

**LONDON PENSIONS FUND AUTHORITY**

**STATEMENT OF ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2018**

## LPFA Accounts 31 March 2018

### INFORMATION FOR THE YEAR ENDED 31 MARCH 2018

<b>Directors</b>	Cllr Stephen Alambritis Mike Allen (resigned 31 March 2018) Robert Branagh (appointed 1 April 2018) Sir Merrick Cockell Terence Jagger Dermot McMullan Tamlyn Nall Mike O'Donnell Nigel Topping Dr Barbara Weber
<b>S151 Officer</b>	Abigail Leech
<b>Business Address</b>	2nd Floor 169 Union Street London SE1 0LL
<b>Auditor</b>	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2P 2YU
<b>Bankers</b>	Lloyds Bank 4th Floor 25 Gresham Street London EC2V 7HN
<b>Lawyers</b>	Eversheds Sutherland Eversheds House 70 Great Bridgewater Street Manchester M1 5ES

# LPFA Accounts 31 March 2018

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# LPFA Accounts 31 March 2018

## 1 Narrative Report 31 March 2018

### 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 LPFA's Statement of Accounts for the financial year 2017/18 consists of:

- the **Statement of Responsibilities**;
- the **Annual Governance Statement**; and
- three separate sets of financial statements:

The **Pension Fund accounts**, consisting 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 March 2018.
- Notes and accounting policies to support the Pension Fund accounts

The **Operational Account** represent the cost of the governance and administration of the pension scheme and residual liabilities and the recharge of these costs to the Pension fund and Residual accounts. **The Residual Liabilities accounts** detail the provisions created to settle the liabilities of the Greater London Council ('GLC') to pay past employees of the GLC and Inner London Educational authority ('ILEA') who have become injured due to exposure to asbestos. The past employees are paid via the pensions payroll and the costs are then recharged to the Residual accounts, which funds these cost via a levy. **The Operations and Residual** statements consist of:

The **Comprehensive Income and Expenditure Account** which is a summary of the resources generated and consumed by the LPFA in the year. The statement shows the accounting costs in the year of providing services in accordance with the generally accepted accounting practices. The LPFA does not raise taxation to cover expenditure;

The **Balance Sheet** which sets out the financial position of the LPFA at 31 March 2018. The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the LPFA. The net assets of the LPFA (assets less liabilities) are matched by the reserves held by the LPFA;

The **Cash Flow Statement** shows the changes in cash and cash equivalent assets of the LPFA during the reporting period. The statement shows how the LPFA generates 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 LPFA; and

**Notes to support the accounts.**

## LPFA Accounts 31 March 2018

### The Pension Fund Annual Report

The LPFA is required to prepare an Annual Report of its activities for distribution to its members. The Pension Fund Statement of Accounts is included within the Annual Report, together with other information in line with best practice guidance.

### Funding

The LPFA 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 2016, the LPFA charges its costs to the Fund 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 2017/18 budget had initial approval from the Board in December 2016 and was submitted to the Mayor of London for comment. The final budget was approved by the Board in February 2017.

### Retirement of Managing director

On 31 March 2018 Mike Allen retired as Managing director of LPFA. His replacement, Robert Branagh, was appointed on 1 April 2018.

# LPFA Accounts 31 March 2018

## Pension Funds

Pension Funds	Actual	Budget	Variance
	2017/18	2017/18	2017/18
	£000	£000	£000
<b>Dealings with members and employers</b>			
Contributions	180,904	146,389	34,515
Transfers in	165,434	23,315	142,119
Benefits Payable	(245,692)	(252,045)	6,353
Transfers out	(16,828)	(23,767)	6,939
<b>Net dealings with members and employers</b>	<b>83,819</b>	<b>(106,108)</b>	<b>189,927</b>
<b>Management Expenses</b>			
Investment management *	(44,614)	(47,793)	3,179
Administration	(1,806)	(1,811)	4
Oversight & Governance	(1,359)	(2,046)	687
Investment Services Fee		(4,401)	4,401
<b>Total Management Expenses</b>	<b>(47,779)</b>	<b>(56,051)</b>	<b>8,272</b>
<b>Returns on Investments</b>			
Net investment Income	95,158	159,500	(64,342)
Taxes on Income	(44)	-	(44)
Change in Market Value *	185,999	131,050	54,949
<b>Total return on investments</b>	<b>281,113</b>	<b>290,550</b>	<b>(9,437)</b>
<b>Net inflow/(outflow) to the Fund</b>	<b>317,152</b>	<b>128,391</b>	<b>188,761</b>

### Dealings with members and employers:

For employer contributions, additional income was received in excess of that budgeted as a result of employers that have transferred into the scheme during the financial year.

For Employer Deficit Contributions, the Ministry of Defence paying an additional £35m contribution towards the Soldiers, Sailors, Airmen and Families Association deficit position.

Transfers in are in excess of the budget as a result of a number of bulk transfers in.

### Management Expenses: \*

Investment management fees include fees deducted from investment funds and budgeted figures have been amended accordingly to allow for comparison. A corresponding adjustment is reflected in accrual and budgeted Change in Market Value.

### Returns on Investments:

Total return on investments were below budget due to over optimistic budgeted investment income. Actual investment income is £47 million higher than in the prior year.

## LPFA Accounts 31 March 2018

### Operational budget

	Actual	Budget	Variance
Operational accounts	2017/18	2017/18	2017/18
	£000	£000	£000
<b>Administration</b>			
Administration services fee per LPP SLA	1,799	1,811	(12)
Pensions Agency	(133)	-	(133)
Employers Services	(16)	-	(16)
HR Service	55	-	55
IT Service	159	-	159
Marketing/Communications	7	-	7
Value Added Business	8	-	8
Premises	92	-	92
<b>Total Administration</b>	<b>1,972</b>	<b>1,811</b>	<b>161</b>
<b>Oversight &amp; Governance</b>			
Board	184	142	42
Executive Committee	237	164	73
Governance services fee per LPP SLA	1,773	1,608	165
Central Corporate Costs	612	521	91
Finance	46	-	46
Other Corporate costs	679	224	455
<b>Total Oversight &amp; Governance</b>	<b>3,532</b>	<b>2,659</b>	<b>873</b>
<b>Total operational costs</b>	<b>5,503</b>	<b>4,470</b>	<b>1,033</b>
Funded by:			
Charge made to pension fund	(4,496)	(4,470)	(26)
Recharge to residual liabilities	(613)	(613)	-
Movement in reserves		187	(187)
<b>Total Funding</b>	<b>(5,109)</b>	<b>(4,896)</b>	<b>(213)</b>
<b>Net deficit/(surplus)</b>	<b>394</b>	<b>(426)</b>	<b>820</b>

The actual expenditure excludes adjustments for IAS19 Employee Benefits charges 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 bottom line.

## LPFA Accounts 31 March 2018

### Residual Liabilities

LPFA is responsible for compensation payments in respect of former Greater London Council (GLC), Inner London Education Authority (ILEA) and London Residual Body (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 GLC and ILEA. 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 2017/18 was £10,318k. Pension costs were higher than expected and there have been changes made to the asbestosis provision. However it remains extremely difficult to forecast the sums likely to be paid, both in year and over the longer term, on dealing with asbestosis claims. The LPFA has engaged an expert advisor to support the management of claims as they are submitted, and to agree estimates of future claims.

<b>Greater London Levy</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pension Retirement Costs	(8,927)	(6,676)	(2,251)
Management Expenses	(261)	(261)	-
Asbestosis Provision (known cases + direct costs)	(1,321)	(2,081)	760
Interest Payable and Receivable	65	(2)	67
Levy	10,318	10,318	-
<b>Net inflow/(outflow) to Balances</b>	<b>(126)</b>	<b>1,298</b>	<b>(1,424)</b>

#### Inner London

The budgeted levy requirement in 2017/18 was £13,065k. As with the Greater London budget pension costs were higher than expected. The asbestosis provision spending was also significantly over budget. However, again as on the Greater London levy, the asbestosis claims remain a significant variable factor and this led to an increase in the asbestosis provision.

<b>Inner London Levy</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Pension Retirement Costs	(11,833)	(11,099)	(734)
Management Expenses	(434)	(352)	(82)
Asbestosis Provision (known cases + direct costs)	(19)	(200)	181
Interest Payable and Receivable	-	23	(23)
Levy	13,065	13,065	-
<b>Net inflow/(Outflow) to Balances</b>	<b>779</b>	<b>1,437</b>	<b>(658)</b>

## **LPFA Accounts 31 March 2018**

### **Retirement Benefits**

The Fund financial statements disclose the liability to pay retirement benefits under IAS 26. The Fund's pension liabilities relate to the obligation to pay retirement benefits to its pensioners, active and deferred members. IAS19 liabilities are disclosed in both the Operational and Residual Liabilities statements.

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

The Statement of Accounts were authorised for issue by the Audit and Risk Committee on 17 July 2018. Post balance sheet events have been considered up to the date the accounts were signed off by the auditor.

### **Further Information**

Further information about these accounts is available from Local Pensions Partnership Ltd, 2nd Floor, 169 Union Street, London SE1 0LL. In addition further information on the LPFA performance in service and corporate areas can be seen alongside a summarised version of the accounts in the LPFA Annual Report, which can be requested at the address above.

# LPFA Accounts 31 March 2018

## 2 Statement of Responsibilities for the Statement of Accounts

### LPFA's responsibilities

LPFA is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs (the "Section 151 officer").
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

### The Section 151 Officer's responsibilities

At LPFA the Section 151 Officer is responsible for:

- The preparation of the LPFA's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom
- Keeping proper financial records and accounts and maintaining an effective system of financial control

In preparing this Statement of Accounts, the Section 151 Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgments that were reasonable and prudent
- Taken reasonable steps for the prevention and/or detection of fraud and/or other irregularities
- Complied with the code

### Certificate of Approval

I certify that the statement of accounts presents a true and fair view of the financial position of LPFA at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.



.....  
**Abigail Leech, Section 151 Officer**

**Dated: 20 August 2018**

# LPFA Accounts 31 March 2018

## 3 Annual Governance Statement 2017/18

### Introduction

The London Pensions Fund Authority (LPFA) was established as a stand-alone public body on 31 October 1989 following the abolition of the Greater London Council and the Inner London Education Authority to take on the pension responsibilities under the Local Government Pension Scheme (LGPS). LPFA has sought new employers into its fund to help its sustainability and today it has over 356 employers with 142 of those actively paying contributions into the Fund. LPFA manages the pension fund assets, which total approximately £5.6bn, and administers the LGPS for its members, which total around 80,000. From 8 April 2016, the majority of LPFA's functions have been delegated to the Local Pensions Partnership Ltd (LPP) under a Service Level Agreement (SLA). LPP is a business which is owned jointly with Lancashire County Council and was established to deliver benefits of scale and cost reduction in the management of LGPS. As a shareholder and a client, the LPFA has an important role in ensuring that the LPP remains accountable and provides the necessary assurance to the Authority that services are being delivered.

As an LGPS administering authority and a statutory corporation, the statutory and regulatory responsibilities of the Board remain. LPFA is responsible for the strategic aspect of pension fund management; however, the implementation of the Board's strategy and policies is being carried out by LPP. This is a new approach for LPFA and one which requires detailed reporting and monitoring of LPP, to ensure the efficiencies, savings, improvement of investment returns, efficient administration services and deficit reductions are appropriately delivered.

LPFA has historically used the expertise gained in administering its own scheme to provide pension administration services to other local authorities. All of LPFA's third party clients have agreed to sub-contracting arrangements to be put in place with LPP so that they can continue to benefit from the high levels of services provided by LPP. These are comprised of: two London boroughs, a county council and three fire authorities. With these third party contracts, the LPP provides administration services to just over 260,000 members of the LGPS or Fire Pension Scheme on behalf of LPFA. In total and with the addition of Lancashire County Pension Fund members, LPP administers scheme pension benefits on behalf of 520,000 scheme members. There will be opportunities for improved efficiencies, savings and levels of service provided as LPP optimises service delivery through a comprehensive transition and transformation plan.

### Scope of Responsibility

LPFA remains 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 Board is informed of regulatory changes prior to decisions being made, often with the input of LPP as a key service provider to LPFA. LPFA 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 economic, efficient and effective factors.

In discharging this overall responsibility, LPFA is responsible for ensuring that its functions are exercised within an effective risk management framework and that strong governance controls are in place. The operational aspects of this have been outsourced to LPP but the LPFA Board remains responsible for monitoring the robustness of these arrangements.

As a shareholder, LPFA will maintain its proactive engagement with LPP to ensure that the Fund continues to deliver benefits of scale and that it is serviced as per the terms set out in the Shareholder Agreement.

## LPFA Accounts 31 March 2018

### LPFA's Governance Framework

The LPFA's governance framework comprises the systems, processes, culture and values, by which LPFA is directed and controlled, and the activities for 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.

### LPFA's Risk Management Framework

Governance is an essential risk management tool. The LPFA Board promotes a culture of risk management and ensures that this permeates throughout the organisation. The LPFA is supported in its risk oversight by the Audit and Risk Committee which is responsible for oversight and advice to the Board on current risk exposures and future risk strategy, including the strategy for managing liabilities and the oversight of the embedding and maintenance of a supportive culture in relation to the management of risk throughout the business.

The risk management system operated by LPFA is designed to:

- Identify and prioritise the risks to the achievement of LPFA's policies, aims and objectives: LPFA identifies and mitigates a range of risks arising from the external environment (immediate and longer term). It reviews a register which encompasses administrative, management and investment risks. Any new risks identified in light of the evolving statutory and regulatory landscape are added to this register and controls put in place to effectively mitigate them.
- Evaluate the likelihood of those risks being realised and the impact should they be realised: the methodology used for the assessment and mitigation of risks has been endorsed by the Chartered Institute of Risk Management.
- Manage them efficiently, effectively and economically: the risk register is reviewed by risk professionals who devise adequate controls in light of the macro environment in which the Fund is operating and the adequacy of these controls is monitored by the Board. The key controls in place are also stress tested on a regular basis to ensure that they are sufficiently resilient to enable the Fund to meet its strategic objectives.

The above process 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 (not absolute) assurance of effectiveness. The Fund's assets are audited annually by both external and internal auditors. As part of the audit process, the robustness of LPFA's internal controls system and procedures are also checked.

Any enhancements made to the governance framework during the year have been reflected in the Code and actions taken and planned are identified below.

# LPFA Accounts 31 March 2018

## Local Code of Corporate Governance

A key component of the LPFA's governance framework is the Local Code of Corporate Governance (the "Code"), which has been approved and adopted in July 2017. This Code is consistent with the principles of the CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (The Society of Local Authority Chief Executives and Senior Managers) guidance contained in "Delivering Good Governance in Local Government".

This Code sets out the governance systems, processes and controls used by LPFA in the delivery of its functions and encompasses the following:

- LPFA's vision, objectives and decision making process
- Committee structures, performance measurement and how the use of resources are monitored
- How fraud, risk management and conflicts of interest policies are managed, including the division of responsibilities between LPFA and LPP
- Officer -specific functions, including the roles of both the s151 Officer and the Monitoring Officer
- Arrangements to ensure the effective financial monitoring and use of resources
- The role of the Audit & Risk Committee and whistleblowing procedures
- The Local Pension Board and its remit
- How LPFA meets the requirements of the Accounts and Audit Regulations 2003, 2006 and 2011 in relation to the publication of a statement on internal control.

LPFA employs a s151 Officer, whose responsibility include monitoring financial processes, liaising with external and internal audit and maintaining links with the Society of London Treasurers. LPFA seeks to comply with the principles set out in CIPFA's guidance on 'The Role of the Chief Finance Officer in Local Government'. The Authority also employs a Monitoring Officer under an agreement with the Greater London Authority who is responsible for monitoring statutory and regulatory compliance, and any conflicts of interest.

LPFA will continue to control its governance affairs, with the operational aspects outsourced to LPP under an SLA. The Local Code of Corporate Governance was updated in July 2017 to reflect the enhancements implemented during the year. It will be further reviewed by the LPFA Audit & Risk Committee in May 2018. The Code is available on LPFA's website: [www.lpfa.org.uk](http://www.lpfa.org.uk)

## LPFA Accounts 31 March 2018

### Actions for 2017-18

The Annual Governance Statement for the 2016-17 reporting period contained a number of action points to be completed during 2017-18. LPFA's progress against these actions is provided below.

- Fulfilled the role of an active shareholder and continued to work effectively with LPP on governance arrangements.
- LPP Internal Audit Plans were shared between LPP and LPFA to promote Governance cohesion.
- LPFA was 'opted up' to Professional Client Status under MIFID II regulations which is being managed by LPP's FCA authorised entity Local Pensions Partnership Investments Limited (LPP I) and the preparation for the new General Data Protection Regulations 2018 was successful.
- LPFA has published its policy on Climate Change and continues to work with LPP I on the delivery and implementation of the policy.
- A detailed review of the original SLA was undertaken by the Managing Director of LPFA and the Group Company Secretary and Director of Strategic Programmes at LPP.
- New internal auditors were appointed from 10 November 2017

The following actions in relation to governance and monitoring actions are planned for 2018-19:

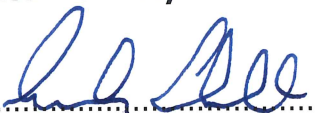
- Continuing work as an active shareholder in order to hold LPP to account and monitor its performance
- Overseeing the implementation of the outcome from the LPP corporate structure review to ensure that appropriate governance arrangements are in place to meet the challenges of FCA compliance.
- Working with LPP I on the delivery of LPFA's Climate Change Policy.
- Regularly monitoring the Service Level Agreement between LPFA and LPP with particular interest in the employer and member experience.
- Continue to work on the structure of LPFA's Risk Management Framework and Risk Register.

We propose to further enhance our governance arrangements by taking steps to address the above matters over the coming year. We believe that these steps will address the need for improvements that may be identified in our review of the effectiveness of these arrangements and we will monitor their implementation and operation as part of our next annual review.



