

London Borough of Bexley Pension Fund Accounts 2007/08

Pension Fund Account

	Note	2007/08	2006/07
		£000s	£000s
Dealings with members, employers and others directly involved in the scheme			
Contributions receivable	3	16,019	14,908
Transfers in	4	2,127	2,066
Other income		0	0
<i>Total contributions</i>		<u>18,146</u>	<u>16,974</u>
Benefits payable	5	18,317	18,146
Payments to and on account of leavers	6	4,062	2,762
Administrative expenses borne by the scheme	7	614	561
<i>Total benefits paid and administration expenses</i>		<u>22,993</u>	<u>21,469</u>
Net additions (withdrawals) from dealings with members		<u>-4,847</u>	<u>-4,495</u>
Returns on investments			
Investment income	8	11,926	12,217
Taxation		-308	-238
Change in market value of investments	9	-14,870	4,738
Investment management expenses	10	-1,151	-965
Net returns on investments		<u>-4,403</u>	<u>15,752</u>
Net increase (decrease) in the fund during the year		-9,250	11,257
Add opening net assets of the scheme		403,170	391,913
Closing net assets of the scheme		<u>393,920</u>	<u>403,170</u>

Pension Fund Net Assets Statement

	Note	31/03/08	31/03/07
		£000s	£000s
Investment Assets	9	394,708	403,669
Fixed Assets		0	0
Borrowings		0	0
		<hr/>	<hr/>
		394,708	403,669
Net current assets and liabilities	11	-788	-499
		<hr/>	<hr/>
Net assets of the scheme at 31 March 2008		393,920	403,170
		<hr/>	<hr/>

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the Local Government Pension Scheme Regulations 1997 (as amended) with the guidelines set out in Section 2 of the Statement of Recommended Practice for Financial Reports of Pension Schemes.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme accounting year. The actuarial position of the scheme, which does take into account such obligations, is noted below.

2. Accounting Policies

Accrual Basis

The accounts have been prepared on the accruals basis. This means that income and expenditure is recognised as it is earned or incurred, not when it is received or paid. The exception to this is transfer values which are accounted for on a cash basis.

Basis of Valuation of Investments

UK Investments are valued on the basis of middle market prices using Extel, ISMA or where unavailable, the most appropriate basis in the opinion of the investment managers. Foreign Investments are valued and currencies translated using Extel, ISMA or other available price sources as appropriate to the market concerned. Unit trusts and managed funds are valued by the relevant fund managers.

Administrative Expenses and Management Fees

The cost of administration, fund managers' fees, performance measurement fees, and valuation fees are charged directly to the Fund.

3. Contributions Receivable	2007/08	2006/07
	£000s	£000s
Employers		
London Borough of Bexley – normal	9,866	8,854
Bexley College – normal	243	238
Admission bodies – normal	1,314	1,254
Admission bodies – special	70	65
Members		
London Borough of Bexley – normal	3,798	3,774
Bexley College – normal	119	116
Admission bodies – normal	454	448
London Borough of Bexley – additional voluntary contributions	144	142
Bexley College – additional voluntary contributions	3	3
Admission bodies - additional voluntary contributions	8	14
<i>Total contributions</i>	<u>16,019</u>	<u>14,908</u>

The special contribution is a lump sum contribution from Orbit Housing Association to recover past service deficits over a period of 20 years.

The Additional Voluntary Contributions (AVC) shown above are paid into the Council's Pension Fund. Some Scheme members also make arrangements for separate investments into their personal AVC accounts with an external AVC provider recommended by the Fund. The Fund is only involved in collecting and paying over the latter amounts on behalf of scheme members and the separately invested amounts are not included in these pension fund accounts. During 2007/08 members paid £77,000

(£56,000 in 2006/07) contributions to their personal AVCs and the value of their investments was £471,000 at 31 March 2008 (£410,000 at 31 March 2007).

4. Transfers in

All transfers in relate to individual transfers in from other schemes as there were no group transfers in these two years.

