)	(202)	(320)
			Provision	6	(2,351)	(360)	(2,711)
<b>(256)</b>	<b>(208)</b>	<b>(464)</b>	<b>Current liabilities</b>		<b>(2,469)</b>	<b>(562)</b>	<b>(3,031)</b>
(33,617)	(3,613)	(37,230)	Provision	6	(29,870)	(2,818)	(32,688)
(4,348)		(4,348)	LCC Stock	8	(4,348)		(4,348)
(113,122)	(245,127)	(358,249)	Unfunded pension liability	9	(103,502)	(227,458)	(330,960)
<b>(151,086)</b>	<b>(248,740)</b>	<b>(399,826)</b>	<b>Non-current liabilities</b>		<b>(137,720)</b>	<b>(230,276)</b>	<b>(367,996)</b>
<b>(112,549)</b>	<b>(244,747)</b>	<b>(357,296)</b>	<b>Net liabilities</b>		<b>(101,687)</b>	<b>(225,876)</b>	<b>(327,563)</b>
573	380	953	Revenue reserves		1,815	1,582	3,397
(113,122)	(245,127)	(358,249)	Pension reserve	9	(103,502)	(227,458)	(330,960)
<b>(112,549)</b>	<b>(244,747)</b>	<b>(357,296)</b>	<b>Total reserves</b>		<b>(101,687)</b>	<b>(225,876)</b>	<b>(327,563)</b>

# Residual Liabilities Fund

## Statement of Movement in Reserves for the year ended

	Revenue Reserve			Pension Reserve		
	Greater London £ 000's	Inner London £ 000's	Total Reserves £ 000's	Greater London £ 000's	Inner London £ 000's	Total Reserves £ 000's
<b>Balance at 31 March 2009</b>	3,177	1,089	4,266	(96,007)	(203,480)	(299,487)
<u>Movement in reserves during 2009/10</u>						
Surplus or (deficit) on the provision of services	(8,605)	(14,302)	(22,907)			
Other Comprehensive income and expenditure	(343)		(343)			
Total Comprehensive income and expenditure	(8,948)	(14,302)	(23,250)			
Contributions for unfunded benefits				8,264	13,191	21,455
Net return on pension assets	6,344	13,593	19,937	(6,344)	(13,593)	(19,937)
Actuarial losses				(19,035)	(41,245)	(60,280)
<b>Balance at 31 March 2010</b>	<b>573</b>	<b>380</b>	<b>953</b>	<b>(113,122)</b>	<b>(245,127)</b>	<b>(358,249)</b>
<u>Movement in Reserves during 2010/11</u>						
Surplus or (deficit) on the provision of services	(1,004)	(3,490)	(4,494)	-	-	-
Other Comprehensive income and expenditure	68		68			
Total Comprehensive income and expenditure	(936)	(3,490)	(4,426)			
Contributions for unfunded benefits	-	-	-	11,644	22,021	33,665
Net return on pension assets	6,010	13,113	19,123	(6,010)	(13,113)	(19,123)
Actuarial losses	-	-	-	3,986	8,761	12,747
Adjustment between accounting basis and funding basis under regulations	(3,832)	(8,421)	(12,253)	-	-	-
<b>Balance at 31 March 2011 carried forward</b>	<b>1,815</b>	<b>1,582</b>	<b>3,397</b>	<b>(103,502)</b>	<b>(227,458)</b>	<b>(330,960)</b>

## Residual Liabilities Cashflow Statement for the year ended

2009/10 £000's		2010/11 £000's
2,046	Cash flows from Operating Activities	3,646
(20,276)	Transfer to Pension Fund from reserve	-
<u>(18,230)</u>	Net Cash flows from Operating Activities	<u>3,646</u>
	<b>Investing Activities</b>	
(137)	Interest paid	(136)
371	Interest received	203
<u>(17,995)</u>	Net increase or decrease in cash and cash equivalents	<u>3,712</u>
27,271	Cash and cash equivalents at the beginning of the reporting period	9,276
<u><b>9,276</b></u>	<b>Cash and cash equivalents at the end of the reporting period</b>	<u><b>12,988</b></u>

# Residual Liabilities Accounts

## Notes to the financial statements for the year ended 31 March 2011

### 1. General information

The LPFA makes payments of annual statutory compensation following the abolition of the former Greater London Council (Greater London) and Inner London Education Authority (Inner London). These payments are financed by way of a levy on all London Boroughs in respect of former Greater London liabilities and on Inner London Boroughs in respect of Inner London liabilities.