.....  
**Robert Branagh, Managing Director**

**Dated: 31 July 2018**



.....  
**Sir Merrick Cockell, Chairman**

**Dated: 31 July 2018**

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

## Report on the Audit of the Pension Fund Financial Statements

### Opinion

#### **Our opinion on the financial statements is unmodified**

We have audited the pension fund financial statements of London Pensions Fund Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and the Notes to the Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to


This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

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

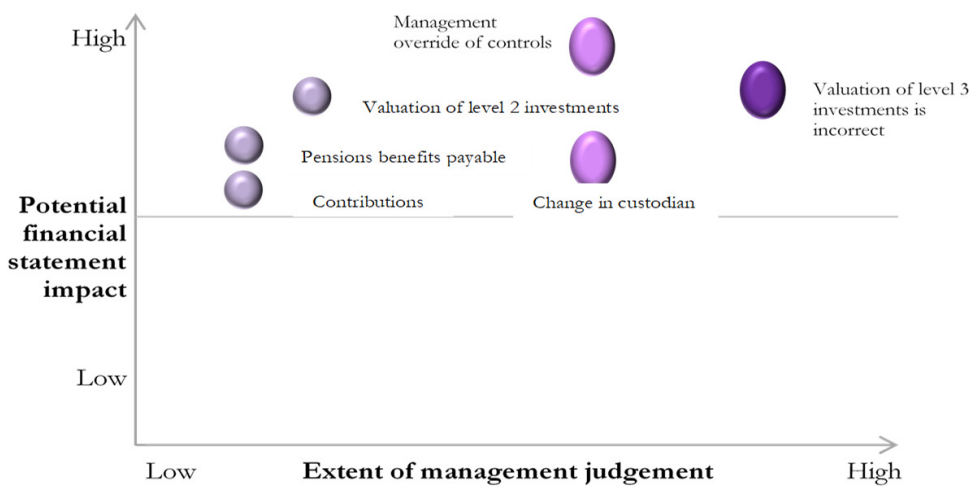


**Overview of our audit approach**

- Overall materiality: £56,400,000, which represents 1% of the pension fund’s net assets.
- Key audit matters were identified as
  - Valuation of level 3 investments
- The scope of our audit of the pension fund financial statements included obtaining supporting evidence, on a sample basis, for the pension fund’s income, expenditure, assets and liabilities.

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<b>Key Audit Matter – pension fund financial statements</b>	<b>How the matter was addressed in the audit – pension fund financial statements</b>
<p><b>Risk 1 The valuation of level 3 investments is incorrect</b></p> <p>Level 3 investments by their very nature require a significant degree of judgement by management to reach an appropriate valuation at year end. There is a large range of estimation uncertainty in the valuation and the valuation of level 3 investments are significant.</p> <p>We therefore identified the valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"><li>• Documenting our understanding of management's processes for valuing level 3 investments and evaluated the design effectiveness of the associated controls;</li><li>• Evaluating the nature and basis of the accounting estimate and considering what assurance management has over the year-end valuations provided for these types of investment by management's experts;</li><li>• Evaluating the competence, capabilities and objectivity of management experts (valuation expert) used;</li><li>• Agreeing the investment balances in the pension fund financial statements to independently obtained fund manager and custodian reports; and</li><li>• Testing a sample of the valuations by agreeing the latest audited accounts for these investments to the fund manager reports at that date. Where required, we also reconciled those valuations to the valuations included in the pension fund financial statements by agreement of known movements in the intervening period to relevant source documentation.</li></ul> <p>The pension fund's accounting policy on the valuation of level 3 Investments is shown in note 4 to the pension fund financial statements and related disclosures are included in notes 14 and 16 to the pension fund financial statements.</p> <p><b>Key observations</b></p> <p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"><li>• the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable;</li><li>• the valuation of level 3 investments recognised in the pension fund financial statements were not materially misstated.</li></ul>

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

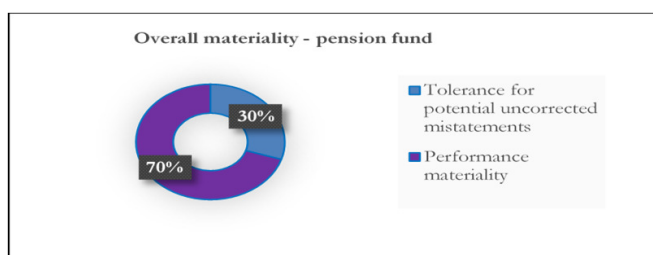
### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Authority
Pension fund financial statements as a whole	£56,400,000 which is 1% of the pension fund net assets. This benchmark is considered the most appropriate because we consider users of the pension fund financial statements to be most interested in the value of pension fund assets that finance their future pensions.  Materiality for the current year is at the same percentage level of net assets as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the pension fund or the environment in which it operates.
Performance materiality used to drive the extent of our testing	70% of pension fund financial statement materiality.
Communication of misstatements to the Audit and Risk Committee	£2,820,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



### Overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the pension fund's business, its environment and risk profile and in particular included:

- Gaining an understanding of and evaluating the pension fund’s internal control environment, including its financial and IT systems and controls;
- Documenting our understanding of the processes applied by management over contributions, pension benefits payable, pension fund membership data and transfer of data to the pension fund actuary and evaluating the operational effectiveness of the associated controls;
- Gaining an understanding of the pension fund and obtaining supporting evidence to corroborate significant accounting transactions and disclosures within the pension fund financial statements; and
- Substantive testing of the income, expenditure and net assets of the pension fund. Testing undertaken covered all material and significant transactions and balances.

There were no significant changes in the scope of the audit or procedures performed in respect of the key audit matters identified as compared to the prior year.

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

### **Other information**

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the group's and Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Our opinion on other matter required by the Code of Audit Practice is unmodified**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Section 151 officer and Those Charged with Governance for the pension fund financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

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

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Risk Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the pension fund financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

This description forms part of our auditor's report

### **Other matters which we are required to address**

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

***Ciaran McLaughlin***

**Ciaran McLaughlin**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2A 1AG

20 August 2018

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

## Report on the Audit of the Financial Statements

### Opinion

#### **Our opinion on the financial statements is unmodified**

We have audited the pension fund financial statements of London Pensions Fund Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and the Notes to the Fund Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to


This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

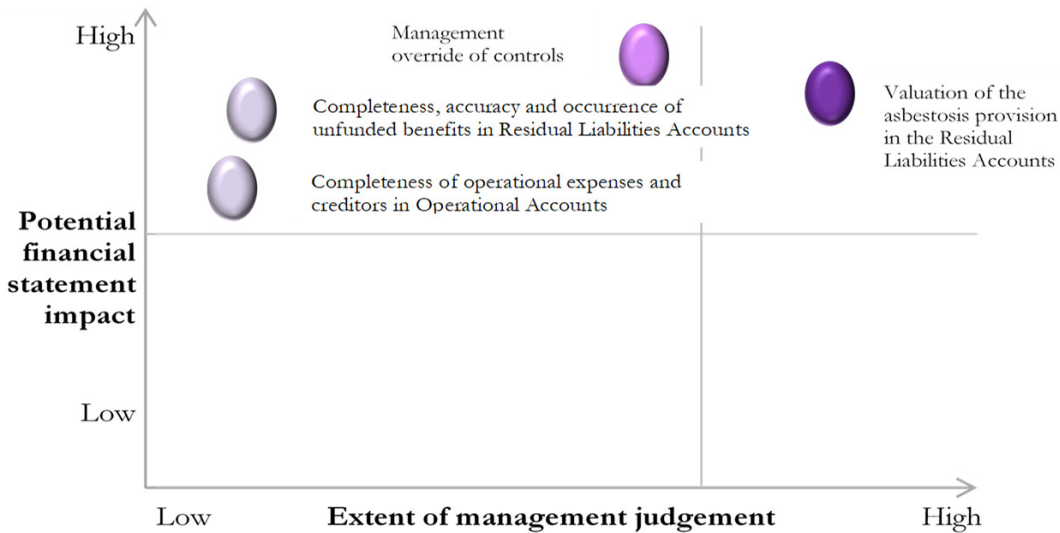


### Overview of our audit approach

- Overall materiality: £56,400,000, which represents 1% of the pension fund's net assets.
- Key audit matters were identified as
  - Valuation of level 3 investments
- The scope of our audit of the pension fund financial statements included obtaining supporting evidence, on a sample basis, for the pension fund's income, expenditure, assets and liabilities.

## Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### Key Audit Matter – pension fund financial statements

#### Risk 1 The valuation of level 3 investments is incorrect

Level 3 investments by their very nature require a significant degree of judgement by management to reach an appropriate valuation at year end. There is a large range of estimation uncertainty in the valuation and the valuation of level 3 investments are significant.

We therefore identified the valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

### How the matter was addressed in the audit – pension fund financial statements

Our audit work included, but was not restricted to:

- Documenting our understanding of management's processes for valuing level 3 investments and evaluated the design effectiveness of the associated controls;
- Evaluating the nature and basis of the accounting estimate and considering what assurance management has over the year-end valuations provided for these types of investment by management's experts;
- Evaluating the competence, capabilities and objectivity of management experts (valuation expert) used;
- Agreeing the investment balances in the pension fund financial statements to independently obtained fund manager and custodian reports; and
- Testing a sample of the valuations by agreeing the latest audited accounts for these investments to the fund manager reports at that date. Where required, we also reconciled those valuations to the valuations included in the pension fund financial statements by agreement of known movements in the intervening period to relevant source documentation.

The pension fund's accounting policy on the valuation of level 3 Investments is shown in note 4 to the pension fund financial statements and related disclosures are included in notes 14 and 16 to the pension fund financial statements.

### Key observations

We obtained sufficient audit assurance to conclude that:

- the basis of the valuation was appropriate and the assumptions and processes used by management in determining the estimate were reasonable;
- the valuation of level 3 investments recognised in the pension fund financial statements were not materially misstated.

We have determined that there are no key audit matters relating to the Group Operational Account to communicate in our report.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

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

Materiality Measure	Operational Accounts	Residual Liabilities Accounts
Financial statements as a whole	<p>£112,000, which is 2% of the Operational Accounts gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Group has expended its revenue and other funding.</p> <p>Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the Group or the environment in which it operates.</p>	<p>£579,000 which is 2% of the Residual Liabilities Accounts total gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding.</p> <p>Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the residual accounts of the Authority or the environment in which it operates</p>
Performance materiality used to drive the extent of our testing	70% of financial statement materiality	75% of financial statement materiality
Communication of misstatements to the Audit and Risk Committee	£6,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£29,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.



### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Gaining an understanding of significant changes to the group structure and obtaining supporting evidence to corroborate accounting transactions and disclosures within the financial statements;
- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of the materiality and significance of the component as a percentage of the group's current assets, total assets, current liabilities, total liabilities, equity, income and expenditure. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Gaining an understanding of and evaluating the Authority's internal control environment, including its financial and IT systems and controls;

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

- Full scope audit procedures on the Authority, including substantive testing of the income, expenditure and net liabilities of each of the Operational Accounts. The Joint Venture has been equity accounted and the Authority's fifty percent share of the Joint Venture's results are included, in the Group and Entity Comprehensive Income and Expenditure Statement and in the Group and Entity Balance Sheet; and
- Issuing group instructions to the auditors of the Local Pensions Partnership Limited in respect of their full scope audit procedures for the year ended 31 March 2018.

There were no significant changes in the scope of the audit or procedures performed in respect of the key audit matters identified as compared to the prior year.

### **Other information**

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the group and Authority financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### **Our opinion on other matter required by the Code of Audit Practice is unmodified**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

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

- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Authority.

The Audit and Risk Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

on the Financial Reporting Authority's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

This description forms part of our auditor's report.

### **Other matters which we are required to address**

We were appointed by the Audit Commission on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Authority and we remain independent of the group and the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

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

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing 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 for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

#### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

***Ciaran McLaughlin***

**Ciaran McLaughlin**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2A 1AG

20 August 2018

## LPFA Accounts 31 March 2018

### 5 Fund Account

2016/17		Notes	2017/18
<b>£'000</b>	<b>Dealing with members, employers and others directly involved in the Fund</b>		<b>£'000</b>
165,685	Contributions	6	180,904
8,071	Transfer from other Pension Funds	7	165,434
<b>173,756</b>			<b>346,338</b>
(245,749)	Benefits	8	(245,692)
(13,066)	Payments to and on account of leavers	9	(16,828)
187	Capital Funding costs		-
<b>(258,628)</b>			<b>(262,520)</b>
<b>(84,872)</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>83,818</b>
<b>(52,743)</b>	<b>Management Expenses</b>	<b>10a</b>	<b>(47,779)</b>
<b>(137,615)</b>	<b>Net additions/(withdrawals) including fund management expenses</b>		<b>36,040</b>
	<b>Returns on investments</b>		
48,258	Investment Income	12a	95,158
(209)	Taxes on Income	13	(44)
877,080	Profit and Loss on disposal and change in market value	14a	185,999
<b>925,129</b>	<b>Net returns on investments</b>		<b>281,113</b>
<b>787,514</b>	<b>Net increase/(decrease) in net assets available for benefits during the year</b>		<b>317,152</b>
<b>4,549,608</b>	<b>Opening net assets of the scheme</b>		<b>5,337,122</b>
<b>5,337,122</b>	<b>Closing net assets of the scheme</b>		<b>5,654,274</b>

Forward currency contracts amounting to £1,496,621 (2017- £1,285,649) have been netted off in investment assets and investment liabilities, to reflect the legal right to offset the contacts on settlement.

# LPFA Accounts 31 March 2018

## Net Assets Statement as at 31 March 2018

31-Mar-17		Notes	31-Mar-18
<b>£'000</b>			<b>£'000</b>
	<b>Investment assets</b>		
4,987,045	Investment assets	14	5,375,018
<b>4,987,045</b>	<b>Total net investments</b>		<b>5,375,018</b>
346,765	Cash balances	17	176,792
12,541	Current assets	19	115,959
(9,229)	Current liabilities	20	(13,495)
<b>5,337,122</b>	<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>5,654,274</b>

*A. M. Leech*

.....  
**Abigail Leech, Section 151 Officer**  
**Dated: 20 August 2018**

# LPFA Accounts 31 March 2018

## 6 Notes to the Fund Accounts for the year ended 31 March 2018

### 1 General information

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- the Local Government Pension Scheme (Amendment) Regulations 2018.

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

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 LPFA's Actuary is Barnett Waddingham, who have supplied an actuarial statement. This is shown in Section 7 and should be read in conjunction with these accounts.

### 2 Accounting standards issued, but not yet adopted

IFRS 9 Financial instruments - Includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

IFRS 16 Leases - It replaces IAS17 and requires lessees to recognise both assets and liabilities on the balance sheet, for all leases (now including operating leases).

The impact of the standards issued but not yet adopted cannot yet be quantified.

### 3 Summary of Significant Accounting Policies

#### General Principles

The Pension Fund Statement of Accounts summarise Fund transactions for the 2017/18 financial year and its position as at 31 March 2018. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (IFRS).

The accounts summarise the transactions of the Fund and report on the net assets at the disposal of LPFA. They do not take account of obligations to pay pensions and benefits which fall due after the end of the fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in note 25 and actuarial statement.

The financial statements and accounts have been prepared on a going concern basis.

## LPFA Accounts 31 March 2018

### Contributions

Normal contributions, both from the members and from the employers, 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 are accounted for in accordance with the agreement under which they are being paid, or in the absence of an agreement on a receipt basis.

### Transfers to and from Other Schemes

Individual transfers in/out are accounted for 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.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in.

Bulk transfers in/out, 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.

### Investment Income

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

Dividends and interest on quoted investments are accounted for when received or quoted ex dividend.

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

### 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.

# LPFA Accounts 31 March 2018

## 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 Fund as appropriate.

## Management Expenses

Although not a requirement of the code, pension fund administrative expenses are broken down to enhance transparency in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses (2016)", into the following categories:

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administration expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the pensions committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);

### *Investment management fees*

Investment management expenses are expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. In accordance with the CIPFA guide local government pension management expenses 2016, this includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

Local Pensions Partnership Investments Limited is responsible for managing all investment managers. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under management and there is also a fee payable based on a percentage of out-performance against an agreed benchmark, for some managers.

# LPFA Accounts 31 March 2018

## Financial Assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. The asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value are recognised by the Fund.

The fair value is established in accordance with IFRS 13 for each category of investment by obtaining sufficient data as follows:

Market-quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market.

Fixed interest securities are recorded at net market value based on their current yields.

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, as advised by the respective fund manager.

Investment assets are allocated and disclosed within the fair value hierarchy, being within levels 1, 2 or 3.

## Property valuation

Directly held freehold properties are included at the open market value as at the year-end. The directly held property was valued at open market value at 31 March 2018 by an independent valuer, GVA Grimely Limited ('GVA'). The Properties have been valued individually on the basis of Fair Value, in accordance with the RICS Valuation – Global Standards 2017. VPGA 1 - Valuations for inclusion in financial statements which adopts the definition of Fair Value adopted by the International Accounting Standards Board (IASB) in IFRS 13. This is an internationally recognised basis and is defined as: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."

GVA regards Fair Value as Identical to Market Value, defined within the Global Valuation Standards as:-

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## Cash and Cash Equivalents

notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash without significant risk of change in value.

## 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.

## LPFA Accounts 31 March 2018

### 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.

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 the Black Scholes pricing model.

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 ("LGPS") guidelines (England and Wales).

### Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with 4(2)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) 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.

### Financial liabilities

Financial liabilities are included in the Fund account at fair value if they exist at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits is calculated in accordance with IAS 26, every year using the results of the last Triennial Actuarial Valuation, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 26).

## 4 Critical Accounting Estimates and Judgment

### Unquoted Private Equity, Hedge Funds, Property Funds and Infrastructure Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving factors which include the valuations of companies deemed comparable to the asset being valued, the future cash flow expectations and discount factors used. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association or Institutional Limited Partners Association. Most private equity and infrastructure assets were transferred to a pooled vehicle during the year. The value of unquoted private equities and infrastructure at 31 March 2018 was £1,104m (1,147m at 31 March 2017). There is a risk that these investments may be under or overstated in the accounts, although it is considered unlikely to have a material impact on the value of the Fund.

