
Pension Fund Accounts

SECTION 4

**PENSION
FUND
ACCOUNTS**

2009/10

Pension Fund Accounts

PENSION FUND ACCOUNTS
INTRODUCTION

The Pension Fund provides for the payment of benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The Fund is operated under various sets of regulations made under the Superannuation Act 1972. The main sets of regulations are the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee, which monitors the external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the fund. The investment managers also have to consider the Pensions Investment Committee's views on socially responsible investments. Details of this policy are contained in the Statement of Investment Principles (see web address below).

A report on the Fund's performance and topical developments is sent to all pensioners bi-annually. The report published in November gives details of the outturn for each year to 31 March. A statement of the Fund's corporate governance, funding strategy and investment principles can be found on the authority's website, at the following address:

["www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm"](http://www.lewisham.gov.uk/CouncilAndDemocracy/Finances/PensionsDocuments.htm)

ACCOUNTING POLICIES

The Pension Fund Accounts have been prepared in accordance with the 2009 CIPFA Code of Practice on Local Authority Accounting - a Statement of Recommended Practice (the SORP). The 2009 Code states that the Pension Fund Accounts should be prepared in accordance with The Financial Reports of Pension Schemes – A Statement of Recommended Practice 2007 (the Pension SORP 2007).

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 also requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Code summarises the Pension SORP and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December the following year, up to five months after a local authority must approve its Statement of Accounts. The Council will be taking its annual Report to its Pensions Investment Committee in order to comply with this deadline.

The Accounting Policies and the basis of preparation of the Accounts are shown below: -

- (a) Basis of Preparation - The Accounts have been prepared on an accruals basis, i.e. income and expenditure attributable to the financial year have been included, even where payment has not actually been made or received. The only exception being Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the actuary's report and reflected in the income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.

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- (b) Investments - Investments in the Net Assets Statement are shown at market value based on bid prices as required by the 2009 local authority SORP and the 2007 Pension Fund SORP. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (c) Private equity investments are valued in accordance with U.S. generally accepted accounting principles, including FAS 157 which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement.
- (d) The Pension Fund's Hedge Fund assets are held in the Jubilee Absolute Return Fund which is a collective investment scheme structured as a protected cell of Jubilee Absolute Return Fund PCC Limited, an open ended investment company listed on the Irish Stock Exchange. The Jubilee Absolute Return Fund produces an official single-priced NAV and hence there are no bid-offer prices for subscriptions or redemptions. The official single-priced NAV is produced on a monthly basis by the independent administrator, HSBC Securities Services (Ireland) Limited ("HSBC").
- (e) Property - The Fund does not have any direct investments in property but does use a property Fund of Funds manager, Schroders, to invest in pooled property funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure to are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards and are valued on the basis of their open market value (OMV).

The only non UK fund is the Continental European Fund I. Its net asset value is derived from the net asset values of the underlying funds. Like the UK, the value of the underlying assets are assessed by professionally qualified valuers. Valuation practices will vary between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations does however vary. All the funds are independently valued on a rolling basis at least annually.

- (f) Contributions –there are seven employee contribution bands (revised annually in line with inflation) ranging from 5.5% for members earning under £12,000 a year to 7.5% to members earning over £75,000 a year. The employer's contribution is reviewed every three years and is determined as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation.
- (g) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation. The value of the fund as at the last valuation on 31 March 2007 was £734.5m which represented an 87% funding level.

The valuation was based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following valuation and allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

In order to value both liabilities which have accrued at the valuation date and those accruing in respect of future service the actuary has assumed that the Fund's assets will generate a return of 5.8% p.a. The actuary set the employer contribution accordingly to recover the deficit over future periods.

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The actuarial review carried out for 31 March 2007 resulted in an increase to the Council's contribution rate from 18.5% to 19% with effect from 1st April 2008 and a further increase to 19.5% effective from 1st April 2009. A further increase to 20% will occur in 2010/11. The next actuarial valuation of the fund will have an effective date of 1 April 2010, with new employer contribution rates taking effect from 2011/12.

