

# **LONDON BOROUGH OF REDBRIDGE**

## **PENSION FUND**

### **ANNUAL REPORT**

**2011-2012**

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## **EXECUTIVE OVERVIEW**

Welcome to the Pension Fund Annual Report for 2011/12.

The Pension Fund Investment Panel has had another busy year. The appointment of the three new managers at the end of last year has meant that significant arrangements were put in place to move towards the new investment strategy. This included the transfer of the equity assets held through a tracker fund to the new equity managers, increased investment with the property managers and increased investment with the new managers appointed to actively manage the equity portfolios. We will be looking to make further investment to property as opportunities arise.

The Panel were pleased to note that despite the volatility of the global markets, the value of the Fund increased by nearly 6.3% over the year. It was also pleasing to note that the Redbridge Pension Fund was the 11<sup>th</sup> best performing fund out of the 100 LGPS funds in the year and the 15<sup>th</sup> best performing over the 5 year period. The analysis undertaken by the WM Company has also shown that the Redbridge Pension Fund was the second best performing fund of the LGPS funds in London.

Government reforms to the Public Sector Pension Scheme remain an area of active interest and debate and changes are currently planned for 2014. We will endeavour to ensure that Scheme members are kept informed of any changes to the scheme.

Councillor Norman on behalf of The Pension Fund Investment Panel

## **REPORT FROM THE DIRECTOR OF FINANCE & RESOURCES**

The stock market continued to provide challenges for investors with the global equity markets ending the year lower than at the start of the year but despite this the value of the Redbridge Pension Fund over the financial year had increased to £467.1 million a rise of nearly 6.3%, the highest year end value achieved by the Fund. This was primarily due to a strong rally in the bond markets.

The Council sets its Fund Managers challenging targets which given the significant in-year volatility some did not meet. However in recent times the overall performance of the Fund has been good particularly in view of the volatility in the markets. The WM Company who measure the performance of the 100 funds in the LGPS has reported that the Redbridge Pension Fund was the 11<sup>th</sup> best performing fund over the year and is the 15<sup>th</sup> best performing fund over 5 years period. Although when analysing the returns achieved in year solely for the London Boroughs, the Redbridge Fund was the second best fund.

2011-12 was another busy year for the Pension Fund Investment Panel. Following the appointment of new investment managers, transition arrangements were implemented and the assets formerly held in a tracker fund were transferred to the new managers. Also as opportunities arose, the investment in the Fixed Income portfolio was decreased and subsequently reinvested together with some of the surplus cash held on behalf of the Pension Fund by the Authority with the two property managers and the managers of the Emerging Markets and the Asia Pacific (ex. Japan) portfolios. The objective is to move towards achieving the revised strategic asset allocation when market conditions are favourable and therefore reducing the risk to the Fund.

The funding position of the Local Government Pension Scheme continues to provoke debate on the on-going affordability. The Redbridge Pension Fund, like most other local government funds, is not fully funded to meet its future liabilities however we have an agreed strategy to address this situation. This strategy will ensure that the Pension Fund remains able to meet the liabilities of the fund, despite a volatile investment environment. The Actuary calculated in the 2010 Valuation that the employer contribution rates for the majority of the employers, including the Council, should remain consistent with the previous valuation. The Fund continues to maintain net cash inflows on an annual basis with income significantly exceeding payments out, and this is expected to remain the situation for a number of years.

The Government are reviewing the Local Government Pension Scheme to strike a balance between maintaining a scheme that provides fair and reasonable benefits for its members, whilst being affordable to both employees and employers. Significant changes are currently expected in 2014. Scheme members will be kept informed as Government decisions are announced.

As part of the Council's development of communications, a new web-site dedicated to Pension matters was launched in partnership with the London Borough of Havering. The website is located at <http://www.redbridge.gov.uk/pensions>

Geoff Pearce  
Director of Finance & Resources

## MANAGEMENT STRUCTURE

The London Borough of Redbridge Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute and is kept under review by the Communities and Local Government Department (CLG).

The London Borough of Redbridge is the Administering Authority for the London Borough of Redbridge Pension Fund. The Council has set up the Pension Fund Investment Panel to oversee the management of the Fund's investments. The Investment Panel consists of five Councillors who are appointed by the Council on an annual basis.

In accordance with the Council's Scheme of Delegations, and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the responsibility for the management and investment of the Pension Fund is delegated to the Director of Finance & Resources. These powers are exercised in accordance with the recommendations of the Pension Fund Investment Panel. For 2011/12 the Members of the Panel were:

Cllr. E. Norman (Chairman)  
Cllr. R. Hoskins (Vice-Chairman)  
Cllr. J. O'Shea  
Cllr. J. Fairley-Churchill  
Cllr. R. Hatfull

Actuary	Hymans Robertson
Investment Consultant	JLT Actuaries & Consultants
Investment Managers	BlackRock Investment Management (UK) Ltd. Legal & General Investment Ltd (terminated November) State-Street Global Advisors (appointed November) Newton Investment Management Ltd. Schroders Investment Management Standard Life Investment Management
AVC Providers	Clerical Medical Equitable Life Standard Life
Custodian	State Street
Auditors	PricewaterhouseCoopers LLP
Performance Measurement	WM Company
Solicitors	In House

## SCHEME FEATURES

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits to all eligible employees and their dependents. Eligible employees are mainly local government staff, except teachers who have separate pension arrangements, and a number of other bodies as permitted by Local Government Pension Scheme Regulations 1997 and Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and amendments thereto.