### 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 and IAS26. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Statement on page 56 of this report. This estimate is subject to significant variances based on changes to the underlying assumptions.

## LPFA Accounts 31 March 2018

### 5 Pension Fund Information

The last full triennial valuation of the LPFA Fund was carried as at 31 March 2016 in accordance with the Funding Strategy Statement of the fund. The funding level was 96%. New contribution rates for employers following analysis of the 2016 valuation came into effect from 1 April 2017. The rates are determined for each employer by the actuary to be sufficient to fund the annual cost of benefits and to clear the deficit.

Details of the participating employer bodies and their individual contribution rates for the year ended 31 March 2018 are set out on pages 58-65.

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

Pay Range 2016/17	Pay Range 2017/18	Contribution Rate	50/50 Section
£0 - £13,600	£0 - £13,700	5.50%	2.75%
£13,601 - £21,200	£13,701 - £21,400	5.80%	2.90%
£21,201 - £34,400	£21,401 - £34,700	6.50%	3.25%
£34,401 - £43,500	£34,701 - £43,900	6.80%	3.40%
£43,501 - £60,700	£43,901 - £61,300	8.50%	4.25%
£60,701 - £86,000	£61,301 - £86,800	9.90%	4.95%
£86,001 - £101,200	£86,801 - £102,200	10.50%	5.25%
£101,201 - £151,800	£102,201 - £153,300	11.40%	5.70%
£151,801 and above	£153,301 and above	12.50%	6.25%

The fund membership was as follows:

2016/17		Fund Membership	2017/18
Numbers			Numbers
17,776	Active members		18,537
26,370	Deferred beneficiaries		26,911
34,321	Pensioner / Dependents		34,625
3,596	Undecided leavers and Frozen refunds		4,393
<b>82,063</b>			<b>84,466</b>

The number of participating employers as at 31 March 2018 was 142 (2017 - 142).

## LPFA Accounts 31 March 2018

### 6. Contributions

By Category

2016/17		Fund Membership	2017/18	
£000			£000	
77,801	Employers - normal		71,051	
42,456	Employers - additional		30,801	
6,826	Employers - one off deficit payment		38,429	
36,657	Members - normal		39,096	
1,945	Cessation valuations		1,527	
<b>165,685</b>			<b>180,904</b>	

By Authority

2016/17			2017/18	
£000			£000	
76,965	Scheduled bodies		58,855	
86,728	Admitted bodies		120,282	
380	Community admission body		419	
1,612	Transferee admission body		1,348	
<b>165,685</b>			<b>180,904</b>	

### Additional deficit contribution

Employers in the fund continue to approach LPFA regarding additional one off contributions to the fund in order to assist in clearing their respective deficit positions LPFA enters into these discussions supported by statements from the fund actuary.

### 7. Transfers in from other pension funds

2016/17			2017/18	
£000			£000	
-	Group transfers		154,685	
8,071	Individual transfers		10,749	
<b>8,071</b>			<b>165,434</b>	

The Group transfers related to Redbridge, Kingston College, Carshalton College, Bromley College, Bexley College and North West London College merging their scheme with existing participating employers

## LPFA Accounts 31 March 2018

### 8. Benefits

By Category

2016/17		2017/18
£000		£000
212,528	Pensions	212,289
30,662	Commutation and lump sum retirement benefits	30,562
2,559	Lump sum death benefits	2,841
<b>245,749</b>		<b>245,692</b>

By Authority

2016/17		2017/18
£000		£000
162,627	Scheduled bodies	159,098
81,688	Admitted bodies	85,111
404	Community admission body	474
990	Transferee admission body	968
40	Resolution body	41
<b>245,749</b>		<b>245,692</b>

### 9. Payments to and on account of leavers

2016/17		2017/18
£000		£000
687	Refunds to members leaving service	684
(9)	Payments for members joining state scheme	13,132
42	Group transfers	2,972
12,346	Individual transfers	40
<b>13,066</b>		<b>16,828</b>

### 10a. Management Expenses

2016/17		2017/18
£000		£000
48,005	Investment Management	44,614
2,044	Administration	1,806
2,694	Oversight & Governance	1,359
<b>52,743</b>		<b>47,779</b>

### 10b. Investment Expenses

2016/17		2017/18
£000		£000
42,439	Management fees	39,976
4,777	Performance related fees	4,167
494	Custody fees	181
295	Transaction fees	274
-	Other fees	16
<b>48,005</b>		<b>44,614</b>

The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

## LPFA Accounts 31 March 2018

### 11. Capital Funding

2016/17		2017/18
£000		£000
(187)	Capital funding	-
(187)		-

### 12a. Investment Income

2016/17		2017/18
£000		£000
28,627	Income from equity	1,321
2,230	Income from bonds	450
3,414	Private Equity and Infrastructure income	42,189
1,957	Rents from property	5,338
136	Pooled property investments	-
8,656	Pooled Investments - Unit trusts and other managed funds	43,486
3,238	Interest on cash deposits	2,021
-	Other	353
48,258		95,158

### 12b. Property income and expenses

2016/17		2017/18
£000		£000
2,252	Property income	5,868
(295)	Property expenses	(530)
1,957		5,338

### 13. Taxes on income

2016/17		2017/18
£000		£000
(6)	Withholding tax - Fixed interest securities	-
(23)	Withholding tax - Equities	-
(181)	Withholding tax - Pooled investments	(44)
1	Withholding tax - Private equity	-
(209)		(44)

## LPFA Accounts 31 March 2018

### 14. Investments

Market Value 31 March 2017		Market Value 31 March 2018
£000		£000
	<b>Investment assets</b>	
56,649	Fixed interest securities	-
44,647	Equities	-
9,723	Liquidity funds	-
	<b>Pooled investments</b>	
224,626	Fixed interest securities	601,145
2,406,082	Equities	2,400,971
253,047	Property	328,293
-	Credit	267,734
800,820	Private Equity	592,989
346,135	Infrastructure	510,869
33,183	Commodity funds	27,713
664,335	Managed funds	408,128
27,431	Cash Instruments	10,269
110,020	Direct property	167,360
	<b>Derivatives</b>	
414	Options	-
3,923	Forwards	-
	<b>Other investment balances</b>	
3,255	Cash held by investment managers	58,849
3,632	Investment income due	81
421	Amounts receivable for sales	617
<b>4,988,343</b>	<b>Total investment assets</b>	<b>5,375,018</b>
	<b>Investment liabilities</b>	
(271)	Purchased/written options	-
(1,027)	Amounts payable for purchases	-
<b>(1,298)</b>	<b>Total investment liabilities</b>	<b>-</b>
<b>4,987,045</b>	<b>Net investment assets</b>	<b>5,375,018</b>

The prior year pooled investments category has been reanalysed to be consistent with the current year and to provide greater detail of the underlying assets. Two categories have been disaggregated: Private equity/infrastructure, into its constituent parts; and Pooled Investments into Credit, Equities, Fixed Interest Securities and Managed Funds.

## LPFA Accounts 31 March 2018

### 14a. Investments

#### Net Investment Assets

	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during in the year	Market value 31 March 2018
	£000	£000	£000	£000	£000
Fixed interest securities	56,649	26,705	(82,316)	(1,038)	-
Equities	44,647	986	(42,396)	(3,237)	-
Pooled investments					
- Fixed interest securities	224,626	388,716	(43,000)	30,803	601,145
- Equities	2,406,082	196,883	(168,581)	(33,413)	2,400,971
- Credit	-	267,095	(3,067)	3,706	267,734
- Private Equity	800,820	851,781	(1,069,086)	9,474	592,989
- Infrastructure	346,135	855,274	(670,896)	(19,644)	510,869
- Property	253,047	126,811	(34,120)	(17,445)	328,293
- Managed funds	664,337	40,597	(506,496)	209,690	408,128
- Commodity funds	33,183	13,174	(14,639)	(4,005)	27,713
- Cash Instrument	27,431	25,141	(41,159)	(1,144)	10,269
Liquidity Fund	9,723	-	(9,723)	-	-
Property	110,020	51,737	-	5,603	167,360
	<b>4,976,700</b>	<b>2,844,900</b>	<b>(2,685,479)</b>	<b>179,350</b>	<b>5,315,471</b>
Derivative contracts					
- Forwards	3,921	353,831	(364,525)	6,773	-
- Options	143	1,673	(1,432)	(384)	-
Futures	-	4,791	(5,051)	260	-
	<b>4,980,764</b>	<b>3,205,195</b>	<b>(3,056,487)</b>	<b>185,999</b>	<b>5,315,471</b>
Cash held by managers	3,255				58,849
Amount receivable for sale of investments	421				617
Investment income due	3,632				81
Amounts payable for purchases	(1,027)				-
	<b>4,987,045</b>				<b>5,375,018</b>

Some opening balances have been re-analysed following the change of custodian on 31 August 2017. The overall total remains the same as disclosed in the prior year accounts

## LPFA Accounts 31 March 2018

### 14a. Investments (continued)

#### Net Investment Assets (Prior year comparative)

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during in the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Fixed interest securities	122,855	113,181	(185,614)	6,227	56,649
Equities	1,804,946	5,159,057	(7,256,002)	336,646	44,647
Pooled investments	1,235,608	4,679,425	(2,814,426)	221,867	3,322,474
- Property	147,423	51,116	(3,760)	58,268	253,047
- Commodities	23,449	315	-	9,419	33,183
Private Equity/Infrastructure	819,493	167,884	(211,720)	371,298	1,146,955
Futures	(337)	6,679	(4,560)	(1,782)	-
Direct Property	-	114,206	-	(4,186)	110,020
Liquidity Fund	3,354	6,369	-	-	9,723
	<b>4,156,791</b>	<b>10,298,232</b>	<b>(10,476,081)</b>	<b>997,756</b>	<b>4,976,698</b>
Derivative contracts					
- Options	(408)	12,014	(8,742)	(2,721)	143
- Forwards	(14,442)	226,287	(89,967)	(117,955)	3,923
<b>Net investment assets</b>	<b>4,141,941</b>	<b>10,536,533</b>	<b>(10,574,790)</b>	<b>877,080</b>	<b>4,980,764</b>
Other Investment Balances:					
Cash held by investment managers	44,813				3,255
Amount receivable for sales of investments	1,571				421
Investment income due	6,142				3,632
Amounts payable for purchases of investments	(375)				(1,027)
<b>Net investment assets</b>	<b>4,194,092</b>				<b>4,987,045</b>

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 £274k (£295k in 2017). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

## LPFA Accounts 31 March 2018

### 14b. Analysis of Investments

31-Mar-17		31-Mar-18
£000		£000
	<b>Fixed Interest Securities</b>	
	<b>UK</b>	
491	Public sector quoted	-
1,890	Corporate quoted	-
	<b>Overseas</b>	
11,461	Public sector quoted	-
7,596	Municipal bonds quoted	-
35,211	Corporate quoted	-
<b>56,649</b>		<b>-</b>
	<b>Equities</b>	
	<b>UK</b>	
28,431	Quoted	-
	<b>Overseas</b>	
16,216	Quoted	-
<b>44,647</b>		<b>-</b>
	<b>Pooled Funds - Additional Analysis</b>	
	<b>UK</b>	
224,626	Fixed interest securities	135,852
260,253	Unit trusts	-
-	Credit	267,734
800,820	Private Equity	582,261
346,135	Infrastructure	430,989
201,882	Property	202,799
27,431	Cash instruments	10,269
	<b>Overseas</b>	
-	Fixed interest securities	465,293
2,406,082	Equities	2,400,971
-	Private Equity	10,728
-	Infrastructure	79,880
51,165	Property	125,494
33,183	Commodity funds	27,713
7,265	Unit trusts	-
391,305	Managed Funds	408,128
5,512	Hedge Funds	-
<b>4,755,659</b>		<b>5,148,111</b>
110,020	Direct property	167,360
9,723	Liquidity fund (Time deposit)	-
3,923	Forward currency contracts *	-
143	Options *	-
<b>4,980,764</b>		<b>5,315,471</b>

\* Further analysis of options and forward currency contracts is given in note 14c.

## LPFA Accounts 31 March 2018

### 14c. Investments

#### Analysis of Derivatives

Derivatives are used to hedge liabilities or hedge exposures to reduce risk to the fund. They are also 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 between the LPFA and the various Investment Managers.

#### Futures

There were no directly held outstanding exchange traded futures contracts at 31 March 2018 (2017 - £nil).

#### Open Forward currency contracts

The net position on open forward currency contracts at 31 March 2018 amounts to a loss of £1,130,571 (2017 - gain of £3,923,000). This amount is reflected in the change in market value of investments.

#### Purchased /Written options

Investment underlying option contract	Expires	Put/ call	Notional holding	Market value 31 March 2017	Notional holding	Market value 31 March 2018
			£000	£000	£000	£000
<b>Assets</b>						
Index linked purchased	One to three months	Call	4	30	-	-
Index linked purchased	three to nine months	Call	4	75	-	-
Index linked purchased	One to three months	Put	12	242	-	-
Index linked purchased	Three to nine months	Put	2	67	-	-
				<b>414</b>		-
<b>Liabilities</b>						
Index linked written	One to three months	Call	(1)	(25)	-	-
Index linked written	One to three months	Put	(17)	(204)	-	-
Index linked written	Three to nine months	Put	(2)	(42)	-	-
				<b>(271)</b>		
<b>Net Purchased/Written Options</b>				<b>143</b>		-

## LPFA Accounts 31 March 2018

### 14d. Investments

#### Investments Analysed by Fund Manager

Market value 31 March 2017		Market value 31 March 2018		% of Market value 31 March 2018
£000		£000		%
17,046	3i Infrastructure	-		
113,114	Adveq Management AG	-		
51,164	Aeolus Property	125,494		2.36%
102,475	Apollo Union Street Partners	-		
4,906	Bank Invest New Energy Solutions	-		
19,363	Blackrock Co-Investment IV, LP	-		
369,425	Blackrock Management	252,266		4.75%
8,297	Bridges Ventures	-		
23,170	Brookfield Howard Asset Management	19,542		0.37%
243	Buy & Hold - LPFA In-house	-		
609	Capital Fund	-		
202,724	CBRE Global Investors	202,799		3.82%
13,445	Cleantech Europe	-		
8,821	Coller Capital	-		
8,358	Dover Street	-		
4,397	Foresight Group	1,720		0.03%
22,606	Glennmont Partners	-		
38,349	GMPF & LPFA Infrastructure LLP	-		
40,596	Graham Trend	32,469		0.61%
46,164	GSA Trend	43,316		0.81%
60,319	Harbour Vest Partners LCC	-		
75,979	Hermes Private Equity	-		
4,868	Impax Asset Management	3,348		0.06%
3,458	Infrared Capital Partners	4,120		0.08%
699,634	Insight Investment Management (Global) L	712,004		13.39%
8,090	Ithaca	-		
9,723	JP Morgan	-		
110,020	Knight Frank	167,360		3.15%
48,418	LGT Capital Partners Ltd	-		
2,276,213	LPPI Global Equities	2,320,391		43.65%
	LPPI Credit	263,069		4.95%
	LPPI Infrastructure	279,626		5.26%
	LPPI Private Equity	578,913		10.89%
	LPPI Phaunos	8,171		0.15%
	LPPI Fixed Income	135,852		2.56%
60,049	M&G Investment Management Ltd	4,665		0.09%
49,766	Meridiam Infrastructure	-		
	MFS International (UK) Ltd	-		
20,046	Montana Capital Partners LP	-		

## LPFA Accounts 31 March 2018

### Investments Analysed by Fund Manager (contd.)

Market value 31 March 2017		Market value 31 March 2018	% of Market value 31 March 2018
£000		£000	%
19,664	Naxicap	-	
90,859	Pantheon Ventures (UK) LLP	-	
45,894	Permira Europe V, LP	-	
10,012	Phaunos Timber Fund Limited	-	
424	Pontoon Dock	13,410	0.25%
3,776	Record Currency Management	-	
11,783	Red Kite Mine Finance	10,729	0.20%
9,743	Robeco Alternative Investments	-	
99,459	Semperian PPP Investment Partners	-	
4,729	Standard Chartered	4,095	0.08%
34,662	The Energy & Minerals Group Fund III, LP	-	
126,765	Winton-EVO	132,024	2.48%
1,139	Zouk Capital LLP	-	
	Zouk Solar	88	0.00%
<b>4,980,764</b>		<b>5,315,471</b>	<b>100%</b>
3,255	Cash held by investment managers	58,849	
421	Amounts receivable for sales	617	
3,632	Investment income due	81	
(1,027)	Amounts payable for purchases	-	
<b>4,987,045</b>		<b>5,375,018</b>	

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

Security	Market value 31 March 2017	% of Total Fund	Market value 31 March 2018	% of Total Fund
	£000		£000	
LPP I Global Equity Fund	2,276,213	45.7	2,320,391	43.7
LPPI PE Investments (No.1) LP	-	-	578,913	10.9
Insight LDI solutions plus bonds plus FD CLS'S'SHS	267,334	5.4	407,593	7.7
Insight Liability Driven Investment (LDI) solutions plus LDI active '1'FD	317,053	6.4	-	-
<b>Total</b>	<b>2,860,600</b>	<b>57.5</b>	<b>3,306,897</b>	<b>62.3</b>

## **LPFA Accounts 31 March 2018**

### **15 Securities Lending**

The Securities lending programme was ended in September 2016, prior to the asset transition and launch of the ACS in November 2016.

Securities lending was governed by an agreement between the LPFA and the custodian. All loans were collateralised and subject to daily valuation and calling of collateral. Cash was not accepted as collateral and a maximum of 35% of securities in the fund were available for lending. The Fund held no collateral at 31 March 2018 (2017:£nil) in equities and government issued debt.