- (h) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008 permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (i) Foreign currency transactions are made using the WM/ Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: the converted foreign exchange rate is used at stock valuation date.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend is received is used.

INVESTMENT PERFORMANCE
(i) 2009/10 Financial Year Summary of Fund value and Fund Manager's performance

Fund Managers have individual annual performance targets measured over rolling three-year periods net of fees.

Fund Manager	Assets	Assets value £m 2009/10	Assets value £m 2008/09	Proportion of the Fund (%)
UBS	Bonds	123.3	99.6	17.2%
Alliance Bernstein	Global Equities incl. UK (from 07/08)	192.2	125.5	26.9%
RCM	Global Equities incl. UK	141.5	101.3	19.8%
Schroders Property	Property	60.8	53.3	8.5%
HarbourVest (*Incl Legacy Stock)	Private Equity	21.1	20.7	3.0%
UBS passive equity	UK Tracker fund	150.7	98.8	21.1%
Fauchier	Hedge Fund of Fund	20.4	18.0	2.9%
Lewisham	Cash	5.1	1.7	0.7%
Total Fund		715.1	518.9	100.0%

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Note: Inception date was 1st November 2004.

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FUND ACCOUNT FOR THE YEAR

The fund account shows the surplus or deficit on the fund for the year.

FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

	2009/10 £000s	2008/09 £000s
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>		
Contributions Receivable:		
- from Employer	29,761	27,856
- from Employees	9,728	9,355
Transfer Values In	7,017	3,384
Other Income	2	8
Sub-Total: Income	46,508	40,603
Benefits Payable:		
- Pensions	26,833	24,977
- Lump Sums: Retirement allowances	5,002	4,415
- Lump Sums: Death grants	583	632
Payments to and on account of leavers:		
- Refunds of Contributions	4	1
- Transfer Values Out	3,453	3,243
Administrative and other expenses borne by the scheme	863	725
Sub-Total: Expenses	36,738	33,993
Total Net (additions) withdrawals from Dealings with Scheme Members	(9,770)	(6,610)
<u>RETURNS ON INVESTMENTS</u>		
Investment Income	11,306	14,594
Change in market value of investments (realised and unrealised)	176,659	(177,086)
Investment Expenses:		
- Fund Managers' Fees	(1,707)	(1,181)
- VAT reclaimed on fund managers fees	1,005	-
- Tax on Dividends	(745)	(731)
Total Net Returns on Investments	186,519	(164,404)
NET INCREASE / (DECREASE) IN THE FUND DURING THE YEAR	196,289	(157,794)
OPENING NET ASSETS OF THE SCHEME	518,854	676,648
CLOSING NET ASSETS OF THE SCHEME	715,143	518,854

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The VAT reclaim relates to a backdated claim to recover VAT which had not been recovered on management expenses. The claim has been the subject of negotiation with Her Majesty's Revenue and Customs (HMRC).

NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2010.

NET ASSETS STATEMENT

	2009/10 £000s	2008/09 £000s
INVESTMENT ASSETS		
EQUITIES:		
United Kingdom	32,483	28,927
Overseas	263,831	182,156
	296,314	211,083
MANAGED FUNDS:-		
Property	59,701	41,989
Equities	169,275	129,940
Bonds	116,692	99,061
Hedge Fund of Funds	20,371	17,976
	366,039	288,966
CASH DEPOSITS	8,143	15,846
DERIVATIVE CONTRACTS		
Assets	-	1,095
Liabilities	(175)	(526)
OTHER INVESTMENT BALANCES		
Debtors in respect of investment transactions	39,806	875
Creditors in respect of investment transactions	(149)	(16)
TOTAL INVESTMENTS	709,978	517,323
NET CURRENT ASSETS & LIABILITIES		
Debtors	700	519
Creditors	(591)	(762)
Cash in Hand	5,056	1,774
TOTAL NET ASSETS	715,143	518,854

The Net Assets Statement explicitly does not take account of the liability to pay pensions or benefits after the period end. This liability is included within the Authority's balance sheet.

Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS**1. CONTRIBUTIONS RECEIVABLE****Employer Contributions**

	2009/10	2008/09
	£000	£000
Administering: Normal	24,027	22,736
Administering: Additional	1,523	1,351
Admitted: Normal	873	944
Scheduled	3,338	2,825
	29,761	27,856

Employee Contributions

	2009/10	2008/09
Employee Contributions		
Administering	8,314	8,064
Admitted	271	308
Scheduled	1,143	983
	9,728	9,355

2. BENEFITS PAYABLE

	2009/10	2008/09
Administering	(15,057
Admitted	(16,247	84
Scheduled	(310
Dependants Pensions	1,248	1,131
Pensions Increases	9,338	8,395
	26,833	24,977

3. ADMINISTRATION

	2009/10	2008/09
Audit Fee	38	38
Administration	583	532
Consultancy Costs	242	155
	863	725

4. INVESTMENT INCOME

	2009/10	2008/09
	£000s	£000s
Interest on cash deposits	47	380
Equities (Includes Unit Trust Equity)	6,420	8,712
Other Managed Fund Income	4,839	5,502
	11,306	14,594

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5. INVESTMENT ANALYSIS

The only (non UK Government) security forming over 5% of the portfolio is an investment in a UBS UK Equity Tracker pooled fund. This pooled fund is sufficiently diversified to ensure that overall exposure to a single UK security exceeding 5% will not occur.

An analysis of investment movements is set out below:

NOTE 5 - INVESTMENT ANALYSIS					
	Value at 31 March 08	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value and Other	Value at 31 March 09
	£000	£000	£000	£000	£000
Equities (inc. Equity Unit Trusts)	341,023	147,670	(146,055)	122,953	465,590
Other Managed Funds:					
Property	41,989	17,947	(1,936)	1,701	59,701
Bonds: Fixed Interest	63,736	24,912	(28,101)	15,806	76,353
Bonds: Index linked	35,325	3,409	(1,779)	3,382	40,338
Hedge Fund of Funds	17,976	-	-	2,395	20,371
Derivatives	569	-	-	(744)	(175)
	500,618	193,938	(177,871)	145,493	662,178
Cash Deposits	15,846				8,143
Other Investment Balances	859				39,657
Total Investments	517,323			145,493	709,978

(The amounts in respect of derivative payments and receipts represent the cost at inception of the contract)

Equity holdings are further analysed as follows

	2009/10 £000s	2008/09 £000s
UK EQUITY		
- listed	32,438	28,769
- unlisted	45	158
TOTAL UK EQUITY	32,483	28,927
OVERSEAS EQUITY		
- listed	263,831	182,156
TOTAL EQUITY INVESTMENTS	296,314	211,083
EQUITY MANAGED FUNDS		
Unit Trust: UK Equities	151,941	98,865
Unit Trust: Overseas Equities	17,334	31,075
TOTAL EQUITY MANAGED FUNDS	169,275	129,940
TOTAL EQUITY RELATED INVESTMENTS	465,589	341,023

The Pension Fund's bond investments are held with UBS in the form of pooled funds. The fund denoted Index linked above is comprised wholly of UK Government index linked gilts. The remaining funds are comprised of various government and corporate bonds.

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6. DERIVATIVE CONTRACTS

The global equity managers Alliance Bernstein and RCM are instructed to operate a half currency hedge to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of assets held.

In practice this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges, the latter are "over the counter" agreements, which neither the purchaser or the seller may transfer.

At 31 March 2010, forward foreign exchange contracts were the only derivative contracts held. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

	Sterling Value of obligation on purchase or sale date £000s	Sterling Value of equal and opposite obligation at 31 March 2009 £000s	Implied unrealised Gains/(losses) £000s
Currency contracted to purchase	(13,177)	13,100	(77)
Currency contracted to sell	13,177	(13,275)	(98)
Net Position	0	(175)	(175)

The Net Asset Statement analyses the net position into the sum of those contracts (for either purchase or sale) which imply a loss at the reporting date (£175k) and the sum of those that imply a gain (£0).