	2007/08	2006/07
	£000s	£000s
London Borough of Bexley	1,936	1966
Bexley College	114	95
Admission bodies	77	5
<i>Total</i>	<u>2,127</u>	<u>2,066</u>

5. Benefits payable

	2007/08	2006/07
	£000s	£000s
Pensions	14,939	13,721
Commutations and lump sum retirement benefits	3,244	3,895
Lump sum death benefits	134	530
<i>Total</i>	<u>18,317</u>	<u>18,146</u>

These benefits can also be analysed by employing body as follows:-

London Borough of Bexley	16,636	16,583
Bexley College/Magistrates Courts	409	346
Admission bodies	1,272	1,217
<i>Total</i>	<u>18,317</u>	<u>18,146</u>

6. Payments to and on account of leavers

All transfers out relate to individual transfers out to other schemes as there were no group transfers in these two years.

	2007/08	2006/07
	£000s	£000s
Refunds of contributions	26	7
State scheme premiums	1	7
Individual transfers out to other schemes	4,035	2,748
<i>Total</i>	<u>4,062</u>	<u>2,762</u>

These benefits can also be analysed by employing body as follows:-

London Borough of Bexley	3,668	2,549
Bexley College	0	43
Admission bodies	394	170
<i>Total</i>	<u>4,062</u>	<u>2,762</u>

7. Administrative expenses

	2007/08	2006/07
	£000s	£000s
Administrative services	226	211
Payroll, personnel and finance services	341	319
Actuarial services	28	14
Miscellaneous expenses	19	17
<i>Total</i>	<u>614</u>	<u>561</u>

8. Investment income

	2007/08	2006/07
	£000s	£000s
Income from fixed interest securities	2,468	3,420
Dividends from equities	8,448	8,145
Income from index-linked securities	429	215
Income from pooled investment vehicles	66	64
Interest on cash deposits	365	348

Underwriting commission	0	3
Other investment income	150	22
	<u>11,926</u>	<u>12,217</u>
Irrecoverable withholding tax	-308	-238
<i>Total investment income</i>	<u>11,618</u>	<u>11,979</u>

9. Investments

	Value at 31/03/07	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/08
	£000s	£000s	£000s	£000s	£000s
Fixed interest securities	62,617	32,182	-48,094	-1,554	45,151
Index-linked securities	12,201	22,563	-12,355	2,631	25,040
Equities	260,519	99,340	-97,358	-14,183	248,318
Pooled investment vehicles	60,636	9,675	-14,352	9,373	65,332
Cash/temporary investments	5,090	3,649	0	0	8,739
	<u>401,063</u>	<u>167,409</u>	<u>-172,159</u>	<u>-3,733</u>	<u>392,580</u>
Outstanding investment transactions etc	2,606				2,128
	<u>403,669</u>				<u>394,708</u>

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, apart from profits and losses realised on sales of investments during the year which are included under sales proceeds.

	2007/08	2006/07
	£000s	£000s
Fixed interest securities		
UK Quoted – public sector	27,258	37,633

UK Quoted – other	17,497	11,389
Overseas Quoted – public sector	0	13,595
Overseas Quoted – other	396	0
	<u>45,151</u>	<u>62,617</u>
Equities		
UK quoted	130,502	146,848
UK unquoted	1	1
Overseas quoted	117,815	113,670
	<u>248,318</u>	<u>260,519</u>
Index-linked securities	25,040	12,201
Pooled investment vehicles		
Managed funds – UK fixed interest unquoted (other)	23,010	23,000
Managed funds – Overseas OEIC	7,298	8,822
Managed funds – Overseas unquoted	5,369	4,755
Managed funds – UK unitised insurance policy quoted	3,561	4,801
Managed funds – GTAA	5,953	0
Managed funds – Gilt Exposure	2,170	0
Unit trusts – UK unquoted	2,603	4,478
Unit trusts – Overseas quoted	4,240	4,208
Unit trusts – Overseas unquoted	11,128	10,572
	<u>65,332</u>	<u>60,636</u>
Cash/temporary investments	8,739	5,090
Other investment balances		
Debtors	4,885	3,895
Creditors	-2,757	-1,289
	<u>2,128</u>	<u>2,606</u>

The managed funds overseas unquoted are an investment in a fund of private equity funds. The net valuation at 31 March 2008 was €6.837m which equates to the £5.369m shown, using the exchange rate of €1.2736 to £1. As at 31 March 2008 the Pension Fund had a commitment to contribute a further £9.5m.

10. Investment management expenses

	2007/08	2006/07
	£000s	£000s
Investment manager fees	1,105	919
Custodian fees	18	13
Commission recaptured	0	-6
Advisory fees	12	25
Performance measurement services	16	14
<i>Total</i>	<u>1,151</u>	<u>965</u>

The management fees for the fund of hedge funds and fund of private equity funds are not included above as they are not separately shown by the managers. The unit values of these funds are net of management fees.