## LPFA Accounts 31 March 2018

### 16 Financial Instruments

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

Market value 31 March 2017	Category	Market value 31 March 2018
£000		£000
	<b>Financial assets - fair value through profit and loss</b>	
56,649	Fixed interest securities	-
44,647	Equities	-
9,723	Liquidity Fund	-
	<b>Pooled investments</b>	
2,406,082	- Equities	2,400,971
-	- Credit	267,734
800,820	- Private Equity	592,989
346,135	- Infrastructure	510,869
253,047	- Property	328,293
664,337	- Managed	408,128
33,183	- Commodities	27,713
224,626	Fixed interest securities	601,145
27,431	Cash Instruments	10,269
	<b>Derivatives</b>	
3,923	- Forward currency contracts	-
414	- Purchased/written options	-
<b>4,871,017</b>		<b>5,148,111</b>
	<b>Derivatives</b>	
(271)	- Purchase / written options	-
<b>(271)</b>		<b>-</b>
<b>4,870,746</b>		<b>5,148,111</b>
	<b>Finance assets - loans and Receivables</b>	
3,255	Cash held by investment managers	58,849
3,632	Investment income due	81
421	Amounts receivable for sales	617
346,765	Cash balances	176,792
12,541	Current Assets – Note 19	115,959
<b>366,614</b>	<b>Total - Loans and Receivables</b>	<b>352,298</b>
	<b>Finance liabilities - at amortised cost</b>	
(1,027)	Amounts payable for purchase	-
(9,229)	Current liabilities – Note 20	(13,495)
<b>(10,256)</b>	<b>Total - Loans and Receivables</b>	<b>(13,495)</b>
<b>5,227,104</b>	<b>Grand Total</b>	<b>5,486,913</b>

## LPFA Accounts 31 March 2018

### 16. Financial Instruments (continued)

The LPFA 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 2018 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.

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

#### Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

##### Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, futures and options.

##### Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

##### Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity and infrastructure are based on valuations provided by the general partners of the funds in which the LPFA has invested. The valuations are determined using the guidelines set out by the British Venture Capital Association or International Limited Partners Association.

The fair value levels of certain investment funds have been re-classified following an exercise to review the inputs into asset valuations. This resulted in the 2017 figures being re-stated for the movement of pooled vehicles amounting to £2.5 billion into Level 1 as the underlying assets of the pools are listed equities

## LPFA Accounts 31 March 2018

### Fair value levels

Value at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit or loss	3,278,721	1,024,353	1,012,797	5,315,871
<b>Net financial assets</b>	<b>3,278,721</b>	<b>1,024,353</b>	<b>1,012,797</b>	<b>5,315,871</b>

### Reconciliation of level 3 assets

	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018
	£000	£000	£000	£000	£000
Level 3	933,430	846,644	(797,286)	30,009	1,012,797

Value at 31 March 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit or loss	2,549,421	1,497,913	933,430	4,980,764
<b>Net financial assets</b>	<b>2,549,421</b>	<b>1,497,913</b>	<b>933,430</b>	<b>4,980,764</b>

The Fair Value levels of certain investment funds were re-classified following an exercise to review the inputs into asset valuations. This resulted in the 2017 figures being re-stated for the movement of pooled vehicles amounting to £2,489,738,000 into level 1 as the underlying assets of the pools are listed equities. One fund valued at £2,276,213,000 moved from level 2 to level 1 and three funds valued at £213,525,000 moved from level 3 to level 1.

Level 3 investment valuations include one or more inputs which are not based on observable market data. The investment managers of these assets produce valuations using valuation techniques based on the guidelines set out by the British Venture Capital Association or International Limited Partners Association.

In measuring the Level 3 investments it is possible that one or more of the inputs could be changed, by the valuing manager, to acceptable alternative assumptions. For example different earnings multiples could be used for a comparable company or industry sector. These assumptions may significantly change the valuation of the investment being valued. However, each investment is valued in isolation and changing assumptions for one investment may not be applicable to others. Therefore, carrying out a sensitivity analysis on the whole class may be inappropriate. LPFA has a large portfolio of Level 3 investments and changes to the value of any one investment is not likely to have a significant impact on the value of the whole class of investments or to the value of LPFA's total asset portfolio.

## LPFA Accounts 31 March 2018

### Nature and Extent of Risks Arising from Financial Instruments

LPFA's investment and hedging activity expose it to a variety of financial risks in respect of financial instruments and which are managed in line with LPFA's investment and funding strategy as set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

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 LPFA to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services of code of Practice and Investment Guidance.

Overall, LPFA 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 and funding strategy.

The primary risk arising from investments and hedging in financial instruments are market risk, credit risk and liquidity risk.

#### Market Risk

Market risk is the risk of loss from fluctuations in market prices which includes interest and foreign exchange rates, credit spreads, equity prices and volatility. The Fund is exposed to market risk from its investment and hedging activities, with the level of risk exposure depending on asset mix, market conditions, expectations of future price and yield movements. Most of the market risk arises from financial instruments held in investments in LPP pooled funds.

Market risk is managed in line with the risk management objectives within the Fund's ISS and FSS, which is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising return on risk. The Fund manages its market risk by establishing a well-diversified asset allocation across different asset classes, countries and currencies. The Fund also seeks to include assets which provide real term returns as well as cash flow generating assets that try to match the fund's liabilities.

#### Market Risk – Sensitivity Analysis

Several approaches are used to measure and monitor the market risk of the Fund including sensitivity analysis, expected volatility, VaR and stress testing. The methodology used may be based on historical data or using simulation techniques, depending on the measure and the type of risk.

The expected volatility over a 1-year time horizon is used as one risk measure for the Fund and is measured as a one standard deviation movement in the returns for each of the major asset classes in which the Fund is invested. The expected volatility provides a measure of the potential largest change in the value of the Fund in around 2/3rds of the time. The total fund volatility considers the expected interactions between the different asset classes, based on underlying volatilities and correlations of the assets.

The approach makes assumptions on the potential distribution of prices and the potential movement and correlation in equity prices, interest and foreign exchange rates and credit spreads. The limitations of the approach are that the expected asset volatility and correlations may be different over the 1-year time horizon, the assumed distribution of prices may be different and it does not provide a measure of potential outcomes outside the one standard deviation movement.

## LPFA Accounts 31 March 2018

2017 1 year expected volatility (%)	2017 % of Fund	Asset Class	2018 1 year expected volatility (%)	2018 % of Fund
18.7	51.5	Global Equities	19.3	49.0
26.5	10.1	Private Equity	24.0	10.3
23.2	5.9	Property	20.7	7.5
10.0	1.0	Fixed Income	3.3	2.5
15.5	5.1	Infrastructure	17.3	5.0
4.9	3.6	Credit	8.4	5.1
4.9	14.4	Total Return	4.6	15.2
0.1	8.4	Cash & LDI	0.0	5.4
<b>15.1</b>	<b>100.0</b>	<b>Total Fund</b>	<b>11.9</b>	<b>100.0</b>

The value of the Fund as at 31 March 2018 was £5,654m (2017: £5,337m) and the expected volatility was 11.9% (2017: 15.1%). Given these figures, we would expect that in roughly 2/3<sup>rd</sup>s of outcomes the value of the Fund would lie between £6,327m (2017: £6,064m) and £4,981m (2017: £4,545m) in 12 months' time, expressed in today's equivalent present value.

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The main interest rate risk for the Fund is within the fixed income assets.

The Fund is also exposed to interest rate risk within its pension liabilities, which is managed using bonds and swaps through a liability-driven investment (LDI) programme.

The sensitivity of financial instruments in the Fund to interest rate movements is captured in the sensitivity analysis within the market risk section.

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk through non-sterling investments, where the currency risk has not been hedged, while it holds sterling liabilities. The currency risk is mainly in the global equity, private equity, credit and infrastructure pooled portfolios.

The Board has established a currency hedge programme to dampen the effect of foreign currency fluctuations on the value of the non-sterling investment asset. The hedge currently covers 50% of the non-sterling exposure of the global equity portfolio, excluding emerging markets, and 100% of the total return portfolio. The currency hedge program is reviewed regularly as part of LPFA's investment strategy review.

### Currency Risk Sensitivity Analysis

The increase in currency exposure over the year reflects the inclusion of currency risk from investments in private equity, infrastructure and credit in the table below.

The expected standard deviation of the Fund's significant currency exposure is based on 12m market implied volatilities as at 31 March 2018. The following tables summarise the Fund's currency exposure and expected 12m volatility by currency as at 31 March 2018 and as at the previous period end:

## LPFA Accounts 31 March 2018

Value at 31 March 2017 (£m)	Implied volatility %	Currency	Value at 31 March 2018 (£m)	Implied volatility %
812	9.4	USD	1436	8.6
-28	11.1	JPY	55	10.3
88	8.7	EUR	440	7.2
87	8.2	CHF	121	7.8

The sensitivity of the Fund to currency movements is captured in the sensitivity analysis within the market risk section.

### Credit Risk

Credit risk is the risk that the issuer or counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The main credit risk within the Fund arises mainly from investments in fixed income securities within the pooled funds, where the issuer may default or is unable to pay its obligation when due. The Fund seeks to minimise its credit risk by the selection of high quality counterparties, brokers and financial institutions.

Credit risk also arises with LPFA deposits held with banks and financial institution. During 2013/14 the LPFA joined a Group Investment Syndicate (GIS), operated by the Greater London Authority (GLA), under the supervision of the participants; the GLA, the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC) and the Mayor's office for Policing and Crime (MOPAC). The GIS has an approved counterparty list using a creditworthiness methodology. The methodology uses an average of the ranked ratings from the ratings agencies; Fitch, Moody's and Standard & Poor.

The sensitivity of the Fund to credit spreads is captured in the sensitivity analysis within the market risk section.

The LPFA 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 fund's cash holding under its treasury management arrangements at 31 March 2018 was £57.5m (2017:£340.8m).

### Liquidity Risk

Liquidity risk is the risk that LPFA has insufficient funds to meet its financial obligation when due. These obligations may arise from operating expenses, payment to members or to meet investment commitments.

LPFA manages its liquidity risk by forecasting future cash requirements and having immediate access to enough funds, either through cash holdings or holding highly liquid assets that can be readily liquidated if required. The LPFA has immediate access to its cash holdings with the GIS and Lloyds Bank Plc.

The LPFA defines 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 2018, the value of illiquid assets (private equity, infrastructure, credit and real estate) was £1,543m, which represented 27.9% of the total LPFA assets (31 March 2017 £1,312m which represented 24.7% of the total LPFA assets).

All financial liabilities at 31 March 2018 are due within one year.

## LPFA Accounts 31 March 2018

### 17. Cash balances

31 March 2017		31 March 2018
£000		£000
346,765	Short term deposits	176,792
3,254	Pooled deposits placed by investment managers	58,849
<b>350,019</b>		<b>235,641</b>

### 18. AVC Investments

31 March 2017		31 March 2018
£000		£000
12,960	Prudential	12,464

AVC contributions of £1.73m (2017 - £1.87m) were paid directly to Prudential in the year.

### 19. Current assets

31 March 2017		31 March 2018
£000		£000
1,786	Contributions due - employees	3,438
7,224	Contributions due - employers	4,545
-	Transfer value receivable	106,842
3,531	Sundry debtors and prepayments	1,134
<b>12,541</b>		<b>115,959</b>

#### 19.b Analysis of debtors

31 March 2017		31 March 2018
-	Central Government bodies	1,040
7,586	Other Local authorities	113,981
4,955	Other entities and individuals	938
<b>12,541</b>		<b>115,959</b>

### 20. Current Liabilities

31 March 2017		31 March 2018
£000		£000
9,688	Sundry Creditors	13,474
81	Benefits payable	21
<b>9,769</b>		<b>13,495</b>

The significant majority of creditors are with other entities and individuals, investment management and performance fees being the vast majority of this.

#### 20.b Analysis of current liabilities

31 March 2017		31 March 2018
9,769	Other entities and individuals	13,495
<b>9,769</b>		<b>13,495</b>

## LPFA Accounts 31 March 2018

### 21. 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 IAS24 and its applicability to the public sector using current advice and guidance. Mike O'Donnell (Board member) is the Executive Director of Corporate Services at London Borough of Camden. The London Borough of Camden paid employer contributions of £287K (2017:£480K) during the year. Stephen Alambritis (Board member) is the Leader of London Borough of Merton. No contributions were paid by the London Borough of Merton during the year (2017:nil). These two boroughs are Scheduled bodies in the Fund. The Mayor of London comments on the LPFA annual budget and the Greater London Authority is a participating employer of the pension scheme and paid employer contributions of £4,526K (2017:£4,774k) during the year. 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. LPFA entered into a joint venture with Lancashire County Council and incorporated Local Pensions Partnership Ltd (LPP) and its subsidiaries on 19 October 2015. LPP is a related party of LPFA. The 50% share of LPP is consolidated within the operational accounts, using the equity method of accounting.

### 22. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £614.8m (2017: £1,013.65m) based on:

Currency	Commitment	Exchange Rate	£
US\$	518,633,029	1.404	369,318,619
CHF	7,030,000	1.337	5,259,614
EUR	233,733,224	1.139	205,124,328
GBP	35,063,681	1.000	35,063,681
<b>Total</b>			<b>614,766,242</b>

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.

### 23. Total minimum lease payments for collection

2016/17	Commitment	2017/18
201,558	< 1 years	945,051
2,912,400	1 to 5 years	3,405,204
3,937,400	> 5 years	5,617,800
<b>7,051,358</b>		<b>9,968,055</b>

The minimum lease payments relate to rents receivable on properties owned by the fund. There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

### 24. Post Balance Sheet events

There were no material events after the balance sheet date.

## LPFA Accounts 31 March 2018

### 25. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities in accordance with IAS 26, every year using the results of the Triennial Actuarial Valuation as at 31 March 2016, estimated income and expenditure for the year, fund returns for the year and details of any new retirements for the year that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

The present value of the Funded Obligation at 31 March 2018 for the Fund was £8,083m (2017:£7,978m). The net liability for the Fund at 31 March 2018 was £2,552m (2017:£2,674m).

#### Key Assumptions Used

Life expectancy from age 65 (years)	31 March 2017	31 March 2018
Retiring today :		
Males	21.3	21.4
Females	24.2	24.3
Retiring in 20 years:		
Males	23.6	23.8
Females	26.5	26.6

- Members will exchange half of their commutable pension for cash at retirement.
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

The financial assumptions used for the purposes of the calculations are as follows.

	31 March 2017	31 March 2018
	% p.a.	% p.a.
RPI increases	3.5	3.35
CPI increases	2.6	2.35
Salary increases	4.1	3.85
Pension increases	2.6	2.35
Discount rate	2.7	2.55

These assumptions are set with reference to market conditions at 31 March 2018.

# LPFA Accounts 31 March 2018

## 7 Actuarial Statement

### Introduction

The last full triennial valuation of the London Pensions Fund Authority Pension Fund was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017. The next formal valuation will be carried out as at 31 March 2019, with new contribution rates set from 1 April 2020.

This statement gives an update on the likely progression of the funding position to 31 March 2018 and comments on the main factors that have led to a change since the full valuation as at 31 March 2016.

### 2016 valuation results

The results for the Fund at 31 March 2016 were as follows

- The Fund as a whole had a funding level of 96% i.e. the assets were 96% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponds to a deficit of £183m which is lower than the deficit at the previous valuation in 2013.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment (usually expressed as a lump sum payment) required to pay for their individual deficit.
- The assumptions used for each employer in setting these contributions varied based on the period that they were expected to continue in the Fund and the assessed strength of their covenant.
- The contributions for employers with a strong covenant that were expected to stay in the Fund over the long term were set using the same assumptions as the overall Fund results with an individual deficit recovery period of up to a maximum of 14 years.
- The contributions for less secure employers were set using more prudent discount rate assumptions and with a shorter maximum individual deficit recovery period than the more secure employers. If these employers were expected to leave the Fund shortly, then contributions were set which target a fully funded position on a minimum risk basis when they leave the Fund.

### Updated position

Using an approach consistent with the 2016 valuation, the funding position at 31 March 2018 is projected to have improved, primarily due to strong Fund asset returns and payment of deficit contributions.