**Table 1 – LGPS Features**

<b>Eligibility</b>	<b>Permanent Employees</b>
Member Contributions	Ranging from 5.5% - 7.5% depending on salary
Normal Retirement Age	Age 65 but benefits can be taken at 60 subject to possible reductions
Early Retirement	Immediate payment of benefits on efficiency/redundancy grounds from the age of 55. Voluntary retirement with employer consent and flexible retirement from the age of 55.
Ill Health Retirement	A three-tier ill health arrangement has been introduced that pays benefits to members based on the member's prospect of returning to gainful employment.
Pension	1/60 <sup>th</sup> of salary for each year of membership from 01/04/08. Service prior to this date will be calculated at 1/80 <sup>th</sup> plus lump sum.
Tax Free Lump Sum	Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.
Death in Service	Lump sum of three times salary at date of death.
Death Benefits after Retirement	Death on pension lump sum of ten times pension less pension paid.
Dependents Benefits	Long-term pension benefits payable to the member's spouse, civil partner or nominated cohabiting partner. Long-term children's pension.
Benefits on Leaving Service	Members who leave service are entitled to either a refund of contributions if service is less than three months, or preserved pension payable from normal retirement date, or a transfer payment to another scheme or insurance company.

## SCHEME FEATURES

The Local Government Pension Scheme (LGPS) also offers membership to councillors and elected mayors who are under the age of 75.

**Table 1 – LGPS Features**

Eligibility	
Councillor Contributions	6% of allowances.
Normal Retirement Age	Age 65 but benefits can be taken at 60 subject to possible reductions.
Early Retirement	Voluntary retirement with Council consent from the age of 50.
Ill Health Retirement	Ill-health benefits are payable if an independent specially qualified doctor determines that it would not be possible to continue the duties as a councillor until the age of 65.
Pension	1/80 <sup>th</sup> of career average pay for each year of membership of the LGPS.
Tax Free Lump Sum	Lump sum at the rate of 3/80 <sup>th</sup> of career average pay for each year of membership of the LGPS.
Death in Service	Lump sum of two times the career average pay.
Death Benefits after Retirement	Death on pension lump sum of five times pension less pension paid.
Dependents Benefits	Pension benefits are payable to the Councillor's spouse or civil partner.

## MEMBERSHIP SUMMARY

The London Borough of Redbridge Pension Fund has fifteen contributing employers in the Fund during the financial year 2011/12, including the Council itself. Employers are classified as either scheduled (who have automatic right to join the fund) or admitted bodies (who are admitted at the Authority's discretion) as defined by regulations.

During 2011/12, four schools converted to Academies and Aldborough Free School opened and became a new employer to the scheme. Also further staff that had worked in the Leisure Services area were transferred to Vision Redbridge Culture & Leisure.

The table below outlines the membership profile as at 31<sup>st</sup> March 2012 for all employers in the Fund as well as their status:

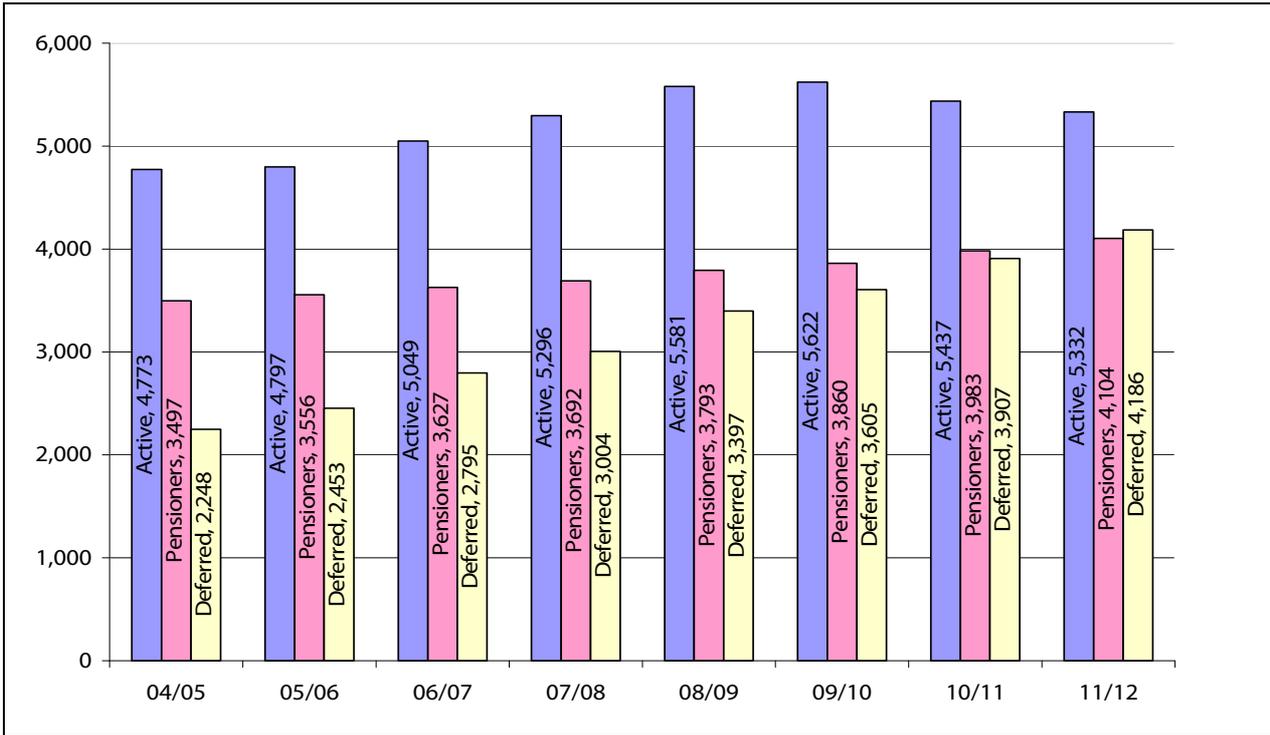
**Table 2 – Profile of Employers in the Fund at 31<sup>st</sup> March 2012**

