

SECTION 4

**PENSION
FUND
ACCOUNTS**

2010/11

Pension Fund Accounts

PENSION FUND ACCOUNTS

INTRODUCTION

The Pension Fund provides for 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. 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 2010/11 CIPFA Code of Practice on Local Authority Accounting - a Statement of Recommended Practice (the SORP). The 2010/11 Code states that the Pension Fund Accounts should be prepared in accordance with International Accounting Standards 26 Retirement Benefit Plans except where interpretations or adaptations to fit the public sector are detailed in the Code.

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 2010/11 Local Authority SORP and the IAS 26 retirement Benefit Plans. 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 United States 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 1. 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% for 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 valuation on the 31st March 2010 valued the fund's liabilities as £949 million (£840 million 2007) and the corresponding assets as £715 million (£734 million 2007) with a consequent deficit of £234 million (£106 million 2007) and funding level of 75.4% (87.4% 2007).

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 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 6.1% per annum (5.8% 2007). The actuary set the employer contribution accordingly to recover the deficit over future periods.

The actuarial review carried out for 31 March 2010 resulted in an increase to the Council's contribution rate from 20% to 20.5% with effect from 1st April 2011 and annual increases of 0.5%

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for the subsequent two years. The next actuarial valuation of the fund will have an effective date of 1 April 2013, with new employer contribution rates taking effect from 2014/15.

The Actuary has calculated the actuarial present value of promised retirement benefits to be £1,044 million at the 31st March 2011 (£1,122 million 31st March 2010).

- (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) 2010/11 Financial Year Summary of Fund Value**

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

Fund Manager	Assets	Assets Value 2010/11 £000	Assets Value 2009/10 £000	Proportion of the Fund 2010/11 (%)
UBS	Bonds	124,672	123,300	16.39%
Alliance Bernstein	Global Equities	177,416	192,200	23.32%
RCM	Global Equities incl. UK	169,067	141,500	22.23%
Schroders Property	Property	68,386	60,800	8.99%
HarbourVest (*Incl Legacy Stock)	Private Equity	27,857	21,100	3.66%
UBS passive equity	UK Tracker fund	125,728	150,700	16.53%
Fauchier	Hedge Fund of Fund	22,054	20,400	2.90%
Investec	Commodities	40,059	0	5.27%
M&G	Credit	5,314	0	0.70%
Securities Lending	Securities Lending	150	0	0.02%
Lewisham	Cash and Net Current Assets	-75	5,000	-0.01%
Total Fund		£760,628	£715,000	

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FUND ACCOUNT FOR THE YEAR

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

<u>FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2011</u>	2010/11	2009/10	
	£000s	£000s	Note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS</u>			
<u>DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employer	29,504	29,761	1
- from Employees	9,330	9,728	1
Transfer Values In	3,265	7,017	
Other Income	0	2	
Sub-Total: Income	42,100	46,508	
Benefits Payable:			
- Pensions	27,724	26,833	2
- Lump Sums: Retirement allowances	4,757	5,002	
- Lump Sums: Death grants	535	583	
Payments to and on account of leavers:			
- Refunds of Contributions	1	4	
- Transfer Values Out	8,210	3,453	
Administrative and other expenses borne by the scheme	1,021	863	3
Sub-Total: Expenses	42,248	36,738	
Total Net (additions) withdrawals from Dealings with Scheme Members	148	(9,770)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	11,381	12,158	4
Change in market value of investments (Realised & Unrealised)	36,637	175,590	
Investment Expenses:			
- Fund Managers' Fees	(1,649)	(513)	
- Tax on Dividends	(739)	(713)	
Total Net Returns on Investments	45,630	186,522	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	45,482	196,292	
OPENING NET ASSETS OF THE SCHEME	715,146	518,854	
CLOSING NET ASSETS OF THE SCHEME	760,628	715,146	

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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 2011.

NET ASSETS STATEMENT AT 31 MARCH 2011	2010/11	2009/10	Note
	£000s	£000s	
EQUITIES			
Equities: UK	162,087	33,237	
Equities: Global	282,468	264,064	
	444,555	297,301	
MANAGED FUNDS			
Property	62,831	60,276	5
Equity	23,804	169,277	
Fixed Interest	124,625	76,354	
Index Linked	-	40,338	
Other Assets	91,045	20,371	
	302,306	366,616	5
CASH DEPOSITS	13,332	8,143	8
DERIVATIVE CONTRACTS			
Assets	17,486	-	
Liabilities	(17,532)	(175)	6
	-		6
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	3,333	38,666	
Creditors: Investment Transactions	(2,777)	(573)	7
			7
TOTAL INVESTMENTS	760,703	709,978	5
NET CURRENT ASSETS AND LIABILITIES			
Debtors	547	700	
Creditors	(663)	(591)	7
Cash in Hand	41	5,059	7
			8
TOTAL NET ASSETS	760,628	715,146	

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.

The indexed linked securities are part of unitised fixed interest holding and are included as part of the Managed Funds Fixed Interest category. The Indexed linked element of the holding as at 31st March 2011 was £42.516 million.