11. Current assets and liabilities

	2007/08	2006/07
	£000s	£000s
Contributions due from employer		
- in respect of employer	169	144
- in respect of members	61	57
- in respect of previous employment	5	17
Unpaid benefits	-484	-310
Cash balances	-154	-135
Accrued expenses etc	-385	-272
<i>Total</i>	<u>-788</u>	<u>-499</u>

12. Administration

The scheme is administered by the London Pensions Fund Authority on behalf of the London Borough of Bexley.

The fund is exempt from UK income tax on interest and from capital gains tax on the profit from the sale of investments. The Fund is also exempt from US withholding tax on dividends on investments and recovers withholding tax deducted in some other countries. VAT input tax is recoverable on all Fund activities through the London Borough of Bexley as the administrative authority for the Fund.

13. Post Balance Sheet Events

Changes will be made to the benefit entitlements under the provisions of the LGPS with effect from 1 April 2008 following the publication of new regulations during 2007/08. The impact of the majority of these changes has been taken into account by the Council's actuary in the latest actuarial valuation as at 31 March 2007 (see notes below).

An asset liability study was carried out after the actuarial valuation. A report detailing the outcome was presented to the Pensions Committee in June 2008 and changes to the asset allocation were made to increase the likelihood of reducing the funding deficit.

In April 2006 one of the admitted bodies, the Family Services Unit (FSU), went into administration. The Fund has lodged a claim with the administrators for the deficit likely to be incurred in liabilities to pensioners of the FSU according to a standard basis agreed by fellow pension scheme creditors. The latest position from the administrators is that the Bexley Council part of the Fund is likely to recover around 29% of the £320,000 claim submitted.

There were no other material contingent liabilities or contractual commitments at 31 March 2008, or material non-adjusting events subsequent to this.

14. Related Party Transactions

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. Of particular note is the £567,000 recharge in 2007/08 from the London Borough of Bexley to the Pension Fund included in administration costs. During the year, no Council Members or Designated Officers have undertaken any declarable transactions with the Pension Fund.

15. Stock Lending

No stock was released to a third party during the year.

Explanatory Notes

The London Borough of Bexley administers the London Borough of Bexley pension scheme under the provisions of the Local Government Superannuation Acts and the associated detailed regulations to provide benefits for employees. These benefits include retirement and spouses' and children's pensions, retirement and death lump sum grants. All employees who are not eligible to join another public service scheme are eligible for membership of this scheme. The Fund is a funded defined benefit scheme. An annual news sheet entitled "Bexley Pensions" is issued to all members of the scheme, and a separate leaflet "Bexley Pensioners" gives more information relevant to those in receipt of a pension. Further detailed information on the Fund is available on its website. Employees of other scheduled and admission bodies participate in this scheme.

The Scheduled Bodies are:-

London Borough of Bexley

Bexley College

The Admission Bodies are:-

Rose Bruford College

Thamesmead Family Service Unit (preserved benefits only)

ACOB Limited (preserved benefits only)

MCCH Society

Orbit Housing Association

London and Quadrant Housing Trust

Kent Community Housing Trust

Care Partners Trust

Bexley Heritage Trust

Danson Youth Trust
Business Academy Bexley
Business Academy Bexley (Primary)
Bexley Care Trust
Inspire Community Trust
Kier Street Services Ltd

In 2007/08, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a standard contribution to the Fund at a fixed percentage of their pensionable earnings and emoluments; generally 6%. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2007. The Council's contribution in 2007/08 was 15.5% (14% in 2006/07). Other bodies employer's contributions in 2007/08 varied between 8.9% and 26.0%.

The Fund's asset allocation during 2007/08 was 65% in equities and 30% in bonds (invested by its balanced managers) with 5% in alternative assets – half in a fund of private equity funds and half in a fund of hedge funds. The Fund's investment return for the year was a loss of 0.7%. This was slightly better than the return on the Fund's specific benchmark of -1.1%. Over a five year period the Fund's annual return was 11.8% pa compared to the average return of 11.2% pa that the benchmark would have achieved.