Employers	Status	Active Members	Deferred Members	Pensioner Members	TOTAL	%
L.B. Redbridge	Scheduled	4,669	3,924	3,902	12,495	91.7
Little Heath School	Scheduled	29	8	7	44	0.3
Mayfield School	Scheduled	73	39	10	122	0.9
Redbridge College	Scheduled	93	112	38	243	1.8
Redbridge Homes	Scheduled	67	14	18	99	0.7
Chadwell Heath Academy	Scheduled	34	13	8	55	0.4
Ursuline Academy	Scheduled	28	23	6	57	0.4
Forest Academy	Scheduled	32	2	2	36	0.3
Palmer Academy	Scheduled	38	0	0	38	0.3
Aldborough Free School	Scheduled	7	0	0	7	0.1
Housing 21	Admitted	0	0	5	5	0.0
L&Q Housing Trust	Admitted	1	33	86	120	0.9
Morrisons	Admitted	48	7	20	75	0.6
Redbridge Theatre	Admitted	0	0	1	1	0.0
Vision RCL	Admitted	213	11	1	225	1.6
<b>TOTAL</b>		<b>5,332</b>	<b>4,186</b>	<b>4,104</b>	<b>13,622</b>	<b>100</b>

A deferred member is a former employee who has decided not to transfer their accrued benefits to an alternative pension scheme.

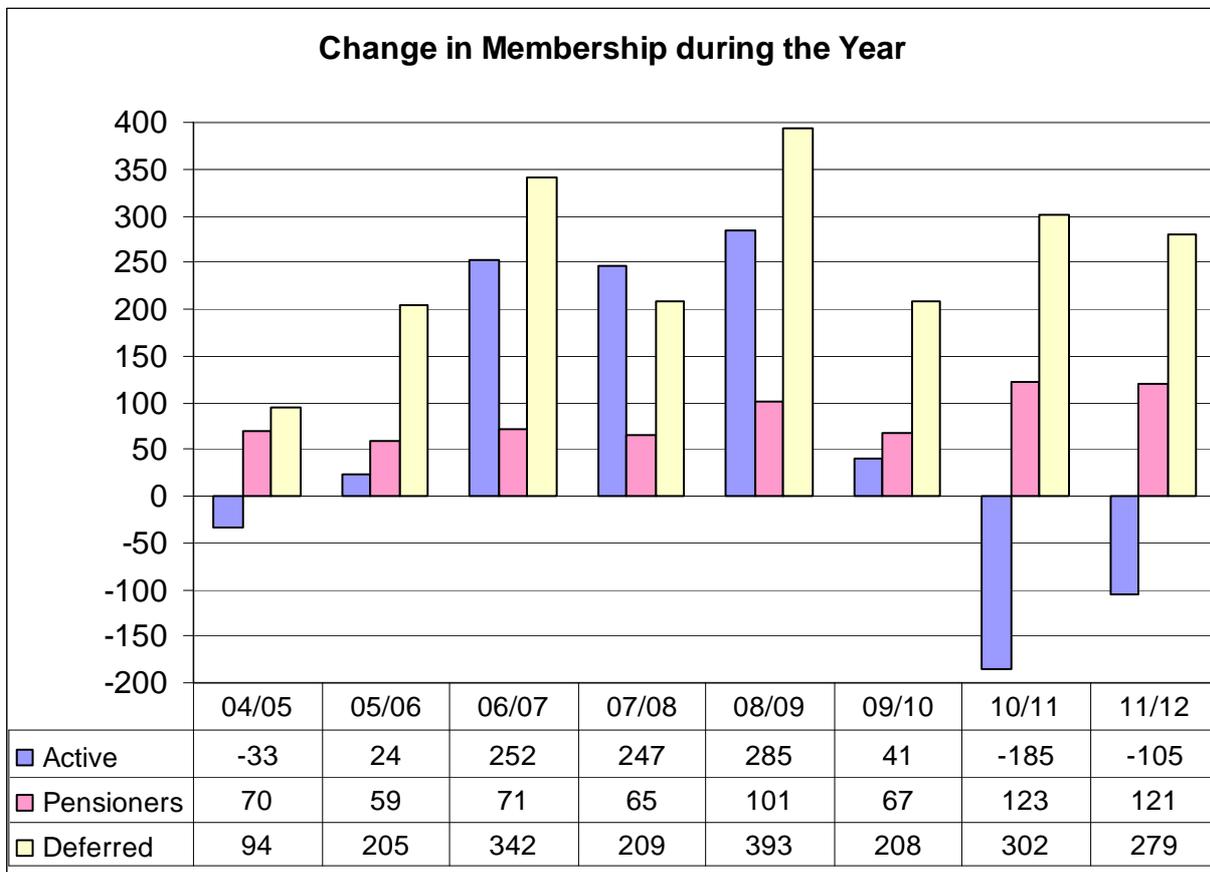
Overall membership of the Fund has increased over the last eight years from 10,518 to 13,616 - an increase of 29.5%. However the profile of the membership has changed as the fund becomes more mature. The membership profile is set out in Chart1:

**Chart 1 – Membership Composition**



To demonstrate this change in profile, the chart below shows the change in membership numbers each year for the past eight years.

**Chart 2**



# GOVERNANCE STRUCTURE

## Investment Powers and Duties:

The Local Government Pension Scheme Regulations require the London Borough of Redbridge, as the administering authority to invest any monies not immediately required to pay pensions and other benefits. This legislation also governs the manner in which investments are made and controlled.

## Investment Panel:

The London Borough of Redbridge Pension Fund Investment Panel, comprising of five councillors, meet five times a year to monitor the performance of the fund and the various fund managers; to set the annual business plan; to review the corporate governance policy and to review the investment strategy. The Investment Panel also receives a presentation at each meeting from one of the fund managers on the current position of the portfolio and other topical issues.

### 1. Pension Fund Investment Panel Members as at 31<sup>st</sup> March 2012



Councillor Fairley-  
Churchill  
Conservative

Councillor Hatfull  
Labour

Councillor Hoskins  
Lib Dem.

Councillor Norman  
Labour

Councillor O'Shea  
Conservative

### Substitute Members

Councillor Prince (Conservative), Councillor Chan (Conservative), Councillor Tewari (Labour), Councillor Jeyaranjan (Labour), and Councillor Bond (Lib-Dem).

## Investment Administration:

Day to day monitoring of pension fund investments and manager performance is delegated to the Director of Finance & Resources, who is responsible for ensuring the preparation of reports in relation to this activity. These reports are presented to the Pension Fund Investment Panel. The Director of Finance & Resources also meets with the fund managers on a regular basis to review the performance of the portfolios and other topical issues.

The Chief Human Resources Officer is responsible for the dealing with the payment of pensions and benefits, whilst also ensuring the collection of contributions and other such income from employees. The Director of Finance & Resources is responsible for ensuring that any surplus cash is invested to obtain the best possible return.

## Investment Management:

The Investment Panel implemented a new long term investment strategy in 2010, which resulted in a tender process being undertaken to appoint three fund managers for the investment of the global equity portfolio. The tender process has now been completed and the assets were transferred to the new fund managers in November & December 2011. Whilst the tender process was undertaken the portfolio continued to be managed by Legal & General on a temporary basis. The mandates for the fund managers are set out in Table 3. In addition to these mandates, the Council is investing 0.8% of the fund in cash accounts. The surplus cash balance accrued during 2011-2012 was reinvested into the new equity mandates.

The actual asset allocation varied from the strategy allocation as demonstrated in Chart 3.

Manager	Strategic Proportion %	Actual Allocation %	Mandate	Target
State-Street	32.80	33.50	Global Equities	Track the various equity market indices
BlackRock	3.00	2.80	Asia Pacific (ex Japan) Equities	To out-perform the MSCI Asia Pacific index by 3%
Schroders	4.20	4.20	Emerging Markets Equities	To out-perform the MSCI Emerging Markets index by 3%
Newton	30.00	27.00	Unconstrained Global	Absolute return of 4% above LIBOR
BlackRock	5.00	3.80	Property	Outperform IPD All Balanced Property Fund Index by 1%
Schroders	5.00	2.30	Property	Outperform IPD All Balanced Property Fund Index by 1%
Standard Life	20.00	25.90	Bonds	FTSE A Government & I-boxx Non-Gilts