The residual liabilities accounts include substantial provisions for injury claims from former employees of the GLC and ILEA in relation to asbestosis. The costs of these claims will be met through a levy on London boroughs, and so the accounts also include a re-imburement to offset most of the provision, the balance being met by funds already taken from London boroughs, and held in reserves.

### 2. Summary of significant accounting policies

#### General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at year-end of 31 March 2011. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010: based upon International Financial Reporting Standards (IFRS). The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements may be different from the equivalent figures presented in the statements of Accounts for 2009/10.

The accounting convention adopted is historical cost.

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

#### Transition to IFRS

The transfer to IFRS did not result in any differences between amounts presented in the 2008/09, 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

#### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees and charges are accounted for as income at the date the Authority provides the relevant services.
- Supplies are recorded as expenditure when they are consumed.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet.

Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

### **Cash and cash equivalents**

Cash is represented by cash in hand and on deposit with financial institutions and repayable without penalty on immediate notice. Cash equivalents are deposits that are only available on demand after suffering a loss of interest.

Cash balances not required for immediate use are invested in accordance with the Authority's Treasury Management Strategy. Interest earned on the Authority's balances is credited to the Comprehensive Income and Expenditure Statement during the year and appropriate accruals are made at year-end.

### **Post balance sheet events**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

### **Provisions**

Provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by transfer of economic benefits, but where the timing of the transfer is uncertain. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or payment of compensation.

Provisions are charged to the comprehensive income and expenditure statement in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made they are charged directly to the provision set up on the balance sheet. Estimated settlements are reviewed at the end of each financial year and the provision increased or reversed back to the revenue account if it becomes more likely than not that a transfer of benefits will not be made or a lower settlement than anticipated could be made.

### **Contingent liabilities**

Contingent liabilities arise where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. These are not recognised as liabilities in the accounts but disclosed in the financial statements where it is probable that an outflow of economic benefit to settle the obligation is more than remote.

### **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, Barnett Waddingham. The liabilities of the LPFA scheme are included on the Balance Sheet on an actuarial basis i.e. an assessment of the future payments (retirement benefits) based on assumptions made by Barnett Waddingham about mortality rates, employee turnover rates etc and projections of earnings for current employees.

The assets of the LPFA pension fund are included in the Balance Sheet at their fair value as follows:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

Although the Authority is required to incorporate notional actuarial charges in to its Accounts, these are then reversed out again under statutory provisions that require the actual amounts payable by the Authority to be charged to its Income and Expenditure Account.

### **Value Added Tax**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

### **Overheads**

The Authority is not required to be compliant with BVACOP (Best Value Accounting Code of Practice) under the Local Government Act 2003. However, directly attributable overheads are charged to the appropriate service areas within the Operational Account.

### **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 during the year and appropriate accruals are made at year-end.

### **Financial Assets / Liabilities**

Financial Assets/Liabilities represents transactions, with a contract, that result in a financial asset for one entity and a financial liability for another. Financial assets are recognised by the Authority on the Balance Sheet, at their fair value, only when goods or services have been provided or rendered to a third party.

Financial liabilities are recognised, at their fair value, when the goods or services ordered from a third party have been received by the Authority and the third party has performed its contractual obligations.

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 Residual Liabilities Balance Sheet. The loan stocks were substantially repurchased in 2005/06. There is a financial asset to cover the loan stock liability that is valued at its fair value (current market value).

### **Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. Where expenditure to be financed from a reserve is incurred, it is charged to the Income and Expenditure Account and the reserve is then appropriated back also so that there is no net charge to the Authority at this point.

Certain reserves are kept to manage accounting processes and do not represent usable resources for the Authority. This is the pensions reserve.

### Pension Reserve

The Pension Reserve is not cash backed and represents the actuarially calculated deficit between the value of all pension liabilities and the pension assets held.

### General reserve

The General Reserve is used to fund unexpected short term costs, principally relating to asbestosis claims.