**Graeme D Muir FFA**  
**Partner, Barnett Waddingham LLP**

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Based on any employer with whom the LPFA has had an economic transfer in 2017/18

Employer Body	Contribution rate %
Affinity Sutton	-
Age Concern London	-
All England Netball Assn	-
All Saints Educational Trust	-
Alleyn's College	-
Alleyn's School	18.7
Amicus Horizon Group	-
Archbishop Tenison's School	19.2
Arts Council of England	-
Assoc. Of Education Com	-
Association of Colleges	16.7
Ave Maria School	-
B E C T A	-
Babcock Critical Services Ltd.	17.5
Babcock Training Limited	17.7
Barnardos	-
Bethnal Green City Challenge	-
Bishop Thomas Gm School	14.9
Bondway Housing Association	-
Bouygues E&S Uk Limited	-
Briggs Marine Contractors Ltd	15.9
Brit. Amateur Gymnastic Assoc	-
Brit. Inst. Rec. Snd(Brit Lib)	-
British Athletics Federation	-
British Film Institute	12.2
British Mountaineering Coun.	-
British Sports Trust	-
Broadacres Housing Assn. Ltd	19.7
Bromley College	15.8
Broxbourne District Council	-
Brunel University	17.1
Bufvc	17.2
Burntwood School	-
C I L T	-
Capita Plc	28.9
Cardinal Vaughan	-
Career Development Institute	-

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
Caris Haringey	-
Castle Vale Community Housing Assoc.	-
CFBT Advice & Guidance	34.5
CFBT Education Trust	34.9
CFBT Strategies	-
Charlotte Sharman G.M.Prima	15.9
Chartered Institute of Housing	14.7
Children Schools & Families	-
Churchill Contract Services Ltd	19.9
City and Islington College	15
City of London	-
City of Westminster	27.1
City of Westminster College	16.4
City University	12
Cntr. For Environment Study	-
Cntr. School Speech & Drama (Ccssd)	14
Colfes Grammar School	-
Commission for Local Admin	14.6
Consortium of Rural Techs	-
Con for Awds In Care Health & Ed (Cache)	15.8
Coram's Fields	18.7
Cordwainers	-
Corpus Christi Rc Primary S	12.5
Council of National Academic Awards	-
DCLG	-
Dept. For Constitutional Affairs	-
Digby Stuart College	-
Divert Trust	-
Dulwich College	15.8
Dulwich Picture Gallery	-
Durand Academy	14.2
DVLA	-
Ealing, Hammersmith & West London College	-
East London Housing Association	-
East London Waste Authority	16.6
Elliott Grant Maint. School	-
Emanuel School	36.4
English Institute of Sport	12
Environment Agency	-
Epping Forest D C	-
Family Mosaic	-
Family Service Units	-
Firebuy Limited	-
Food Standard Scotland	16.7

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
Food Standards Agency	16.7
Forest Hill Vsa	42.5
Friars School	12.7
Futures Charitable Trust	-
G.L.E.Ltd	15.4
Gallions Housing Association	15.6
Geffrye Museum Trust	14.3
Genesis Housing Association Ltd	19
Gilbert Place Centre	-
Gll Nexus	18.2
Godolphin & Latymer School	-
Goldsmiths, University of London	15.5
Gorseway Care Ltd	-
Graveney Grant Maint School	-
Greater London Authority	12
Greater London Council	-
Greater London Staff Assoc	-
Greenwich Community College	19.1
Greenwich Young Peoples Tht	-
Guinness Trustees Limited	-
H.E.F.C.E.	-
Haberdasher Aske's	-
Hackney Downs School	-
Hertsmere Borough Council	-
Hillbrook G M School	-
Homes and Communities Agency	-
Honeywell Infants G M School	-
Honeywell Junior G M School	-
Horniman Museum	14.3
Hounslow Welcare	-
Housing Comp.Reggs. (Crombie)	-
Ilea	-
Immanuel C of E Primary Sch	12
Inner Lndn Pbn & After Care	-
Inner London Magistrates Court	-
Inst Environment Health Off	12.2
Jewish Free School	-
Julian's Primary School	19.2
Kelly House Bail Hostel	-
Kettering Comm. Leisure Ltd	-
Kings College London	-
Kingston Univ Service Co Ltd	36.1
L A S E R	-
L B Hammersmith & Fulham	24.1
L B Richmond Upon Thames	-

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
L B Wandsworth	23.8
L.B. Of Lambeth - Dunraven School	13.7
La Sainte Union Convent School	15.4
Lambeth College	16.5
Laretraite High School	14.6
Laser Advisory Council Ltd	-
L.B. of Tower Hamlets	23.6
L.B of Waltham Forest	26.7
L.B. of Kingston On Thames	-
Lee Valley Leisure Trust Ltd	12.7
Lee Valley Reg Park Auth.	21.7
Lewisham Southwark College	12.9
LFEPA	14.9
Liverpool HAT	-
Local Auth Mutual Investment Trus	-
Local Pension Partnership	12
Local Pension Partnership Investments	12
London & East Anglia Group	-
London & East Anglian Group	-
London Artscom Ltd.	17.2
London Borough Barnet	-
London Borough Bexley	-
London Borough Brent	-
London Borough Bromley	-
London Borough Camden	23.8
London Borough Ealing	0
London Borough Enfield	27.2
London Borough Hackney	23.9
London Borough Haringey	-
London Borough Harrow	-
London Borough Hillingdon	-
London Borough Hounslow	-
London Borough Islington	23.9
London Borough Lambeth	23.7
London Borough Lewisham	24.1
London Borough of Barking & Dagenham	-
London Borough of Camden	-
London Borough of Havering	-
London Borough of Lambeth	19.2
London Borough of Merton	-
London Borough of Newham	-
London Borough of Redbridge	-
London Borough of Sutton	-
London Borough Southwark	23.5
London Councils	12

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
London Diocesan Board	-
London Diocesan Fund	-
London Legacy Development Corporation	12
London Metro Uni (Nth Lond)	-
London Metro University	-
London Metropolitan University	16
London Nautical School	19.2
London Oratory R C School	-
London Pensions Fund Authority	12
London Residuary Body	-
London Sinfonietta	-
London South Bank Careers	-
London Thames Gateway	-
London Transport Users Commission	-
Maryward Settlement	17
Methodist Colleges,Schools	-
Middlesex Area Magistrates Court	-
Middlesex Area Probation Ct	-
Middx Assoc for The Blind	-
Milton Keynes Council	-
Mitie Managed Services Ltd	-
MOJ Shared Services	-
Morley College	17.7
Mountain Training Limited	21.3
Myrrh Ltd	-
NACRO	-
Nat. Inst. Adult Cont Educat	16.5
Nat.Adv.Body Pub.Sec.Higher Ed	-
National Council for Voluntary Youth Ser	-
National Crime Agency	-
National Crime Intelligence Service	-
National Health Service	-
National Offender Management Service	-
National Probation Board	-
National Rivers Authority	-
Ne London Magistrates Court	-
Newcastle College (Rathbone)	35.6
Newlon Housing Trust	-
NIWA	-
North East London Pbn Cttee	-
North Hull Housing Action Tr.	-
North London Hospice Group	26
Notre Dame School	19.2
NSL Limited	21.6
Old Oak & Park Development Corporation	12

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
Old Ford Housing Association	40.2
Open College Network London Region	20.6
Our Lady of Victory Primary School	-
Peabody Trust	15.6
Penrose Hsg Ass.	-
Places for People	-
Poplar Harca	17.4
Prospects Services	20.4
R B Kensington & Chelsea	24.5
Radicle	-
Raine's Foundation School	17
RICS Bev Fund (Lionheart)	36.4
Roehampton University	15.5
Royal Borough of Greenwich	24.2
Royal Institute of Public Admin	-
Rps Rainer	-
S London Church Fund & Swk Diocesan	-
S S A F A Forces Help	25
S.K.I.L.L.	-
Sacred Heart School	12
Salesian G M College	-
Samuel Lewis Housing Trust	-
Se London Magistrates Court	-
Search Your Careers Service	-
Sense	-
Serco Limited	-
Serco Ltd. Marine Services	-
Shenley Leisure Ctr. Trust Ltd	31.7
Shoreditch College	-
SITA UK Ltd	23.1
SLCF & Southwark	-
Slough Borough Council	-
Sodexo Ltd	18.4
South Bank University	15.2
South East London Pbn Cttee	-
South Thames College	18.6
South West London College	-
South West London Pbn Cttee	-
Southern Archaeology	-
Southfields G M School	-
Southwark College	-
Southwark Mediation Centre	-
Sport and Recreation Alliance Limited	18.8
Sport England	12
Sports Council	-
St Andrews R C School	13.8

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
St Annes	19.2
St Anthony's Catholic Prima	19.2
St Bernadette's School	17.7
St Christopher's Fellowship	19.1
St Francis Xavier	17.3
St Joseph Infants	19
St Joseph Juniors	14.2
St Martin in The Field	17.4
St Marylebone Housing Assn	-
St Marys RC Primary School	19.2
St Micheals School	15.2
St Pantile House Ass in Cam	-
St Thomas' School	-
St Thomas The Apostle	14.7
St.Francesca Cabrini Primar	19.2
Stonebridge H.A.T	-
Sulgrave Charitable Trust	-
Surrey Square Primary School	19.2
Sutton Centre for Indep Livin	-
Sutton Performing Arts Network	-
SW London Magistrates Court	-
Tandridge Leisure Ltd	17.1
Teachers	-
Tenant Housing Trust Ltd	-
Thames Conservancy	-
Thames Water Utilities Ltd	-
The City Literary Institute	12.3
The Community College Hackney	16.1
The English & Media Centre	23.5
The Froebel Trust	23.4
The Guinness Partnership	14.2
The Museum Association	-
The Planning Inspectorate	-
The Radius Trust	16.6
The Pioneer Group	12.3
Three Rivers District Council	-
Thurlow Park School	-
Thurrock Borough Council	-
Tower Hamlets College	15.2
Tower Hamlets H A T	-
Transport for London	12
Trinity Laban	34.2
Trust Thamesmead	15.6
Turney School	19.2
Turnham School	19.2

## LPFA Accounts 31 March 2018

### 8 Employers participating in the Fund

Employer Body	Contribution rate %
U K H T (Wales) Ltd	-
Uk Anti-Doping Ltd.	12
Uk Film Council	-
Uk Sports Council	12
Univ Ass Contemp Euro Studi	-
University of Greenwich	16
University of Reading	-
University of St Mark & St John	20.3
University of Surrey	-
University of The Arts London	17.2
University of Westminster	14.3
Urban Learning Foundation	-
Valuation Office Agency	18.2
Valuation Tribunal Service	14.7
Waltham Forest Cbha Ltd	15.6
West London Waste Authority	18
West Midlands Pension Fund	-
Western Riverside Waste Authority	12
Westminster Kingsway College	13.8
Willowfield School	-
Woking Borough Council	-

# **Operational Accounts**

# 9. Group Operational Account

## Group Statement of Movement in Reserves

	Pension Reserve £000	Compen Absences Reserve £000	Total Unusable Reserves £000	General Reserve £000	Business Reserve £000	Valuation Reserve £000	Org Dev Reserve £000	Innovations Reserve £000	Capital Contrib reserve £000	New Premises Reserve £000	Total Usable Reserves £000	Total Reserves £000
<b>Balance at 1 April 2017 brought forward</b>	<b>(17,882)</b>	<b>(3)</b>	<b>(17,885)</b>	<b>(2,883)</b>	<b>50</b>	<b>20</b>	<b>53</b>	<b>40</b>	<b>448</b>	<b>400</b>	<b>(1,872)</b>	<b>(19,757)</b>
Movement in Reserves during 2017/18	-	-	-	-	-	-	-	-	-	-	-	-
Surplus or (deficit) on provision of services	-	-	-	(2,557)	-	-	-	-	-	-	(2,557)	(2,557)
Share of Tax	-	-	-	191	-	-	-	-	-	-	191	191
<b>Net Increase before Transfers to Earmarked Reserves</b>	-	-	-	<b>(2,366)</b>	-	-	-	-	-	-	<b>(2,366)</b>	<b>(2,366)</b>
Transfers to/from Earmarked Reserves	-	3	3	160	(50)	(20)	(53)	(40)	-	-	(3)	-
Remeasurements of the Net Defined Benefit Liability	2,555	-	2,555	-	-	-	-	-	-	-	-	2,555
Other movement - joint venture	-	-	-	2,101	-	-	-	-	-	-	2,101	2,101
Movement in year	(303)	-	(303)	303	-	-	-	-	-	-	303	-
Accumulated Compensating Absences provision	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>2,252</b>	<b>3</b>	<b>2,255</b>	<b>198</b>	<b>(50)</b>	<b>(20)</b>	<b>(53)</b>	<b>(40)</b>			<b>35</b>	<b>2,290</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>(15,630)</b>	<b>-</b>	<b>(15,630)</b>	<b>(2,684)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>448</b>	<b>400</b>	<b>(1,837)</b>	<b>(17,467)</b>

## LPFA Accounts 31 March 2018

### Group Statement of Movement in Reserves (restated)

	Pension Reserve £000	Compen Absences Reserve £000	Total Unusable Reserves £000	General Reserve £000	Business Reserve £000	Valuation Reserve £000	Org Devt Reserve £000	Innovations Reserve £000	Capital Contrib reserve £000	New Premises Reserve £000	Total Usable Reserves £000	Total Reserves £000
<b>Balance at 1 April 2016 brought forward</b>	<b>(18,475)</b>	<b>(110)</b>	<b>(18,585)</b>	<b>1,408</b>	<b>50</b>	<b>20</b>	<b>90</b>	<b>40</b>	<b>635</b>	<b>400</b>	<b>2,643</b>	<b>(15,942)</b>
Movement in Reserves during 2016/17	-	-	-	-	-	-	-	-	-	-	-	-
Surplus or (deficit) on provision of services	-	-	-	4,510	-	-	-	-	-	-	4,510	4,510
Share of Tax	-	-	-	(458)	-	-	-	-	-	-	(458)	(458)
<b>Net Increase before Transfers to Earmarked Reserves</b>				<b>4,053</b>	-	-	-	-	-	-	<b>4,053</b>	<b>4,053</b>
Acquisition of reserves in joint venture (see note 17)												
Transfers to/from Earmarked Reserves	-	-	-	224	-	-	(37)	-	(187)	-		
Remeasurements of the Net Defined Benefit Liability	(5,556)	-	(5,556)	-	-	-	-	-	-	-		(5,556)
Other movement - joint venture				(2,311)	-	-	-	-	-	-	(2,311)	(2,311)
Movement in year	6,149	-	6,149	(6,149)	-	-	-	-	-	-	(6,149)	
Accumulated Compensating Absences provision	-	107	107	(107)	-	-	-	-	-	-	(107)	
<b>Increase/(Decrease) in Year</b>	<b>593</b>	<b>107</b>	<b>700</b>	<b>(4,290)</b>			<b>(37)</b>		<b>(187)</b>		<b>(4,515)</b>	<b>(3,814)</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>(17,882)</b>	<b>(3)</b>	<b>(17,885)</b>	<b>(2,883)</b>	<b>50</b>	<b>20</b>	<b>53</b>	<b>40</b>	<b>448</b>	<b>400</b>	<b>(1,872)</b>	<b>(19,757)</b>

## LPFA Accounts 31 March 2018

### Entity Statement of Movement in Reserves

	Pension Reserve £000	Compen Absences Reserve £000	Total Unusable Reserves £000	General Reserve £000	Business Reserve £000	Valuation Reserve £000	Org Dev Reserve £000	Innovations Reserve £000	Capital Contrib reserve £000	New Premises Reserve £000	Total Usable Reserves £000	Total Reserves £000
<b>Balance at 1 April 2017 brought forward</b>	<b>(17,882)</b>	<b>(3)</b>	<b>(17,885)</b>	<b>1,736</b>	<b>50</b>	<b>20</b>	<b>53</b>	<b>40</b>	<b>448</b>	<b>400</b>	<b>2,747</b>	<b>(15,138)</b>
Movement in Reserves during 2017/18	-	-	-	-	-	-	-	-	-	-	-	-
Surplus or (deficit) on provision of services	-	-	-	<b>(1,311)</b>	-	-	-	-	-	-	<b>(1,311)</b>	<b>(1,311)</b>
Share of Tax	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Increase before Transfers to Earmarked Reserves</b>	-	-	-	(1,311)	-	-	-	-	-	-	<b>(1,311)</b>	<b>(1,311)</b>
Transfers to/from Earmarked Reserves	-	3	<b>3</b>	160	(50)	(20)	(53)	(40)	-	-	<b>(3)</b>	-
Remeasurements of the Net Defined Benefit Liability	2,555	-	<b>2,555</b>	-	-	-	-	-	-	-	-	<b>2,555</b>
Movement in year	(303)	-	<b>(303)</b>	303	-	-	-	-	-	-	<b>303</b>	-
Accumulated Compensating Absences provision	-	-	-	-	-	-	-	-	-	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>2,252</b>	<b>3</b>	<b>2,255</b>	<b>(848)</b>	<b>(50)</b>	<b>(20)</b>	<b>(53)</b>	<b>(40)</b>			<b>(1,011)</b>	<b>1,244</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>(15,630)</b>	-	<b>(15,630)</b>	<b>888</b>	-	-	-	-	<b>448</b>	<b>400</b>	<b>1,736</b>	<b>(13,894)</b>

## LPFA Accounts 31 March 2018

### Entity Statement of Movement in Reserves (restated)

	Pension Reserve	Compen Absences Reserve	Total Unusable Reserves	General Reserve	Business Reserve	Valuation Reserve	Org Devt Reserve	Innovations Reserve	Capital Contrib reserve	New Premises Reserve	Total Usable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2016 brought forward</b>	<b>(18,475)</b>	<b>(110)</b>	<b>(18,585)</b>	<b>1,408</b>	<b>50</b>	<b>20</b>	<b>90</b>	<b>40</b>	<b>635</b>	<b>400</b>	<b>2,643</b>	<b>(15,942)</b>
Movement in Reserves during 2016/17	-	-	-	-	-	-	-	-	-	-	-	-
Surplus or (deficit) on provision of services	-	-	-	6,360	-	-	-	-	-	-	6,360	6,360
Share of Tax	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Increase before Transfers to Earmarked Reserves</b>				<b>6,360</b>							<b>6,360</b>	<b>6,360</b>
Transfers to/from Earmarked Reserves	-	-	-	224	-	-	(37)	-	(187)	-	-	-
Remeasurements of the Net Defined Benefit Liability	(5,556)	-	<b>(5,556)</b>	-	-	-	-	-	-	-	-	<b>(5,556)</b>
Movement in year	6,149	-	<b>6,149</b>	(6,149)	-	-	-	-	-	-	<b>(6,149)</b>	
Tax on actuarial gain loss	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated Compensating Absences provision	-	107	<b>107</b>	(107)	-	-	-	-	-	-	<b>(107)</b>	
<b>Increase/(Decrease) in Year</b>	<b>593</b>	<b>107</b>	<b>700</b>	<b>328</b>			<b>(37)</b>		<b>(187)</b>		<b>103</b>	<b>804</b>
<b>Balance at 31 March 2017 carried forward</b>	<b>(17,882)</b>	<b>(3)</b>	<b>(17,885)</b>	<b>1,736</b>	<b>50</b>	<b>20</b>	<b>53</b>	<b>40</b>	<b>448</b>	<b>400</b>	<b>2,747</b>	<b>(15,138)</b>

## LPFA Accounts 31 March 2018

Group Operational Account, Comprehensive Income & Expenditure Statement  
for the year ended to 31 March 2018

31 March 2017 Entity	31 March 2017 Group		Notes	31 March 2018 Entity	31 March 2018 Group
£'000	£'000			£'000	£'000
4,950	4,950	Income	5	4,470	4,470
1,679	1,679	Other income	6	492	492
(6,218)	(6,218)	Expenditure	7-10	(5,765)	(5,765)
6,509	6,509	Exceptional Item - IAS19 adjustment	17	-	-
-	(4,029)	Exceptional item - share of pension liability in Joint Venture	17	-	-
<b>6,920</b>	<b>2,891</b>	<b>Cost Of Services</b>		<b>(803)</b>	<b>(803)</b>
(560)	(560)	Financing and Investment Income and Expenditure		(508)	(508)
<b>6,360</b>	<b>2,331</b>	<b>Surplus/(deficit) on Provision of Services</b>		<b>(1,311)</b>	<b>(1,311)</b>
-	2,179	Share of Surplus on Provision of services by LPP Joint Venture	16	-	(1,246)
<b>6,360</b>	<b>4,510</b>	<b>Group Surplus</b>		<b>(1,311)</b>	<b>(2,557)</b>
-	(458)	Tax (expense)/credit of LPP Joint Venture	16	-	191
<b>6,360</b>	<b>4,053</b>	<b>Surplus/(deficit) for the financial year</b>		<b>(1,311)</b>	<b>(2,366)</b>
		<b>Items that will not be reclassified to surplus/ (deficit)</b>			
(5,556)	(5,556)	Actuarial gains/(losses) on pension assets/liabilities	11	2,555	2,555
-	(2,785)	Share of actuarial gain of LPP Joint Venture	16	-	2,531
-	474	Deferred tax on actuarial Loss in LPP Joint Venture	16	-	(430)
<b>(5,556)</b>	<b>(7,868)</b>	<b>Other Comprehensive Income and Expenditure</b>		<b>2,555</b>	<b>4,656</b>
<b>804</b>	<b>(3,815)</b>	<b>Total Comprehensive Income and Expenditure</b>		<b>1,244</b>	<b>2,290</b>

Financing and Investment Income and Expenditure is the net interest on the defined benefit liability and the nominal administration cost.