\*-MSCI – Morgan Stanley Capital International

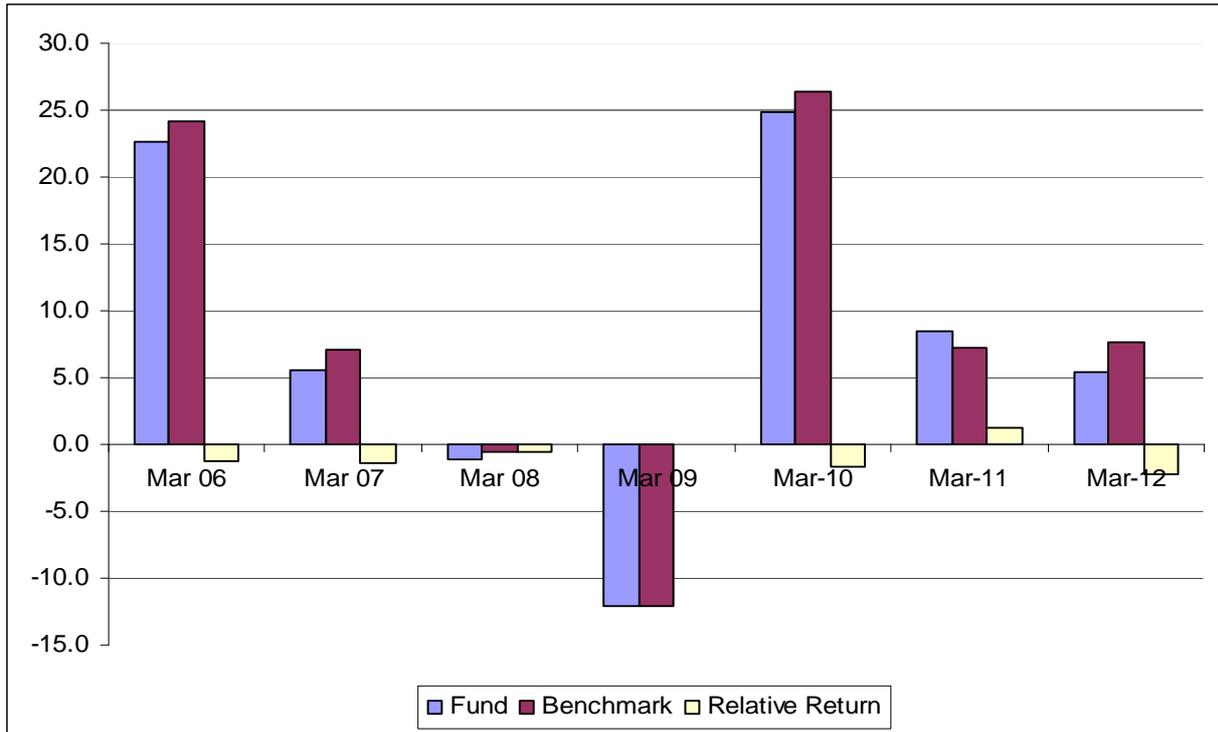
The variance between the actual and the strategic allocation was primarily due to the market volatility experienced in 2011/12 as well as the decision to phase in gradually the increased investment to property as investment opportunities arise. This is to try to keep costs to a minimum.

### Chart 3 - compares the Strategic Asset Allocation with the Actual Allocation

The performance of the Fund is measured by the WM Company against our strategic benchmark and Chart 4 provides details of this performance for the past seven years. The Chart shows that in 2011/12, the return on the Fund out-performed the strategic benchmark.

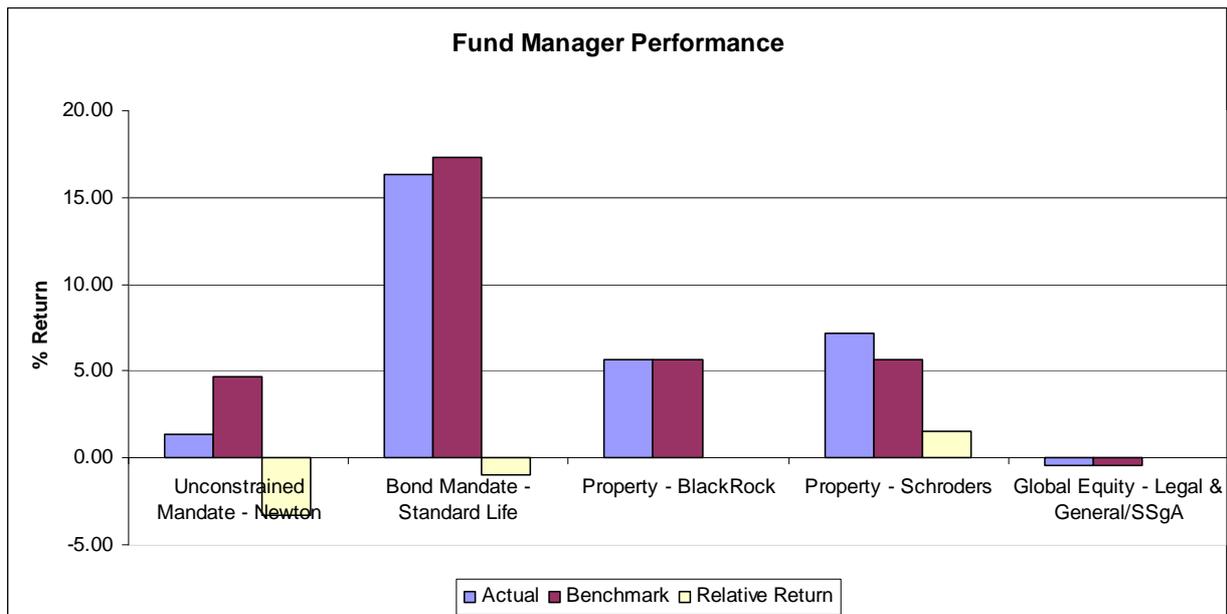
Industry experts advise that the Redbridge Pension Fund is keeping risk to a minimum whilst seeking our objectives.