## **Accounting for retirement benefits**

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

The effect of recognising retirement benefits in the balance sheet is a net liability and a pension reserve in the combined residual liabilities accounts. This 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 2010/11.

The change in the net pension liability is analysed into the following components

- Current service cost: the increase in pensions liabilities as a result of a years service
- Past service costs: The increase in liabilities as a result of changes to plan arrangements in the current year with subsequent effects to years of service earned by the employee in previous year
- Interest cost: the increase in the present value of the liabilities during the year as a result of moving one year closer to being paid
- Expected return on assets: - the annual investment return on the fund assets attributable to the LPFA, based on average expected long-term return
- Gains /losses on settlements and curtailments - the result of actions that reduce the Authority'

## **3. Financial risk management**

The LPFA activities expose it to a variety of financial risks in respect of financial instruments. These have been outlined in the financial statements of the pension fund.

Within the Residual Liabilities Account, the LPFA holds undated loan stocks. These loan stocks are matched by a fixed rate investment which provides income to cover both dividends and capital.

## **4. Critical accounting estimates and judgment**

### **Provision**

The Authority has set aside a provision for its liabilities to meet the costs of asbestosis claims from former employees of the Greater London Council and the Inner London Education Authority. This provision is in two parts. The first is for known cases, and a provision is set up against each claim. The second part is for future cases, which is based on experience of past claims. The Authority also has an estimate of future reimbursement of these costs from the London boroughs.

## **Pensions Liability**

Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied. However, because these judgements cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## **5. Segmental information**

Management do not report segmental information in their monthly management accounts, hence the financial statements for the Operational Account have been presented reflecting the non-segmental nature of the entity's operations.

## **6. Asbestosis provision**

The LPFA is responsible for the settlement of claims made by former employees of the Greater London Council and the Inner London Education Authority who have become injured as a result of exposure to asbestos. Due to the long periods over which this illness can lay dormant the normal deadline for submitting injury claims has been waived. This means that the LPFA has liabilities estimated to last until about 2035. A provision has been established for the injury claims. The provision is in two parts, the first relates to claims actually received, and the second to future claims until the end of the liability. The costs have been estimated in discussion with our legal advisers and take into account previous experience of claims over the last 20 years. The costs are met through the levy on the London boroughs. The future profile of claims is used to smooth any changes in the levy to, as far as possible, limit any changes to the levy, until gradually decreases as the final liabilities are met. The LPFA does not fund these costs as they are passed on to the appropriate Greater London or Inner London Borough Council who have a legal duty to reimburse the LPFA. As there is certainty that these costs will be reimbursed the future costs are offset by the reimbursed future income in the comprehensive income an expenditure Statement and are shown separately on the balance sheet of the Residual Liability Fund. The movement in the asbestosis provision over the year is as follows.

2009/10 £000's			ASBESTOSIS PROVISION			2010/11 £000's				
Greater London	Inner London	Total		Greater London	Inner London	Total		Greater London	Inner London	Total
(1,658)		(1,658)	<b>At 1 April</b>	(33,617)	(3,613)	(37,230)				
(32,720)	(3,613)	(36,333)	statement							
761		761	Increase in provision							
			Movement during the year	1,396	435	1,831				
<b>(33,617)</b>	<b>(3,613)</b>	<b>(37,230)</b>	<b>At 31 March</b>	<b>(32,221)</b>	<b>(3,178)</b>	<b>(35,399)</b>				
(31,800)	(3,000)	(34,800)	Non-current	(29,870)	(2,818)	(32,688)				
(1,817)	(613)	(2,430)	Current	(2,351)	(360)	(2,711)				
<b>(33,617)</b>	<b>(3,613)</b>	<b>(37,230)</b>		<b>(32,221)</b>	<b>(3,178)</b>	<b>(35,399)</b>				
			Amounts recoverable are as follows:							
23,550	3,600	27,150	Asbestosis reimbursement	22,085	3,600	25,685				
3,250		3,250	Current Reimbursement due	1,465		1,465				
<b>26,800</b>	<b>3,600</b>	<b>30,400</b>		<b>23,550</b>	<b>3,600</b>	<b>27,150</b>				