The exceptional income of £6,509K is the extinguished pension liability net of the settlement paid to transfer the pension liability to the LPP partnership on the transfer of staff to the new entity. The exceptional cost of £4,029K disclosed in the group accounts is 50% of the pension liability within the LPP Joint Venture.

## LPFA Accounts 31 March 2018

Group Balance Sheet as at 31 March 2018

31 March 2017 (Restated) Entity £'000	31 March 2017 (Restated) Group £'000		Notes	31 March 2018 Entity £'000	31 March 2018 Group £'000
55	55	Property, Plant & Equipment	<b>13</b>	-	-
393	393	Intangible Assets	<b>14</b>	201	201
<b>448</b>	<b>448</b>	<b>Non-current assets</b>		<b>201</b>	<b>201</b>
1,102	1,102	Debtors	<b>18</b>	372	372
2,636	2,636	Bank		2,321	2,321
<b>3,738</b>	<b>3,738</b>	<b>Current Assets</b>		<b>2,693</b>	<b>2,693</b>
(1,442)	(1,442)	Creditors	<b>19</b>	(1,158)	(1,158)
<b>(1,442)</b>	<b>(1,442)</b>	<b>Current Liabilities</b>		<b>(1,158)</b>	<b>(1,158)</b>
		<b>Non-current liabilities</b>			
(17,882)	(17,882)	Pension liability		(15,630)	(15,630)
-	(4,619)	Provision in Joint Venture	<b>16</b>	-	(3,573)
<b>(15,138)</b>	<b>(19,757)</b>	<b>Net assets</b>		<b>(13,894)</b>	<b>(17,467)</b>
		<b>Reserves</b>			
1,736	(2,883)	General Reserve		888	(2,684)
50	50	Business reserve		-	-
20	20	Valuation reserve		-	-
53	53	Organisational Development reserve		-	-
400	400	New Premises Reserve		400	400
40	40	Invest to Save Reserve		-	-
448	448	Capital Contributions Reserve		448	448
		<b>Unusable reserves</b>		-	-
(3)	(3)	Compensated Absences		-	-
(17,882)	(17,882)	Pension Reserve		(15,630)	(15,630)
<b>(15,138)</b>	<b>(19,757)</b>			<b>(13,894)</b>	<b>(17,467)</b>

## LPFA Accounts 31 March 2018

### Group Account Cashflow Statement for the year ended 31 March 2018

31 March 2017	31 March 2017		Notes	31 March 2018	31 March 2018
Entity	Group			Entity	Group
£'000	£'000			£'000	£'000
6,360	4,053	Net surplus/(deficit) on the provision of services		(1,311)	(2,366)
(4,754)	(2,446)	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	15	996	2,051
<b>1,606</b>	<b>1,606</b>	<b>Net cash flows from Operating Activities</b>		<b>(315)</b>	<b>(315)</b>
-	-	Investing Activities - acquisition on non-current assets	13 & 14	-	-
<b>1,606</b>	<b>1,606</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(315)</b>	<b>(315)</b>
1,030	1,030	Cash and cash equivalents at the beginning of the reporting period		2,636	2,636
<b>2,636</b>	<b>2,636</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>2,321</b>	<b>2,321</b>

## LPFA Accounts 31 March 2018

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## Notes to the financial statements for the year ended 31 March 2018

### 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.

## 1. Summary of Significant Accounting Policies

### General Principles

The Statement of Accounts summarises LPFA's transactions for the 2017/18 financial year and its position at year-end of 31 March 2018. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18: based upon International Financial Reporting Standards (IFRS).

The accounting convention adopted is historical cost.

The financial statements and accounts have been prepared on a going concern basis.

### 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 LPFA provides the relevant services.

Supplies are recorded as expenditure when they are consumed.

Where income or expenditure has been recognised but cash has not been received or paid, a receivable or payable for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of receivables is written down and a charge is made to revenue for the income that might not be collected.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of change in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents.

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

# LPFA Accounts 31 March 2018

## 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 LPFA. 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

LPFA 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 financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities under IAS 19. In line with directions from Government, future pensions liabilities are now measured using the Consumer Prices Index. The Code of Practice requires the net pensions asset or liability be matched by a pensions reserve in the Balance sheet.

The movement in the defined benefit obligation is analysed into the following components:

- Service cost: the increase in the present value of a defined benefit obligation (liabilities) resulting from employee service in the current period.
- Interest cost: the change during the period in the defined benefit liability that arises from the passage of time.
- Change in financial assumptions: changes in the present value of the defined benefit obligation resulting from a change in financial assumptions made by the actuary;
- Change in demographic assumptions: changes in the present value of the defined benefit obligation resulting from a change in demographic assumptions made by the Actuary;
- Experience loss/(gain) on defined benefit obligation: changes in the present value of the defined benefit obligation resulting from the effects of the differences between the previous actuarial assumptions and what has actually occurred;
- Estimated benefits paid (net of transfers in): Payments to discharge liabilities directly to pensioners;
- Contributions by scheme participants: the increase in scheme liabilities and assets due to payments made into the scheme by employees (where increased contribution increases pensions due to the employee in the future).

# LPFA Accounts 31 March 2018

## Provisions

Provisions are made where an event has taken place that gives LPFA an obligation that probably requires settlement by transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the comprehensive income and expenditure statement in the year that LPFA 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 LPFA a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of LPFA. 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.

## Property, Plant and Equipment

### Recognition

Property, plant and equipment 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 LPFA 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 depreciated replacement cost.

### Impairment

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

### Depreciation

Depreciation is calculated using the straight-line method over the economic life of the investment to reflect

Whilst assets are under construction they are not depreciated but a valuation will be made at the time the asset is brought into use;

Useful life of Property, plant and equipment	
Classification:	
Computers	3 years
Servers	5 years

# LPFA Accounts 31 March 2018

## Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by LPFA (e.g. software licences) is capitalised when it will bring benefits to LPFA 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:

Classification:	Useful life of asset:
Software licenses	5 years
Altair related (Pensions admin system)	10 years

## Value Added Tax

LPFA is VAT registered, so all income and expenditure amounts exclude VAT, with the exception of where VAT is not fully recoverable.

## 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 LPFA on the Balance Sheet, initially at their fair value, only when goods or services have been provided or rendered to a third party.

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

## Joint Venture

The London Pensions Authority has a joint venture, Local Pensions Partnership (LPP), with the Lancashire County Pension Fund. This was established on 8 April 2016. It is owned in equal shares by London Pension Fund Authority (LPFA) and the Lancashire County Council and the LPP manages the administration and investment functions on behalf of the two funds.

In the accounts of the entity the value of the investment in LPP is disclosed at cost, being £nil. The cost of acquisition was £nil as LPP was acquired as a start up.

Group Accounts have been included recognising the LPFA's significant interest in the LPP. As a Joint Venture, the LPP is consolidated into the Fund's Group Accounts using the equity method. The judgement in defining LPP as a Joint Venture is reached due LPP being an arrangement under which two (or more) parties have contractually agreed to share control, such that decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control, and the two Funds have rights to the net assets of the arrangement. This remains the case in 2017/18.

## Reserves

LPFA 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.

## General Reserve

The General Reserve is a usable reserve. During the year four reserves were transferred into the General Reserve, these reserves being: the Business Reserve, the Innovations Reserve, the Organisational Development Reserve and the Valuation Reserve.

## LPFA Accounts 31 March 2018

### **Capital Contributions Reserve**

This is a reserve which reflects the net funding of capital spending from the Pension Fund.

### **Premises Reserve**

LPFA rented office accommodation under an operating lease agreement at Dexter House 2 Royal Mint Court until December 2014.

This reserve was established by LPFA in 2014 when the lease on Dexter House expired. The reserve was used to fund work to consider the options, and to fund the costs associated with moving premises. The reserve now remains in order to fund the possibly significant costs in re-instating Dexter House to its original state should LPFA be required to do so.

### **Valuation Reserve**

The carrying out of the fund triennial valuation adds about £30,000 to the LPFA's operational costs in the valuation year. From 2016-17 the LPFA will put resources into the reserve to fund the 2019 valuation (in 2019-18).

### **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 an existing contract.

### **Organisational Development Reserve**

The reserve supports improvements in working practices, and the development and retention of staff, this would include funding temporary staff, consultancy, departure costs and similar type expenditure.

### **Innovations Reserve**

The reserve is used to fund invest to save projects.

Certain reserves are kept to manage accounting processes and do not represent usable resources for LPFA. 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 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.

## 2. Accounting standards issued, but not yet adopted

IFRS 9 Financial instruments - Includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

IFRS 16 Leases - It replaces IAS17 and requires lessees to recognise both assets and liabilities on the balance sheet, for all leases (now including operating leases).

The impact of the standards issued but not yet adopted cannot yet be quantified.

## LPFA Accounts 31 March 2018

### 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 and Risk Committee prior to the draft budget being presented to Board for its 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. 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 events may not accurately reflect the assumptions allowed for in the budget. Events affecting commercial contracts are reviewed as they happen and on a monthly basis as part of the budget monitoring arrangements.

### 4. Critical Accounting Judgements and Estimates

#### Useful Lives of Property, Plant and Equipment

LPFA estimates the useful lives of property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment would increase the recorded expenses and decrease the value of such within the balance sheet.

#### 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 LPFA 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.

#### Pensions Liability Guarantee

The LPFA has provided a guarantee, under the Admission Agreements, to settle the LPP and LPPI pension deficits in the event of both entities ceasing to trade and exiting the LGPS. To determine how this guarantee is treated within the LPFA financial statements requires several judgements to be made regarding the balance between financial risks such as the discount rate and non financial risks from such things as changes in life expectancy or final salaries of members. The non-financial risks falls within the definition of an insurance contract under IFRS 4. As the financial and non-financial risks are both significant, the guarantee has not been deemed to be a derivative under IAS 39. IAS 37 excludes obligations and contingencies arising from insurance contracts, but it does apply to other provisions, contingent liabilities and contingent assets of an insurer. The LPFA Admissions Agreement states that LPFA is providing a guarantee if LPP exits the LGPS. In such an event LPFA would suffer a loss equivalent to the amount required to settle the pensions liability. After consideration of IAS 28 and IAS 37, the possible liability to settle the pension deficit within LPP should be disclosed in LPFA financial statements, as a contingent liability in accordance with IAS 37 due to the very low probability of a cessation event triggering the LPFA guarantee.

## LPFA Accounts 31 March 2018

### 5 Income

2016/17		2017/18
£'000		£'000
4,309	Management Fee	3,857
641	Funded by Residual Liabilities	613
<b>4,950</b>		<b>4,470</b>

### 6 Other Income

£'000		£'000
702	Agency work	136
1	Divorce case charges	-
5	Bank interest	50
(1)	Value added business	-
639	Recharge of costs paid on behalf of LPP	-
158	Other fees and charges	151
175	Fixed Asset recharge	155
<b>1,679</b>		<b>492</b>

### 7 Remuneration and Other Costs - Board members

2016/17		2017/18
£'000		£'000
	<b>Emoluments and other costs - Board members</b>	
149	Emoluments	164
13	Employers NI contributions	8
-	Training	1
-	Reimbursable Expenses	1
<b>162</b>		<b>174</b>

Emoluments were paid in the following bands:

-	£5,001 to £10,000	3
5	£10,001 to £15,000	4
2	£15,001 to £20,000	2
1	£50,001 to £55,000	1

## LPFA Accounts 31 March 2018

### 8a Remuneration and other costs - employees

2016/17		2017/18
£'000		£'000
697	Salaries	254
67	Employers NI contributions	31
11	Reimbursable Expenses	6
(119)	IAS 19 Current service costs	106
2	Temporary staff	10
7	Training costs	1
(2)	Recruitment costs	(3)
19	Overtime	-
37	Other employee related costs	6
(107)	Accumulated compensated absences	-
<b>612</b>		<b>411</b>

### 8b Disclosure of remuneration for senior employees

The following table sets out the remuneration disclosures for Senior Officers whose salary is greater than £50,000 per year.

31-Mar-18				
Post Holder	Salary (including fees & allowances)	Bonus	Pension contributions	Total remuneration
	£		£	£
Managing Director*	149,733	24,900	20,223	194,856

\* Left post in 31 March 2018

31-Mar-17				
Post Holder	Salary (including fees & allowances)	Bonus	Pension contributions	Total remuneration
	£	£	£	£
Managing Director	117,850	-	14,142	131,992

The number of other senior employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 as follows:

2016/17 Number of employees	Remuneration bands	2017/18 Number of employees
1	£115,000 - £119,999	-
-	£170,000 - £174,999	1

Please note that the above includes bonus payments.

## LPFA Accounts 31 March 2018

### 9 Other services

2016/17		2017/18
£'000		£'000
37	Internal audit	57
41	External audit	41
208	Professional fees (including consultancy)	467
72	Insurance	34
53	Bank costs	54
14	Pensioner forum and meetings	12
-	Marketing expenses	1
6	Other miscellaneous services	114
1	Accommodation	-
361	Costs paid on behalf of LPP	-
41	Strategic project	-
13	Pension system charges	-
425	Equipment and external support	163
-	Loss on Disposal of fixed assets	92
4	Printing and stationary	-
(20)	Postage	-
10	Telephones	4
30	Subscriptions & publications	42
1	Courier services	-
	Bad debt provision	679
1,600	Management Charge - Governance	1,608
1,802	Management Charge - Pension Admin	1,811
746	Additional Services	-
-	General management charge	-
<b>5,444</b>		<b>5,179</b>

### 10 Disclosure of Audit Costs

2016/17		2017/18
£'000		£'000
41	External audit - Code of audit practice	41
<b>41</b>		<b>41</b>

## LPFA Accounts 31 March 2018

### 11 Retirement Benefit Obligations

Amounts recognised in the balance sheet are determined as follows:

2016/17		2017/18
£'000		£'000
22,390	Estimated employer asset	23,211
(40,272)	Present value of scheme liabilities	(38,841)
<b>(17,882)</b>	<b>Net Pension Liability</b>	<b>(15,630)</b>

Reconciliation of the opening and closing balance of the present value of the defined benefit obligation.

2016/17		2017/18
£'000		£'000
44,345	At 1 April	40,272
345	Service cost	106
1,282	Interest cost	1,078
9,985	Change in financial assumptions	(1,918)
(47)	Change in demographic assumptions	-
(939)	Experience loss/(gain) on defined benefit obligation	-
(14,147)	Liabilities assumed/(extinguished) on settlements	-
(662)	Estimated benefits paid (net of transfers in)	(718)
110	Contributions by scheme participants	21
<b>40,272</b>	<b>As at 31 March</b>	<b>38,841</b>

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

2016/17		2017/18
£'000		£'000
25,870	At 1 April	22,390
757	Interest on assets	599
3,103	Return on assets less interest	637
340	Other actuarial gains/(losses)	-
(34)	Admin expenses	(29)
544	Contributions by employer including unfunded	311
110	Contributions by scheme participants and other employers	21
(662)	Estimated benefits paid including unfunded net of transfers in	(718)
(7,638)	Settlement prices received/(paid)	-
<b>22,390</b>	<b>Assets</b>	<b>23,211</b>

## LPFA Accounts 31 March 2018

Amounts recognised in Group Operational Account:

2016/17		2017/18
£'000		£'000
(6,164)	Service cost	106
525	Net interest on the defined liability (asset)	479
34	Admin expenses	29
<b>(5,605)</b>	<b>Total Operating Charge</b>	<b>614</b>

Amounts recognised in the Statement of Other Comprehensive Income and Expenditure:

2016/17		2017/18
£'000		£'000
3,103	Return on plan assets in excess of interest	637
340	Other actuarial gains/(losses) on assets	-
(9,985)	Change in financial assumptions	1,918
47	Change in demographic assumptions	-
939	Experience gain/(loss) on defined benefit obligation	-
<b>(5,556)</b>	<b>Re-measurements</b>	<b>2,555</b>

The movement in the defined benefit liability:

2016/17		2017/18
£'000		£'000
(18,475)	At 1 April	(17,882)
(345)	Current service cost	(106)
544	Contributions by employer including unfunded	311
6,509	Movement in settlements	-
(525)	Interest costs	(479)
3,103	Return on plan assets in excess of interest	637
(34)	Admin costs	(29)
(8,659)	Actuarial gains/losses	1,918
<b>(17,882)</b>	<b>Liabilities</b>	<b>(15,630)</b>

## LPFA Accounts 31 March 2018

The principle actuarial assumptions were as follows:

	31-Mar-18	31-Mar-17
<b>Mortality rate for 65 year olds - retiring today</b>		
Males	21.8	21.7
Females	24.6	24.5
<b>Mortality rate for 65 year olds - retiring in 20 years time</b>		
Males	24.1	24
Females	26.8	26.7

The following assumptions were also made:

- Members will exchange half of their commutable pension for cash at retirement.
- The proportion of the membership that had taken up the option under the new LGPS to pay 50% of contributions for 50% of benefits at the previous valuation date will remain the same.