**Chart 4 - shows the performance of the Fund relative to the combined benchmarks**



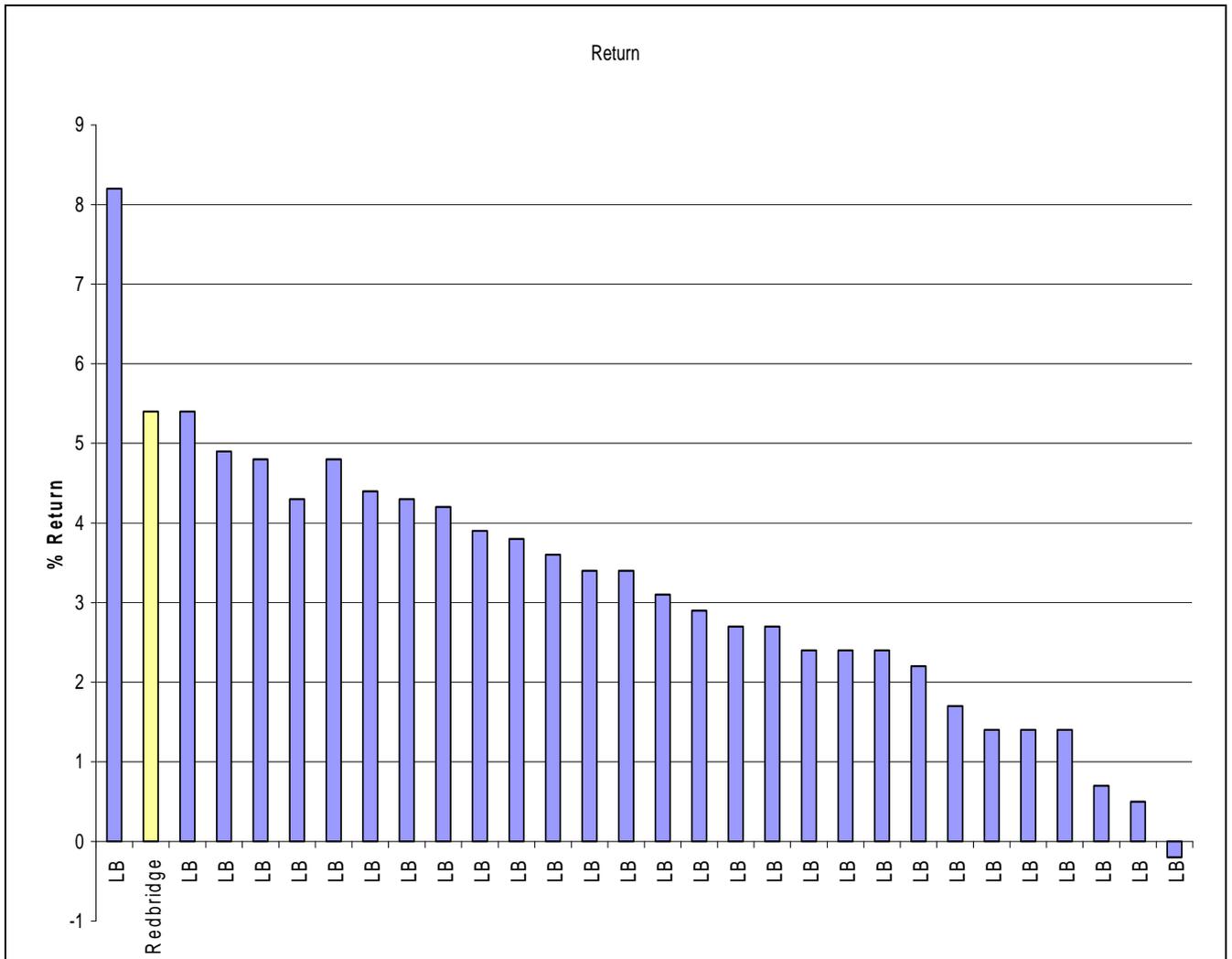
The Fund's under-performance was primarily due to the performance of the unconstrained portfolio managed by Newton. The performance of the other individual fund managers was varied due to the volatile market conditions. For the managers which have been managing the fund's assets for more than a year, Chart 5 sets out details of the performance of each manager for the year ending 31<sup>st</sup> March 2012.

**Chart 5 - the performance of the fund between the various fund managers for the year ending 31<sup>st</sup> March 2011.**



The WM Company, who measure the performance of the 100 pension fund schemes in the LGPS, has reported that over a one year and five year period that the London Borough of Redbridge Fund was 11<sup>th</sup> and 15<sup>th</sup> for the respectively periods. Further analysis has shown that when analysing the returns against the other London Boroughs, the Redbridge Fund was the second best performing fund in the year as demonstrated in the table below:

**Chart 6 – the comparison of the annual returns achieved by the Redbridge Fund with the returns of the other London Boroughs:**



## FINANCIAL SUMMARY

The Council, as the administering authority, is responsible for ensuring that sufficient funds exist to meet the current and future benefit payments. Investment Managers, Members of the Pension Fund Investment Panel, the Director of Finance & Resources, the Actuary and Investment Consultants work together to deliver optimal returns whilst also balancing the risk on the fund and ensuring that the employers' contribution rates remain affordable.