## 7. Short term liabilities

2009/10 £000			Short term liabilities			2010/11 £000				
Greater London	Inner London	Total		Greater London	Inner London	Total		Greater London	Inner London	Total
(4)		(4)	Tax Due on payments made	(4)		(4)		(4)		(4)
(12)		(12)	Unclaimed interest and principal	(12)		(12)		(12)		(12)
(231)	(208)	(439)	Sundry Creditors	(93)	(202)	(295)		(93)	(202)	(295)
(9)		(9)	Accrued stock interest payable	(9)		(9)		(9)		(9)
<b>(256)</b>	<b>(208)</b>	<b>(464)</b>		<b>(118)</b>	<b>(202)</b>	<b>(320)</b>		<b>(118)</b>	<b>(202)</b>	<b>(320)</b>

## 8. LCC Stock

The LPFA is responsible for London County Council loan stocks. These stocks are undated, unsecured and have a fixed interest due annually. The stocks are matched by an investment which provides an income stream to cover dividends, and would also meet the capital value. The financial risks attached to these loans are managed by the loan stock being at a fixed rate of interest, and being undated. The interest and principle are covered by a fixed rate investment.

The nominal value of the loans stocks are provided below. These are part of the Greater London levy responsibilities.

2009/10 £000's	LCC Stocks	2010/11 £000's
3,875	3% London County Council Stock	3,875
473	2.5% London County Council Stock	473
<b>4,348</b>		<b>4,348</b>

## **9. Retirement benefit obligations**

The pension liability at 31 March has been determined by the LPFA's actuary Barnett Waddingham in accordance with IAS 19: Employee Benefits.

The LPFA is also responsible compensation payments arising from added years in respect of former staff of the GLC and ILEA and the London Residuary Body (LRB). These payments are recoverable from levies on the London Boroughs. The LPFA inherited some staff from the GLC, ILEA and LRB. In circumstances where staff leave the LPFA with retained staff benefit entitlement the cost of the discretionary added years is also borne by the levy.

### **Employee Benefits**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### **Post Employment Benefits**

Employees of the Authority are members of the Local Government Pensions Scheme, administered by the London Pensions Fund Authority. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Local Government Pension Scheme

- The Local Government Scheme is accounted for as a defined benefits scheme: The liabilities of the LPFA pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees. Liabilities are discounted to

their value at current prices, using a discount rate of 5.5%. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at the year-end date.

- The assets of LPFA pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
  
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
  - contributions paid to the LPFA pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## Life Expectancy from age 65 (years)

The Assumed life expectations from age 65 are:		<b>31-Mar-10</b>	<b>31-Mar-11</b>
Retiring today	Males	19.6	20.3
	Females	22.5	22.8
Retiring in 20 years	Males	20.7	22.2
	Females	23.6	24.6