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

Employer Contributions	2010/11 £000s	2009/10 £000s
Administering: Normal	24,950	24,027
Administering: Additional	0	1,523
Admitted: Normal	816	873
Scheduled	3,738	3,338
	29,504	29,761

Employee Contributions	2010/11 £000s	2009/10 £000s
Administering	8,241	8,314
Admitted	206	271
Scheduled	883	1,143
	9,330	9,728

2. BENEFITS PAYABLE

	2010/11 £000s	2009/10 £000s
Administering	16,642	15,613
Admitted	745	73
Scheduled	174	561
Dependants Pensions	1,225	1,248
Pensions Increases	8,938	9,338
	27,724	26,833

3. ADMINISTRATION COSTS

	2010/11 £000s	2009/10 £000s
Lewisham Administration	466	583
Advisory Costs Incl. Audit Fees	550	280
Other Costs	0	
Bank Charges	5	
	1,021	863

4. INVESTMENT INCOME

	2010/11 £000s	2009/10 £000s
Cash	150	40
Equity	6,109	6,958
Fixed Interest	2,636	2,869
Index Linked	0	
Managed Funds Incl Property	2,487	2,284
Securities Lending	37	
Other*	-38	7
	11,381	12,158

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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:

5. INVESTMENT ANALYSIS	Value at 31/03/2010	Purchases at Cost	Sales Proceeds	Capital Changes/ Re- Classification	Change in Market Value	Value at 31/03/2011
Investments	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	33,237	10,248	(12,197)	119,162	11,635	162,085
Global Equities	264,064	135,499	(124,997)	(161)	8,064	282,469
Other Managed Funds		0	0	0	0	0
Equities	169,277	3,171	(10,635)	(142,593)	4,586	23,806
Property	60,276	3,908	(2,380)	272	755	62,831
Fixed Interest Securities	76,354	2,594	(1,726)	40,338	7,065	124,625
Index Linked Securities	40,338	0	0	(40,338)	0	0
Other*	20,371	43,880	(35)	22,402	4,426	91,044
Derivatives	(175)	0	0	14	116	(45)
	663,742	199,300	(151,970)	(904)	36,647	746,815
Cash deposits	8,143					13,332
Other Investment Balances	38,093					556
	709,978					760,703

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

EQUITY HOLDINGS ANALYSIS		2010/11		2009/10	
		UK	Overseas	UK	Overseas
		£000	£000	£000	£000
EQUITY					
	Listed	162,087	282,468	33,192	-
	Unlisted	0	0	45	264,064
		162,087	282,468	33,237	264,064
TOTAL EQUITY			444,555		297,301
EQUITY MANAGED FUNDS					
	Unit Trust Equities	23,804	0	151,941	17,336
TOTAL EQUITY MANAGED FUNDS			23,804		169,277
TOTAL EQUITY INVESTMENTS			468,359		466,578

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 2011, 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.

6. DERIVATIVE CONTRACTS	Sterling Value of Obligation on Purchase or Sale date £000s	Sterling Value of Equal and Opposite Obligation at 31-03-11 £000s	Implied unrealised Gains / (Losses) £000s
Currency Contracted to Purchase	-18,093	18,154	61
Currency Contracted to Sell	-668	561	-107
			<u>-46</u>

7. DEBTORS & CREDITORS

These comprise the following amounts:

7. DEBTORS AND CREDITORS	2010/11 £000s	2009/10 £000s
Debtors		
Contributions due from Admitted / Scheduled Bodies	547	700
Equity Dividends / Income from Managed Funds	483	590
Interest and Other Income	151	2
Tax Refunds	0	396
Pending Trades	2,699	37,678
	<u>3,880</u>	<u>38,666</u>
Creditors		
Fund Manager and Custody Fees	(663)	(580)
Consultancy / Advisory Fees (Incl Audit Fee)	0	(11)
Taxes Due	0	(4)
Pending Trades	(2,777)	(569)
	<u>(3,440)</u>	<u>(1,164)</u>

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

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The Cash Deposits relate 100% to UK Cash Holdings.

An analysis of Cash Deposits as at 31st March 2011 is as follows:

8. CASH DEPOSITS

	2010/11 £000s	2009/10 £000s
Northern Trust	13,332	8,143
Lewisham	41	5,059
	13,373	13,202

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:

9. TRANSACTION COSTS

	£000s
Equity Purchases and Sales	351

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 2010/11. 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 £1.021 million (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 Pension Fund 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.

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11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

	£000s
Value at 1 April 2010	1,421
Contributions and Transfers Received	338
Investment Return	31
Paid Out	-349
Value at 31 March 2011	1,441

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 entered into stock lending transactions during the financial year earning £0.037 million.

15. MEMBERSHIP**15. MEMBERSHIP**

	Employees		Deferred Beneficiaries		Retired Former Employees	
	2010/11	2009/10	2010/11	2009/10	2010/11	2010/11
Administering Authority	5,436	5,860	6,894	6,267	6201	6117
Scheduled Bodies	642	582	194	122	91	76
Admitted Bodies	128	131	51	44	35	32
	6,206	6,573	6,939	6,433	6,327	6,225