**Table 5 – Annual Income & Expenditure Summary since 2005-06**

Financial Summary	05/06 £'000	06/07 £'000	07/08 £'000	08/09 £'000	09/10 £'000	10/11 £'000	11/12 £'000
Contributions <sup>1</sup>	29,023	31,125	29,980	32,774	34,084	34,172	32,756
Investment Income	8,481	10,092	12,545	14,210	12,787	16,805	14,990
Realised Profits/(Loss)	11,711	46,898	1,301	-28,887	9,093	7,453	11,116
Benefits & Expenses <sup>2</sup>	-20,721	-21,999	-21,910	-25,347	-27,998	-26,629	-28,213
Net Annual Surplus(Deficit)	28,494	66,116	21,916	-7,250	27,966	31,801	30,649
Unrealised Profits/(Loss)	36,301	-40,064	-17,295	-29,279	56,157	10,482	-3,026
<b>Asset Market Value at 31 March</b>	<b>317,876</b>	<b>343,928</b>	<b>348,549</b>	<b>313,108</b>	<b>397,232</b>	<b>439,515</b>	<b>467,138</b>

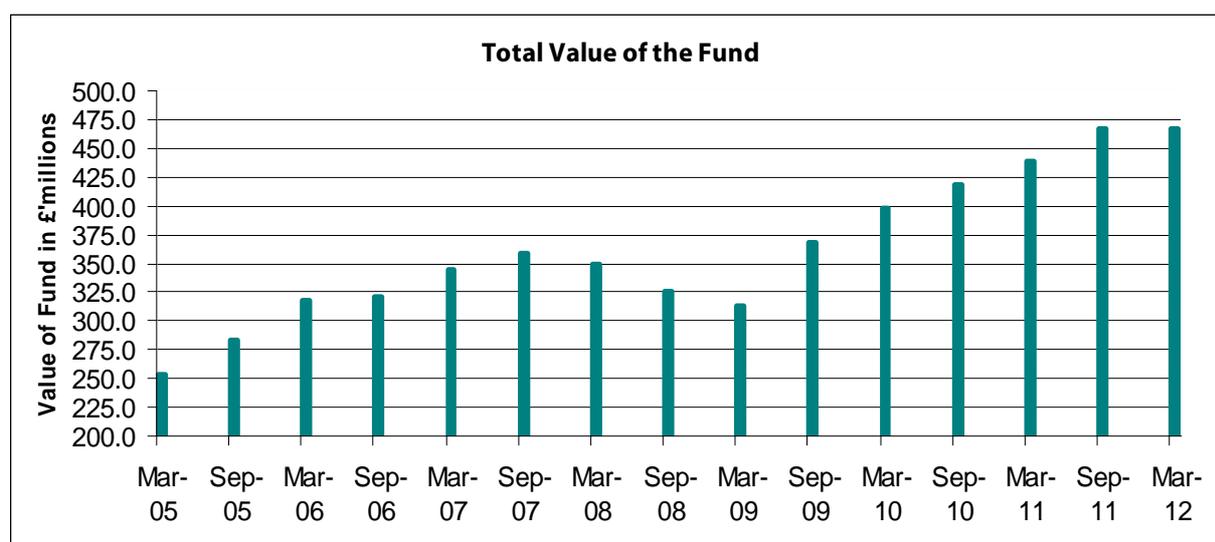
<sup>1</sup> includes Transfer Values received

<sup>2</sup> includes Transfer Valued paid

As Table 5 shows, the value of the fund has fluctuated over the years reflecting the buoyant stock markets during 2005/06 and 2006/07 that preceded the global downturn at the end of the previous decade.