31 March 2010			31 March 2011		
Greater London £000's	Inner London £000's	Total £000's	Greater London £000's	Inner London £000's	Total £000's
<b>RETIREMENT BENEFIT OBLIGATIONS</b>					
The amounts recognised in the balance sheet are determined as follows:					
Present value of funded obligations			Fair value of plan		
Fair value of plan			Deficit of funded plans		
113,122	245,127	358,249	103,502	227,458	330,960
Present value of unfunded obligations			Unrecognised past service costs		
Fair value of plan			Unrecognised past service costs		
113,122	245,127	358,249	103,502	227,458	330,960
<b>Pension Liability</b>			<b>Pension Liability</b>		
The movement in the present value of unfunded obligations over the year is as follows:					
<b>At 1 April</b>			<b>At 1 April</b>		
96,007	203,480	299,487	113,122	245,127	358,249
Current service cost			Current service cost		
Employer contributions			Employer contributions		
-8,264	-13,191	-21,455	-7,812	-13,600	-21,412
Contributions for Unfunded benefits			Contributions for Unfunded benefits		
Other Income			Other Income		
Other outgoings			Other outgoings		
Past Service Costs			Past Service Costs		
Impact of Settlement/Curtailment			Impact of Settlement/Curtailment		
Net Return on Asset			Net Return on Asset		
Actuarial gains/losses			Actuarial gains/losses		
6,344	13,593	19,937	6,010	13,113	19,123
19,035	6,344	25,379	-3,986	-8,761	-12,747
113,122	210,226	323,348	103,502	227,458	330,960
Amounts recognised in the the income statement are as follows:					
Current service cost			Current service cost		
Employer contributions			Employer contributions		
Contributions for Unfunded benefits			Contributions for Unfunded benefits		
Other Income			Other Income		
Other outgoings			Other outgoings		
Past Service Costs			Past Service Costs		
Impact of Settlement/Curtailment			Impact of Settlement/Curtailment		
Net Return on Asset			Net Return on Asset		
Actuarial gains/losses			Actuarial gains/losses		
6,344	13,593	19,937	-3,832	-8,421	-12,253
6,344	13,593	19,937	6,010	13,113	19,123
6,344	13,593	19,937	2,178	4,692	6,870
Amounts recognised in the the pension reserve are as follows:					
Current service cost			Current service cost		
Employer contributions			Employer contributions		
Contributions for Unfunded benefits			Contributions for Unfunded benefits		
Other Income			Other Income		
Other outgoings			Other outgoings		
Past Service Costs			Past Service Costs		
Impact of Settlement/Curtailment			Impact of Settlement/Curtailment		
Net Return on Asset			Net Return on Asset		
Actuarial gains/losses			Actuarial gains/losses		
-8,264	-13,191	-21,455	-7,812	-13,600	-21,412
Other Income			Other Income		
Other outgoings			Other outgoings		
Past Service Costs			Past Service Costs		
Impact of Settlement/Curtailment			Impact of Settlement/Curtailment		
Net Return on Asset			Net Return on Asset		
Actuarial gains/losses			Actuarial gains/losses		
6,344	13,593	19,937	6,010	13,113	19,123
19,035	41,245	60,280	-3,986	-8,761	-12,747
17,115	41,647	58,762	-9,620	-17,669	-27,289

The pension liability at 31 March has been determined by Barnett Waddingham in accordance with IAS 19: Employee Benefits (2010: Guidance note 36: Accounting for retirement benefits under FRS17 issued by the Institute and Faculty of Actuaries)

## 10. Administration expenses

The administration expenses are the costs charged to the residual liabilities accounts from the operational accounts and comprise a share of the costs relating to administering the residual liabilities responsibilities. The costs for 2010/11 were Greater London levy £288k and for Inner London levy £198k, and in 2009/10 these were GL £315k and IL £208k.

## 11. Reconciliation of cash movements

<u>2009/10</u> <u>£000's</u>		<u>2010/11</u> <u>£000's</u>
(23,250)	Surplus/(Deficit) in year	(4,426)
19,937	Transfer to pension reserve	6,870
(20,277)	Transfer to pension fund	0
343	Surplus or deficit on revaluation of stock	(68)
(75)	(Increase)/Decrease in debtors	60
156	Increase/(Decrease) in creditors	(144)
137	Interest paid plus adjustment to interest owed	136
(371)	Interest received	(203)
36,333	Movement in provisions	(1,830)
(30,400)	(Increase) decrease in asbestos reimbursement	3,250
(762)	Expenditure through asbestos provision	
(18,230)		3,646

## 12. Related party transactions

The LPFA Pension Fund Accounts and the LPFA Operational Accounts are related parties and transactions relating to such are disclosed elsewhere in the accounts.

## 13. Cash and cash equivalents

The cash at the bank and on short term deposit totals £12,988k, this was £9,276k in 2009/10.

## 14. Debtors

The debtors and reimbursements are all due from Local Government bodies.

## 15. Creditors

The creditors refer to Tax and interest owing to a Central Government body.

## 16. Financial Instruments

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

Debtors, cash, creditors and provisions are at amortised cost. The details are disclosed elsewhere in the financial statements. The investment for the LCC stock is measured at fair value.



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

Photocopies of this report are available at copying and postage costs.  
Please contact [communications@lpfa.org.uk](mailto:communications@lpfa.org.uk) if you would like a  
photocopy of this document.

This document forms part of the suite of full Annual Report and Accounts 2010-11. The following documents are available on the LPFA website: Summary Annual Report, Annual Investment Report, Annual Accounts, Performance Report. In addition, LPFA has also published on our website [www.lpfa.org.uk](http://www.lpfa.org.uk), a Funding Strategy Statement, Statement of Investment Principles and a Communications Policy Statement.