During 2007/08, investment purchases made by the two balanced managers were £167.4m and sales were £172.1m. Since 19 January 1999, half the value of the investments have been managed by UBS Global Asset Management Ltd and the other half by Newton Investment Management Ltd. An investment of £10m was made from 1 September 2006 with RMF Investment Strategies Ltd in a fund of hedge funds, and the Fund's fund of private equity funds manager, Partners Group, has so far drawn down £6.2m of a £15.7m (€20m) commitment. At 31 March 2008 UBS managed investments valued at £189.154m (48.2%), Newton £186.929m (47.6%), RMF £11.128m (2.8%) and Partners £5.369m (1.4%). The Fund's total assets reduced from £401.063m at 31 March 2007 to £392.580m a year later. This reduction was due to the negative return on the Fund's investments.

The Fund publishes a Statement of Investment Principles, a separate Annual Report for the Pension Fund, and other documents, and these can be obtained from the Finance Department, Bexley Civic Offices, Broadway, Bexleyheath, Kent DA6 7LB, or on the website at yourpension.org.uk/bexley.

Financial Analysis

2003/04 – 2007/08

	2003/04	2004/05	2005/06	2006/07	2007/08
	£000	£000	£000	£000	£000
Contributions to the Scheme	12,775	15,167	17,997	16,974	18,146
Benefits Paid and Admin Expenses	17,289	17,694	20,253	21,469	22,993
Net Return on Investments	62,041	31,231	68,113	15,752	-4,403
Net Increase/ (Decrease) in Year	57,527	28,704	65,857	11,257	-9,250
Value of Fund Brought Forward	239,825	297,352	326,056	391,913	403,170
Value of Fund Carried Forward	297,352	326,056	391,913	403,170	393,920

Membership Analysis

31 March 2004 - 31 March 2008

	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08
Employees in the Fund	4,385	4,535	4,588	4,547	4,594
Deferred Pensioners	2,361	2,496	2,672	2,891	3,067
Pensioners in the Fund	3,142	3,215	3,309	3,401	3,569

Pension Fund Actuarial Valuation

1. The last Actuarial Valuation

The last actuarial valuation of the Pension Fund was carried out by Mercer Human Resource Consulting Ltd as at 31 March 2007 and its report states that the valuation has been carried out in accordance with the Local Government Pension Scheme (LGPS) Regulations 1997 (as amended) and the guidance note GN9 issued by the Institute of Actuaries' Board for Actuarial Standards. It also takes account of the changes to the LGPS from 1 April 2008 and the Fund's Funding Strategy Statement.

2. Market Value of the last Valuation

The market value of the Fund's assets at 31 March 2007 was £403.170m.

3. Actuarial Method and Assumptions

The actuarial method used in the last valuation was the projected unit method which has been used in previous valuations. This method estimates the benefits relating to past and future services separately. The past service liabilities are derived from market conditions at the valuation date. The resulting past service liabilities are compared with the market value of the scheme's assets at the valuation date to determine the funding level. Liabilities relating to admitted and scheduled bodies are separately assessed.

The assumptions used in the valuation were:-

(a) Financial

	2004 Valuation		2007 Valuation	
	Past Service Liabilities	Future Service Liabilities	Past Service Liabilities	Future Service Liabilities
Investment Return	6.10%pa	6.50%pa	6.15%pa	6.50%pa
Earnings Growth	4.55%pa	4.25%pa	4.85%pa	4.50%pa
Price Inflation	2.80%pa	2.50%pa	3.10%pa	2.75%pa

(b) Non-Financial

Rates of withdrawals have been based on the experience of Mercer's local authority clients as in the previous valuation. Rates of ill-health retirements have been halved from the allowance used in 2004 following recent experience at Bexley. The allowance for non ill health early retirements takes account of the fact that half the cost of such retirements will be met through the employer's contribution and half will be met directly by the relevant employer until the retired member's normal retiring age. On retiring it is assumed that 50% of members will commute pension to take the maximum lump sum, with 50% taking the 3/80 entitlement.

The revised benefits and discretionary policies set out in the 1997 Regulations have been taken into account.

Mortality rates have been adjusted again in the latest valuation. There is a trend for people to live longer, so lighter assumptions have been used. An extra three years life expectancy has been assumed compared to the 2004 valuation.

4. Result of Valuation

The 2007 valuation identified that the funding level of assets over liabilities was 86% (83% at 31 March 2004) which is below the long term target level of 100%. This deficit on the Fund (£66m) will be recovered over a period of 17 years (that is the balance of the 20 year recovery plan set in 2004). This extended period is intended to meet the Government's desire that employer contributions remain as stable as possible over time.