7. DEBTORS & CREDITORS

These consist of the following amounts:

(a) Debtors

	2009/10 £000s	2008/09 £000s
Equity Dividends/ Income from Managed Funds	590	635
Interest	2	8
Tax refunds	363	232
Pending Trades	39,806	-
Contributions Due from Admitted/Scheduled Bodies	700	519
	41,461	1,394

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(b) Creditors

	2009/10 £000s	2008/09 £000s
Fund manager and Custody fees	(580)	(724)
Taxes due	(19)	(16)
Audit Fees	(11)	(38)
Pending Trades	(99)	-
	(709)	(778)

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. The debtors figure is relatively high as a result of a balancing exercise at the year end which required managers to sell shares to provide funds to establish a new commodities mandate and to transfer between managers to get the asset allocation to correspond to the strategic benchmark.

8. CASH DEPOSITS

The Cash Deposits relate 100% to UK Cash Holdings.

An analysis of Cash Deposits as at 31st March 2010 is as follows:

	2009/10 £000s	2008/09 £000s
Northern Trust	8,143	15,846
Lewisham	5,056	1,774
	13,199	17,620

The Northern Trust Company is the fund global custodian and the cash is held in an interest bearing account to meet the cash flow requirements of our fund managers. Pending trade sales and purchases at the year end are treated as investment debtors and creditors

Cash in Hand is Pension Fund contributions held in the Borough's current account prior to investment.

9. TRANSACTION COSTS

The following direct costs were incurred in relation to individual investment transactions:

	£000
Equity Purchases	192
Equity Sales	129
Total Transaction Costs	321

10. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. Five Councillors of this Committee are members of the pensions scheme. At each meeting of the Pensions Investment Committee Councillors are asked to make declarations of interest. No material declarations of interest were made in 2009/10. During the year no trustees or Council chief officers with direct responsibility for pension fund issues have undertaken any declarable transactions with the Pension Fund.

The Council, the administering body, had the dealings with the Fund as follows:

- a) Recharges from the Council for the in-house administration costs and other expenses borne by the scheme were transacted for £863k (see note 3).
- b) All cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time. Any interest receivable on such balances is paid to the

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Pension Fund on an annually at an interest rate equating to that earned by the Council on temporary investments.

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below, the contributions are held by the providers and do not form part of the Lewisham fund's assets.

	£000s
Value at 30 March 2009	1,057
Contributions & Transfers Received	335
Investment Return	151
Paid Out	(122)
Value at 30 March 2010	1,421

12. SCHEDULED BODIES

The following are scheduled bodies to the fund:

Christ The King Sixth Form College
 Haberdashers' Aske's Knights Academy
 Lewisham Homes
 St Matthew Academy

13. ADMITTED BODIES

The following are admitted bodies to the fund:

National Car Parks Ltd
 Excalibur Tenant Management Project
 PLUS
 Housing 21
 Lewisham Nexus Services
 Lewisham Way Youth and Community Centre
 Lewisham Park Housing Association
 SAGE Educational Trust
 Lewisham Elders Resource Centre
 CIS Securities
 Wide Horizons
 Phoenix
 INSPACE
 T Brown & Sons
 Quality Heating
 VT Group
 Bentley Jenison
 Broomleigh Housing Association

14. STOCK LENDING

The Statement of Investment Principles permits the Fund to enter into stock lending (whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan). The council has agreed to stock lending although none

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15. MEMBERSHIP

Membership	Employees		Retired Former Employees		Deferred Beneficiaries	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
Administering Authority	5860	5599	6267	6085	6117	6026
Scheduled Bodies	582	602	122	90	76	49
Admitted Bodies	131	144	44	36	32	26
	6,573	6,345	6,433	6,211	6,225	6,101