	31-Mar-18		31-Mar-17		31-Mar-16	
	%p.a.	Real %	%p.a.	Real %	%p.a.	Real %
RPI Increases	3.3	0	3.6	0	3.4	0
CPI Increases	2.3	-1	2.7	-0.9	2.5	-0.9
Salary Increases	3.8	0.5	4.2	0.6	4.3	0.9
Pension Increases	2.3	-1	2.7	-0.9	2.5	-0.9
Discount Rate	2.55	-0.75	2.7	-0.9	3.8	0.4

### Sensitivity Analysis:

31-Mar-18	£'000	£'000	£'000
<b>Adjustment to discount rate</b>	0.10%	0.00%	-0.10%
Present Value of Total Obligation	38,119	38,841	39,577
Projected Service Cost	95	98	101
<b>Adjustment to long term salary increase</b>	0.10%	0.00%	-0.10%
Present Value of Total Obligation	38,855	38,841	38,827
Projected Service Cost	98	98	98
<b>Adjustment to pension increases and deferred revaluation</b>	0.10%	0.00%	-0.10%
Present Value of Total Obligation	39,564	38,841	38,131
Projected Service Cost	101	98	95
<b>Adjustment to mortality age rating assumption</b>	+1 year	None	-1 year
Present Value of Total Obligation	40,347	38,841	37,393
Projected Service Cost	101	98	95

## **LPFA Accounts 31 March 2018**

### **Contributions to the Pension Fund during 2017/18**

Contributions from the employer amounts to £311,000.

### **Impact on Authority's Cash flows**

The next triennial valuation is due as at 31 March 2019 and may have an impact on the future liability cashflows, further detail on this can be found on page 56.

The authority expects to pay increased contributions in 2017/18 due to the change in structure of the LPFA, this should amount to £327k.

The weighted average duration of the defined benefit obligation for scheme members is 19 years.

## LPFA Accounts 31 March 2018

As at date of the last asset breakdown report pension scheme assets comprised:

Asset breakdown	31 Jan 2018	
	% Quoted	% Unquoted
<b>Equities</b>		
Segregated:		
Real Estate	1.2%	-
Consumer Discretionary	5.0%	-
Consumer Staples	6.4%	-
Energy	0.6%	-
Financials	6.0%	-
Health Care	3.0%	-
Industrials	5.8%	-
Information Technology	8.7%	-
Materials	1.6%	-
Telecommunication Svcs	0.9%	-
Utilities	1.0%	-
Fixed Income & Other	0.0%	-
Trade Cash/Pending	2.9%	-
Synthetic Equity	1.3%	-
<b>Private Equity</b>	-	10.6%
<b>Total Return</b>		
Investment/Hedge funds and Unit trusts	11.1%	4.4%
<b>Credit</b>	-	4.9%
<b>Infrastructure</b>		
Commodity Funds	-	-
Infrastructure	-	4.4%
<b>Real Estate</b>	-	7.2%
<b>Cash</b>		
Cash	2.2%	-
LDI		
Segregated:		
Asset Swaps	-	(2.1%)
Cash Account	1.7%	-
Cash Funds	0.4%	-
Corporate IL	1.3%	-
Government	2.9%	-
Government IL	9.7%	-
Income Due but Not Received	0.0%	-
Interest Rates Swaps	-	(1.1%)
Investment Funds	1.3%	-
Repurchase Agreements	-	(5.0%)
RPI Swaps	-	(1.0%)
Pending Sales	1.0%	-
Real Estate	-	(1.6%)
Currency Hedge (Forward Contracts)	-	1.3%
<b>BlackRock DDG*</b>		
Equities	0.8%	-
Bonds	0.7%	-
Cash	0.5%	-
Investment/Hedge funds and Unit trusts	0.0%	-
<b>Total</b>	<b>78.0%</b>	<b>22.0%</b>

## LPFA Accounts 31 March 2018

### 12 Retirement Benefit Obligations

#### Employee Benefits

The LPFA had 3 out of 3 staff who are members of the Local Government Pension Scheme (LGPS) as at 31 March 2018. 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 average salary. Each member contributes a proportion of their salary, within a 5.5% to 12.5% 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 12.0% of the employee's salary as well as a past service cost of £nil (2016-17 £214k).

#### 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 LPFA. 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 LPFA 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 Cost of Services line in the Comprehensive Income and Expenditure Statement at the earlier of when LPFA can no longer withdraw the offer or when the authority recognises costs for a restructuring under IAS37. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by LPFA 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 LPFA are members of the LGPS, administered by the LPFA. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for LPFA.

The Local Government Pension Scheme

LGPS is accounted for as a defined benefits scheme: The liabilities of the LPFA pension fund attributable to LPFA 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.

#### Discretionary Benefits

LPFA 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.

## LPFA Accounts 31 March 2018

### 13 Tangible assets

	Servers	Total
Cost	£'000	£'000
<b>As at 1 April 2017</b>	<b>136</b>	<b>136</b>
Additions	-	-
Disposals	(136)	(136)
<b>As at 31 March 2018</b>	<b>0</b>	<b>0</b>
<b>Depreciation</b>		
<b>As at 1 April 2017</b>	<b>81</b>	<b>81</b>
Depreciation charge	<b>23</b>	<b>23</b>
Disposals	(104)	(104)
<b>As at 31 March 2018</b>	<b>0</b>	<b>0</b>
<b>Net Book Value</b>		
<b>As at 31 March 2018</b>	<b>-</b>	<b>-</b>
<b>As at 31 March 2017</b>	<b>55</b>	<b>55</b>

### 14 Intangible assets

	Software and licences	Altair	Total
Cost	£'000	£'000	£'000
<b>At 1 April 2017</b>	492	513	1,005
Disposals	(492)	-	(492)
<b>At 31 March 2018</b>	<b>-</b>	<b>513</b>	<b>513</b>
<b>Amortisation</b>			
<b>At 1 April 2017</b>	354	258	612
Amortisation for the period	78	54	132
Disposals	(432)	-	(432)
<b>At 31 March 2018</b>	<b>-</b>	<b>312</b>	<b>312</b>
<b>Net Book Value</b>			
<b>At 31 March 2018</b>	<b>-</b>	<b>201</b>	<b>201</b>
<b>At 31 March 2017</b>	<b>138</b>	<b>255</b>	<b>393</b>

## LPFA Accounts 31 March 2018

### 15 Adjustment for Non-Cash Items

2016/17	2016/17		2017/18	2017/18
Entity	Group		Entity	Group
£'000	£'000		£'000	£'000
26	26	Depreciation	23	23
161	161	Amortisation of intangibles	132	132
-	-	Loss on disposal of fixed assets	92	92
	2,308	Reverse share of profit/ loss in joint venture		1,055
-	-	Revaluation of PPE	-	-
1,020	1,020	Decrease/(increase) in receivables	730	730
262	262	(Increase)/decrease in prepayments	-	-
(74)	(74)	Increase/(decrease) in payables	(284)	(284)
		Increase/(decrease) in pension liability		
(6,149)	(6,149)	Transfer to pension reserve	303	303
<b>(4,754)</b>	<b>(2,446)</b>		<b>996</b>	<b>2,051</b>

### 16 Net investment in joint venture

LPFA entered into a joint venture with Lancashire County Council and incorporated Local Pensions Partnership Ltd (LPP) and its subsidiaries on 19 October 2015. The objective of LPP is to provide high quality, low cost pension administration, risk management and investment management services to London Pension Fund Authority (LPFA), Lancashire County Pension Fund and other LGPS clients.

The joint venture has been equity accounted and LPFA's fifty percent share of LPP's results are included, in the Group Comprehensive Income and Expenditure Statement and in the Balance Sheet. The results of the LPP Group are as follows:

50% Share of LPP	LPP Group		50% Share of LPP	LPP Group
2016/17	2016/17		2017/18	2017/18
£'000	£'000		£'000	£'000
		<b>Comprehensive Income and Expenditure Statement:</b>		
2,179	4,359	Profit/ (loss) on ordinary activities before taxation	(1,246)	(2,492)
(458)	(916)	Taxation	191	382
(2,785)	(5,570)	Net actuarial gain/ (loss) on defined benefit pension schemes	2,531	5,062
474	947	Deferred tax on actuarial loss	(430)	(861)
<b>(590)</b>	<b>(1,180)</b>	<b>Total Comprehensive income for the period</b>	<b>1,046</b>	<b>2,091</b>
		<b>Balance Sheet:</b>		
11,651	23,302	Total assets less current liabilities	11,798	23,596
(8,750)	(17,500)	Creditors: amounts falling due after more than one year	(8,750)	(17,500)
(7,520)	(15,039)	Post-employment benefits	(6,621)	(13,242)
(4,619)	<b>(9,237)</b>	<b>Net liabilities</b>	<b>(3,573)</b>	<b>(7,146)</b>
		Represented by:		
(590)	(1,180)	Profit & loss account	460	920
-	-	Opening reserves on subsidiary company	(4)	(9)
(4,029)	(8,057)	Retirement benefit obligations reserve	(4,029)	(8,057)
<b>(4,619)</b>	<b>(9,237)</b>	<b>Net value</b>	<b>(3,573)</b>	<b>(7,146)</b>

## LPFA Accounts 31 March 2018

### 17 Prior year adjustment to the group accounts

#### General Reserves

31 March 2017		31 March 2018
£'000		£'000
1,146	Closing group general reserves before prior year adjustment	1,345
(4,029)	Inclusion of 50% of retirement benefit obligations reserve in the LPP Joint venture	(4,029)
<b>(2,883)</b>	<b>Restated closing reserve</b>	<b>(2,684)</b>

#### Provision in Joint Venture

31 March 2017		31 March 2018
£'000		£'000
(590)	Closing (provision)/ investment in joint venture before prior year adjustment	456
(4,029)	Inclusion of 50% of retirement benefit obligations reserve in the LPP Joint venture	(4,029)
<b>(4,619)</b>	<b>Restated provision in joint venture</b>	<b>(3,573)</b>

#### Exceptional item

31 March 2017		31 March 2018
£'000		£'000
6,509	Transfer of pension liability to the LPP Joint venture	-
(4,029)	Inclusion of 50% of retirement benefit obligations reserve in the LPP Joint venture	-
<b>2,480</b>	<b>Net exceptional item</b>	<b>-</b>

The exceptional item in the entity and group accounts of £6,509K is comprised of the pension liabilities extinguished of £14,147K less the amount paid to transfer the liabilities to the LPP, being £7,638K. In addition, 50% of the pension liability within the LPP joint venture has been included in the group accounts, being £4,029K.

The prior year adjustment was required to include 50% of the pension liability within the LPP Joint Venture in the group accounts. This amount should have been included in the group income and expenditure account in 2016/17.

### 18 Related Party Transactions

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

LPP and its subsidiaries are also related parties, details of which are in note 16.

The appropriate disclosures have been made in the Pension Fund accounts.

LPFA has a loan facility with LPP, but this was not drawn down as at 31 March 2018. The facility is for £17.5m, to be repaid within ten years of the withdrawal date, at a rate initially of 1.3% before draw down and at 4.25% thereafter.

## LPFA Accounts 31 March 2018

### 19 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.

2016/17		2017/18
£'000		£'000
523	Central Government Bodies	-
406	Other Local Authorities	1,051
212	Other Entities and Individuals	-
(39)	Impairment of bad and doubtful debts	(679)
<b>1,102</b>		<b>372</b>

Receivables from Central Government Bodies is comprised of a VAT rebate owed to LPFA. The total due from other entities and individuals is due to invoicing for agency contracts which started after 31<sup>st</sup> March in 2016.

### 20 Creditors

2016/17		2017/18
£'000		£'000
12	Central Government Bodies	234
981	Other Local Authorities	-
449	Other Entities and Individuals	924
<b>1,442</b>		<b>1,158</b>

Payables to Central Government Bodies are comprised of PAYE.

### 21 Bank

2016/17		2017/18
£'000		£'000
2,636	Cash at bank comprises an allocation of the total cash	2,321

### 22 Financial Instruments

The operational account only holds cash as mentioned in note 21 above as well as payables and receivables, these are covered in notes 19 and 20.

### 23 Post Balance Sheet events

There were no material events after the balance sheet date.

**Residual Liabilities Accounts**

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### Statement of Movement in Reserves for the year ended

	General Fund Reserve			Pension Reserve			
	Greater London	Inner London	Total Reserves	Greater London	Inner London	Total Pension Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2016 c/forward</b>	<b>10,665</b>	<b>1,977</b>	<b>12,642</b>	<b>(80,590)</b>	<b>(149,472)</b>	<b>(230,062)</b>	<b>(217,420)</b>
<b>Movement in Reserves during 2016/17</b>							
Surplus/(deficit) on the provision of services	6,323	6,357	12,680	-	-	-	12,680
Contributions for unfunded benefits	(6,748)	(9,317)	(16,065)	6,748	9,317	16,065	-
Net interest on pension scheme liabilities	1,931	3,621	5,552	(1,931)	(3,621)	(5,552)	-
Remeasurements of the Net Defined Benefit Liability	-	-	-	(4,816)	(10,337)	(15,153)	(15,153)
<b>Net movement in reserves</b>	<b>1,506</b>	<b>661</b>	<b>2,167</b>	<b>1</b>	<b>(4,641)</b>	<b>(4,640)</b>	<b>(2,473)</b>
<b>Balance at 31 March 2017 c/forward</b>	<b>12,171</b>	<b>2,638</b>	<b>14,809</b>	<b>(80,589)</b>	<b>(154,113)</b>	<b>(234,702)</b>	<b>(219,893)</b>
<b>Movement in Reserves during 2017/18</b>							
Surplus/(deficit) on the provision of services	6,247	7,252	13,499	-	-	-	13,499
Contributions for unfunded benefits	(6,445)	(9,146)	(15,591)	6,445	9,146	15,591	-
Net interest on pension scheme liabilities	1,393	2,692	4,085	(1,393)	(2,692)	(4,085)	-
Remeasurements of the Net Defined Benefit Liability				2,909	5,961	8,870	8,870
<b>Net movement in Reserves</b>	<b>1,195</b>	<b>798</b>	<b>1,993</b>	<b>7,961</b>	<b>12,415</b>	<b>20,376</b>	<b>22,369</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>13,366</b>	<b>3,436</b>	<b>16,802</b>	<b>(72,628)</b>	<b>(141,698)</b>	<b>(214,326)</b>	<b>(197,524)</b>

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

### Comprehensive Income and Expenditure Statement for the year ended

31-Mar-17			Notes		31 March 2018		
Greater London	Inner London	Total			Greater London	Inner London	Total
£000	£000	£000			£000	£000	£000
17,066	22,382	39,448		Unfunded benefits recovered	16,762	22,211	38,973
(8,578)	(12,036)	(20,614)		Unfunded benefits	(8,927)	(11,833)	(20,760)
(273)	(368)	(641)	10	Administration costs	(261)	(434)	(695)
<b>8,215</b>	<b>9,978</b>	<b>18,193</b>		<b>Cost of Services</b>	<b>7,575</b>	<b>9,944</b>	<b>17,518</b>
				<b>Financing and Investment Income and Expenditure</b>			
(137)	-	(137)		Loan stock interest	(125)		(125)
(1,931)	(3,621)	(5,552)		Net interest on pension scheme liabilities	(1,393)	(2,692)	(4,085)
176	-	176		Interest and investment income	191		191
<b>6,323</b>	<b>6,357</b>	<b>12,680</b>		<b>Surplus/(deficit) on Provision of Services</b>	<b>6,247</b>	<b>7,252</b>	<b>13,499</b>
-	-	-		Surplus/(deficit) on revaluation of stock	-	-	-
(4,816)	(10,337)	(15,153)		Remeasurements of the Net Defined Benefit Liability	2,909	5,961	8,870
<b>(4,816)</b>	<b>(10,337)</b>	<b>(15,153)</b>		<b>Other Comprehensive Income and Expenditure</b>	<b>2,909</b>	<b>5,961</b>	<b>8,870</b>
<b>1,507</b>	<b>(3,980)</b>	<b>(2,473)</b>		<b>Total Comprehensive Income and Expenditure</b>	<b>9,156</b>	<b>13,213</b>	<b>22,369</b>

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

Balance Sheet as at

31-Mar-17	Greater London	Inner London	Total	31-Mar-18	Greater London	Inner London	Total
	£000	£000	£000		£000	£000	£000
Asbestosis Reimbursement	46,986	2,653	49,639	Asbestosis Reimbursement	37,818	1,100	38,918
<b>Non-current assets</b>	<b>46,986</b>	<b>2,653</b>	<b>49,639</b>	<b>Non-current assets</b>	<b>37,818</b>	<b>1,100</b>	<b>38,918</b>
Receivables	31	669	700	Receivables	65	858	922
Cash and Cash equivalents	28,713	4,611	33,324	Cash and Cash equivalents	31,074	6,096	37,170
<b>Current Assets</b>	<b>28,744</b>	<b>5,280</b>	<b>34,024</b>	<b>Current Assets</b>	<b>31,139</b>	<b>6,954</b>	<b>38,093</b>
Trade and other payables	(56)	(3)	(59)	Trade and other payables	(59)	-	(59)
Provision	(5,781)	(805)	(6,586)	Provision	(6,610)	(871)	(7,481)
<b>Current liabilities</b>	<b>(5,837)</b>	<b>(808)</b>	<b>(6,645)</b>	<b>Current liabilities</b>	<b>(6,669)</b>	<b>(871)</b>	<b>(7,540)</b>
Provision	(53,375)	(4,487)	(57,862)	Provision	(44,575)	(3,747)	(48,322)
LCC Stock	(4,347)	-	(4,347)	LCC Stock	(4,347)		(4,347)
Unfunded pension liability	(80,589)	(154,113)	(234,702)	Unfunded pension liability	(72,628)	(141,698)	(214,326)
<b>Non-current liabilities</b>	<b>(138,311)</b>	<b>(158,600)</b>	<b>(296,911)</b>	<b>Non-current liabilities</b>	<b>(121,550)</b>	<b>(145,445)</b>	<b>(266,995)</b>
<b>Net liabilities</b>	<b>(68,418)</b>	<b>(151,475)</b>	<b>(219,893)</b>	<b>Net liabilities</b>	<b>(59,262)</b>	<b>(138,262)</b>	<b>(197,524)</b>
<b>Reserves</b>				<b>Reserves</b>			
General Fund reserve	12,171	2,638	14,809	General Fund reserve	13,366	3,436	16,802
Pension reserve	(80,589)	(154,113)	(234,702)	Pension reserve	(72,628)	(141,698)	(214,326)
<b>Total Reserves</b>	<b>(68,418)</b>	<b>(151,475)</b>	<b>(219,893)</b>	<b>Total Reserves</b>	<b>(59,262)</b>	<b>(138,262)</b>	<b>(197,524)</b>

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

### Cashflow Statement

2016/17		Notes	2017/18
£000			£000
12,680	Net surplus/(deficit) on the provision of services		13,499
4,569	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	11	(18,588)
<b>17,249</b>	Cash flows from Operating Activities		<b>(5,089)</b>
(15,153)	Transfer to Pension Fund from reserve		8,870
<b>2,096</b>	Net Cash flows from Operating Activities		<b>3,781</b>
	<b>Investing Activities</b>		
(137)	Interest paid		(125)
176	Interest received		191
<b>2,135</b>	Net increase or decrease in cash and cash equivalents		<b>3,846</b>
31,189	Cash and cash equivalents at the beginning of the reporting period		33,324
	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>37,170</b>

# 12 Notes to the Residual Liability Accounts

## 1. General information

The LPFA makes payments of annual statutory compensation following the abolition of the former Greater London Council (GLC) and Inner London Education Authority (ILEA). 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-imbusement 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 LPFA's transactions for the 2017/18 financial year and its position at year-end of 31 March 2018. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18: based upon International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a going concern basis.

### Accruals of Income and Expenditure

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

Fees and charges are accounted for as income at the date LPFA 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.

## **LPFA Accounts 31 March 2018**

### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits, together with short term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of change in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition. Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents.

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

### **Provisions**

Provisions are made where an event has taken place that gives LPFA an obligation that in probability, may require settlement by transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the comprehensive income and expenditure statement in the year that LPFA 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 LPFA a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of LPFA. 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.

## LPFA Accounts 31 March 2018

### Overheads

Directly attributable overheads are charged to the appropriate service areas within the Residual Liabilities Account.

### Interest on Balances

Cash balances not required for immediate use are invested in accordance with LPFA Treasury Management Strategy. Interest earned on LPFA'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 LPFA on the Balance Sheet, initially at their fair value, only when goods or services have been provided or rendered to a third party.

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

Responsibility rested with LPFA 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. LPFA held a war loan to offset the interest payments attributable to the loan stocks but this was redeemed in 2014/15.

### Reserves

LPFA 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 LPFA at this point.

#### *General Fund reserve*

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

Certain reserves are kept to manage accounting processes and do not represent usable resources for LPFA. This is the pension 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.

## LPFA Accounts 31 March 2018

### 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 2017/18.

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 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;

Change in financial assumptions: changes in the present value of the defined benefit obligation resulting from a change in financial assumptions made by the actuary;

Change in demographic assumptions: changes in the present value of the defined benefit obligation resulting from a change in demographic assumptions made by the actuary;

Experience loss/(gain) on defined benefit obligation: changes in the present value of the defined benefit obligation resulting from the effects of the differences between the previous actuarial assumptions and what has actually occurred;

Unfunded pension payments: the decrease in scheme liabilities due to payments made to pensioners in the year.

### 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.

## LPFA Accounts 31 March 2018

### 4. Critical Accounting Estimates and Judgment

#### Provision

LPFA have set aside a provision for its liabilities to meet the costs of asbestosis claims from former employees of the GLC and the ILEA. The provision is based on knowledge of existing claims and estimates of future claims' liabilities. LPFA also has an estimate of future reimbursement of these costs from the London boroughs. The LPFA has been exploring the possibility that insurers of the GLC and ILEA may be liable in part for these costs as well as awaiting the impact that recent legislation in this area may have on future costs. Any potential impact will take a number of years to assess.

#### 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 LPFA 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 Residual Liabilities Account have been presented reflecting the non-segmental nature of the entity's operations.

### 6. Asbestosis Provision

The GLC is responsible for the settlement of claims made by former employees of the GLC and the ILEA 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 based on knowledge of existing claims and estimates of future claims' liabilities. 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 it 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 Councils 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 and 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.

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### 6. Asbestosis Provision

2016/17			2017/18			
Greater London	Inner London	Total	ASBESTOSIS PROVISION			Total
£000	£000	£000	Greater London	Inner London	£000	£000
(39,520)	(3,322)	(42,842)	<b>At 1 April</b>	(59,156)	(5,292)	(64,448)
(19,960)	(2,174)	(22,134)	Decrease to provision	6,651	655	7,306
324	204	528	Amount used during the year	1,321	19	1,340
<b>(59,156)</b>	<b>(5,292)</b>	<b>(64,448)</b>	<b>At 31 March</b>	<b>(51,185)</b>	<b>(4,618)</b>	<b>(55,803)</b>
(53,375)	(4,487)	(57,862)	Non-current	(44,575)	(3,747)	(48,321)
(5,781)	(805)	(6,586)	Current	(6,610)	(871)	(7,481)
<b>(59,156)</b>	<b>(5,292)</b>	<b>(64,448)</b>		<b>(51,185)</b>	<b>(4,618)</b>	<b>(55,803)</b>
			Amounts recoverable are as follows:			
46,986	2,653	49,639	Asbestosis reimbursement	37,818	1,100	38,918
<b>46,986</b>	<b>2,653</b>	<b>49,639</b>		<b>37,818</b>	<b>1,100</b>	<b>38,918</b>

#### 7. Short Term Liabilities

2016/17			2017/18			
Greater London	Inner London	Total	SHORT TERM LIABILITIES			Total
Greater London	Inner London	Total	Greater London	Inner London	Total	Total
(4)	-	(4)	Tax Due on payments made	(6)	-	(6)
(12)	-	(12)	Unclaimed interest and principal	(12)	-	(12)
(40)	(3)	(43)	Sundry Creditors	(42)		(42)
<b>(56)</b>	<b>(3)</b>	<b>(59)</b>		<b>(59)</b>		<b>(59)</b>

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### 8. LCC Stock

The LPFA is responsible for London County Council loan stocks. These stocks are undated, unsecured with a fixed interest due annually and LPFA is exploring buying back the remaining LCC stock. The financial risks attached to these loans are managed by the loan stock being at a fixed rate of interest, and being undated.

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

2016/17		LCC Stocks	2017/18
£000			£000
3,875	3% London County Council Stock		3,875
472	2.5% London County Council Stock		472
<b>4,347</b>			<b>4,347</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 for 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.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by LPFA 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.

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

Life Expectancy from age 65 (years)

#### Greater London:

The assumed life expectations from age 65 are:		31-Mar-17	31-Mar-18
Retiring today:	Males	22.5	22.6
	Females	24.6	24.7

#### Inner London:

The assumed life expectations from age 65 are:		31-Mar-17	31-Mar-18
Retiring today:	Males	22.5	22.6
	Females	24.6	24.7

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### Retirement benefit obligations

	31-Mar-17			31-Mar-18		
	Greater London	Inner London	Total	Greater London	Inner London	Total
<b>RETIREMENT BENEFIT OBLIGATIONS</b>						
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
The amounts recognised in the balance sheet are determined as follows:						
Present value of funded obligations	-	-	-	-	-	-
Impact of asset ceiling	-	-	-	-	-	-
Present value of unfunded obligations	80,589	154,113	234,702	72,628	141,698	214,326
Unrecognised past service costs	-	-	-	-	-	-
<b>Pension Liability</b>	<b>80,589</b>	<b>154,113</b>	<b>234,702</b>	<b>72,628</b>	<b>141,698</b>	<b>214,326</b>
The movement in the present value of unfunded obligations over the year is as follows:						
<b>At 1 April</b>	80,590	149,472	230,062	80,589	154,113	234,702
Current service cost	-	-	-	-	-	-
Interest cost	1,931	3,621	5,552	1,393	2,692	4,085
Change in financial assumptions	8,644	17,298	25,942	(2,909)	(5,961)	(8,870)
Change in demographic assumptions	(3,828)	(6,961)	(10,789)	0	0	0
Past Service Costs	-	-	-	-	-	0
Experience loss/(gain) on defined benefit obligation	-	-	-	-	-	0
Unfunded pension payments	(6,748)	(9,317)	(16,065)	(6,445)	(9,146)	(15,591)
<b>At 31 March</b>	<b>80,589</b>	<b>154,113</b>	<b>234,702</b>	<b>72,628</b>	<b>141,698</b>	<b>214,326</b>

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### Sensitivity Analysis for GL:

	£000	£000
<i>Present value of total obligation</i>		72,628
<b>Sensitivity to</b>	+0.1%	-0.1%
<i>Discount rate</i>	71,999	73,262
<i>Pension increases and deferred revaluation</i>	73,262	71,998
<b>Sensitivity to</b>	+ 1 Year	- 1 Year
<i>Life expectancy assumptions</i>	75,970	69,432

#### Sensitivity Analysis for IL:

	£000	£000
<i>Present value of total obligation</i>		141,698
<b>Sensitivity to</b>	+0.1%	-0.1%
<i>Discount rate</i>	140,411	142,997
<i>Pension increases and deferred revaluation</i>	142,997	140,409
<b>Sensitivity to</b>	+ 1 Year	- 1 Year
<i>Life expectancy assumptions</i>	148,219	135,464

## 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 2017/18 were £261k for the Greater London levy and £352k for the Inner London levy, this has reduced by £28k from 2016/17.

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

	31-Mar-17			31-Mar-18		
	Greater London	Inner London	Total	Greater London	Inner London	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Amounts recognised in the income statement are as follows:						
Service cost	-	-	-	-	-	-
Administration expenses	-	-	-	-	-	-
Net interest on the defined liability (asset)	1,931	3,621	5,552	1,393	2,692	4,085
<b>Total</b>	<b>1,931</b>	<b>3,621</b>	<b>5,552</b>	<b>1,393</b>	<b>2,692</b>	<b>4,085</b>
Re-measurements in Other Comprehensive Income						
Return on plan assets in excess of interest	-	-	-	-	-	-
Other actuarial gains/(losses) on assets	-	-	-	-	-	-
Change in financial assumptions	8,644	17,298	25,942	(2,909)	(5,961)	(8,870)
Change in demographic assumptions	(3,828)	(6,961)	(10,789)	-	-	-
Experience gain/(loss) on defined benefit obligation	-	-	-	-	-	-
Changes in effect of asset ceiling	-	-	-	-	-	-
<b>Re-measurements</b>	<b>4,816</b>	<b>10,337</b>	<b>15,153</b>	<b>(2,909)</b>	<b>(5,961)</b>	<b>(8,870)</b>

#### Financial Assumptions for GL and IL:

	31-Mar-18		31-Mar-17		31-Mar-16	
	%p.a.	Real %	%p.a.	Real %	%p.a.	Real %
RPI Increases			3.1	0	2.5	0
CPI Increases			2.2	-0.9	1.6	-0.9
Pension Increases			2.2	-0.9	1.6	-0.9
Discount Rate			1.8	0	2.5	0

## LPFA Accounts 31 March 2018

### Residual Liabilities Accounts

#### 11. Reconciliation of Non-Cash Movements

2016/17		2017/18
£000		£000
4,640	Transfer to pension reserve	(20,376)
-	Proceeds on sale of assets	-
138	(Increase)/Decrease in receivables	(222)
(2,337)	Increase/(Decrease) in payables	0
137	Interest paid plus adjustment to interest owed	125
(176)	Interest received	(191)
21,606	Movement in provisions	(8,645)
(19,439)	(Increase) decrease in asbestos reimbursement expenditure through asbestos provision	10,721
<b>4,569</b>		<b>(18,588)</b>

#### 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 £37,171k, this was £33,324K in 2016/17.

#### 14. Receivables

2016/17		2017/18
£000		£000
135	Central Government Bodies	89
204	Other Local Authorities	462
361	Other Entities and Individuals	372
<b>700</b>		<b>922</b>

#### 15. Payables

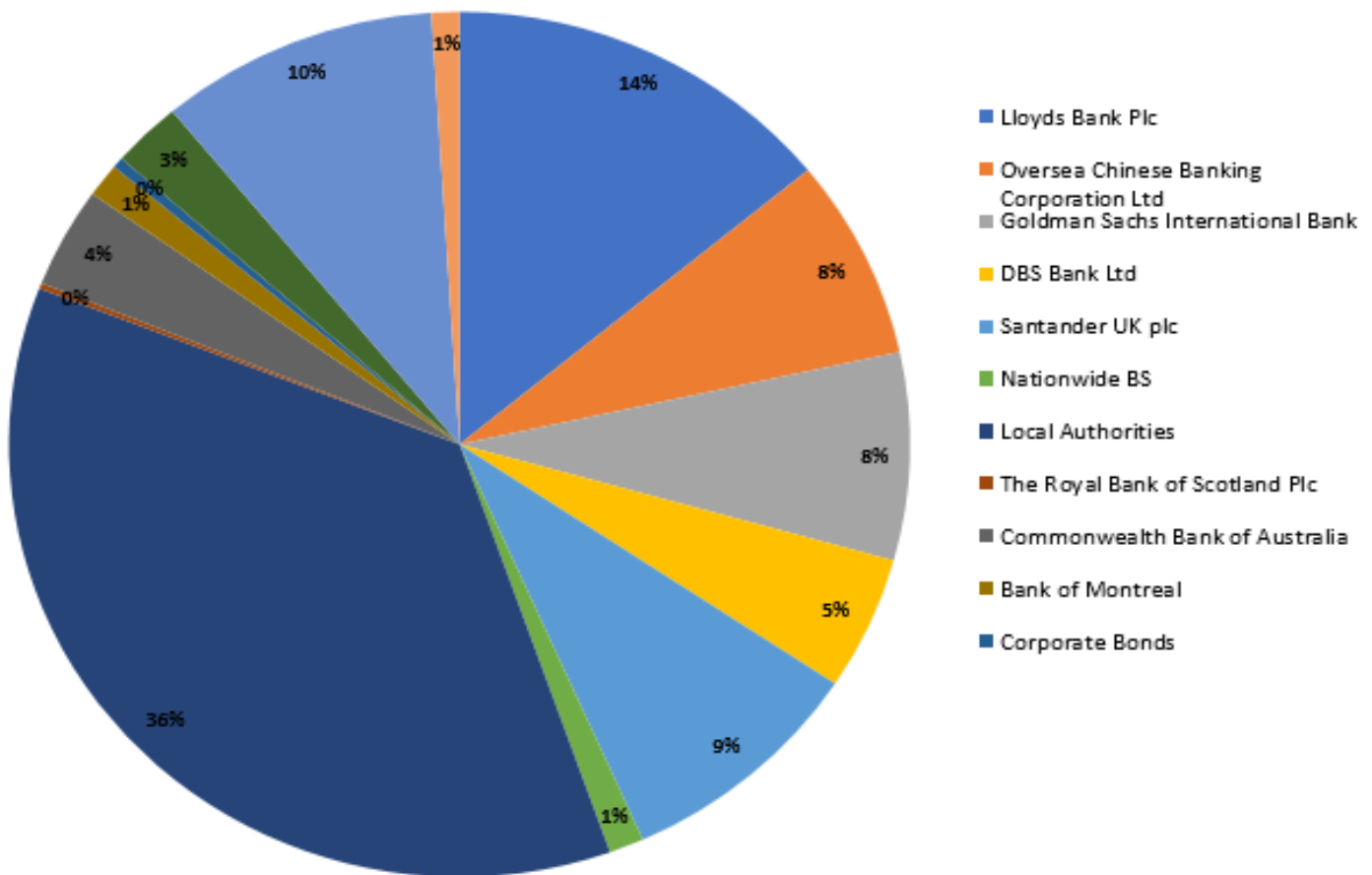
2016/17		2017/18
£000		£000
17	Central Government Bodies	6
-	Other Local Authorities	-
42	Other Entities and Individuals	53
<b>59</b>		<b>59</b>

## LPFA Accounts 31 March 2018

### 17. Financial Instruments

Aside from the receivables and payables which are covered in notes 14 and 15 and the LCC stock covered in Note 8, the LPFA also has a cash balance on the residual liabilities account. A small balance is maintained with the LPFA's bank, Lloyds, for ongoing costs, and the remainder is pooled with the GLA. The GLA holds 100% of pooled funds deposited across various banks, as per the breakdown below. As at 31st March 2018 the LPFA held £31,911k with the GLA compared to £29,723k at 31st March 2017, the balance each year being held within the LPFA bank account.

1



# LPFA Accounts 31 March 2018

## 16. Financial Instruments

As at 31st March 2017