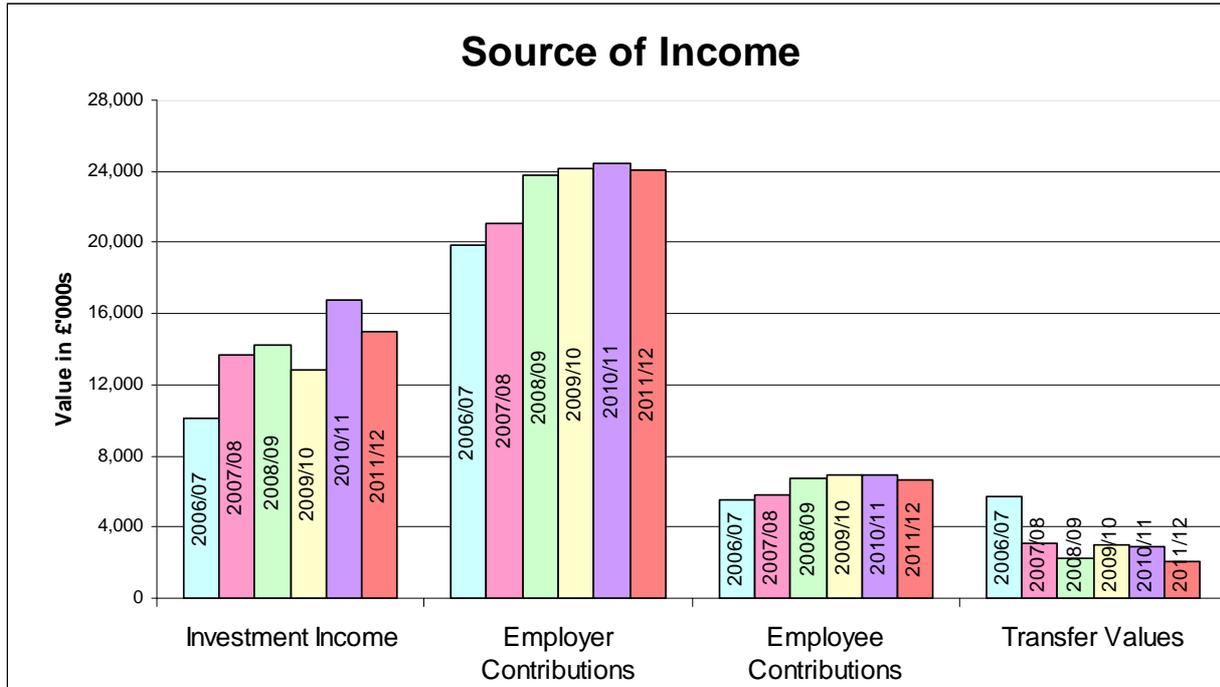
Chart 7 shows the value of the Fund since March 2005 that demonstrates the market volatility of the markets over recent years. The chart also shows that following the severe market falls in 2008-09, the fund increased in value by 49.2%

**Chart 7 - shows the change in the value of the Fund since March 2005 in £'millions**



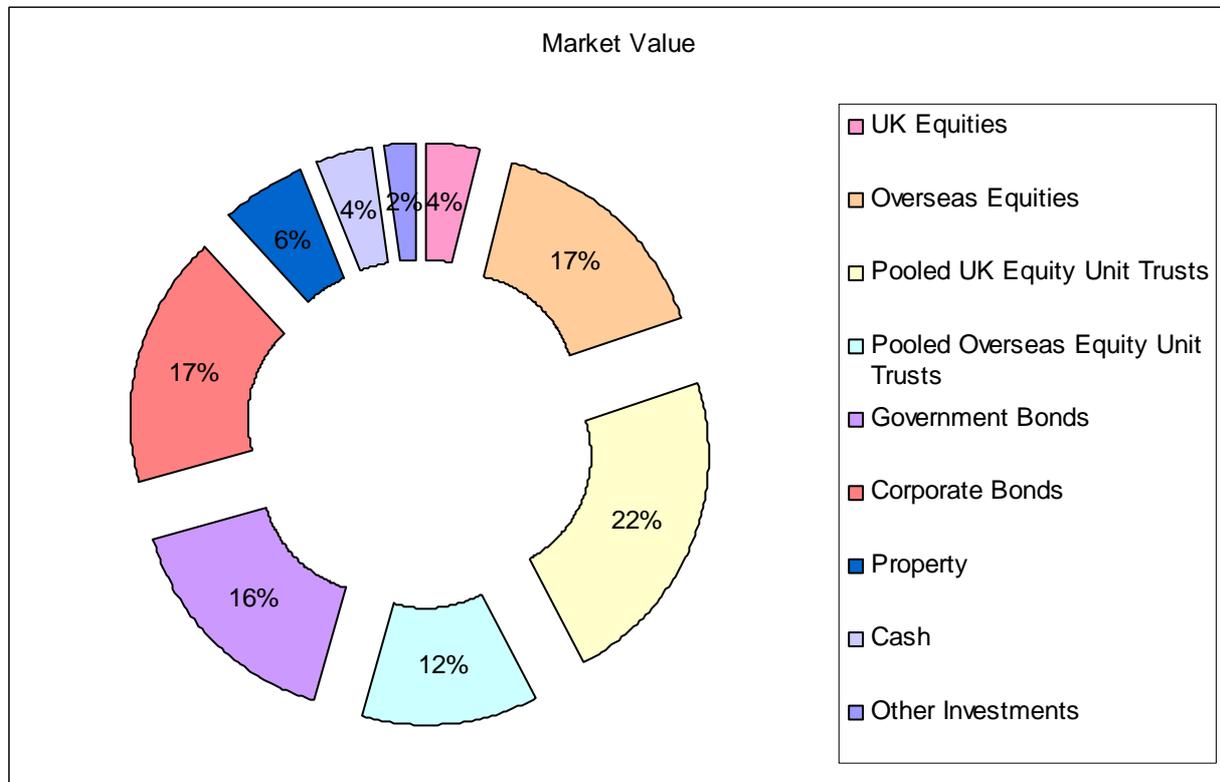
The Fund receives income from various sources as shown in Chart 8. The main source of income received relates to employee and employer contributions. The employee contribution rate is set by Regulations, whereas the employer contribution rate is calculated by the Fund's Actuary and set as a result of the triennial valuation. The next valuation is undertaken as at 1<sup>st</sup> April 2013 and will be used to set the employers' contribution rate for three years from 1<sup>st</sup> April 2014.

**Chart 8 – Source of Income since 2006-07**



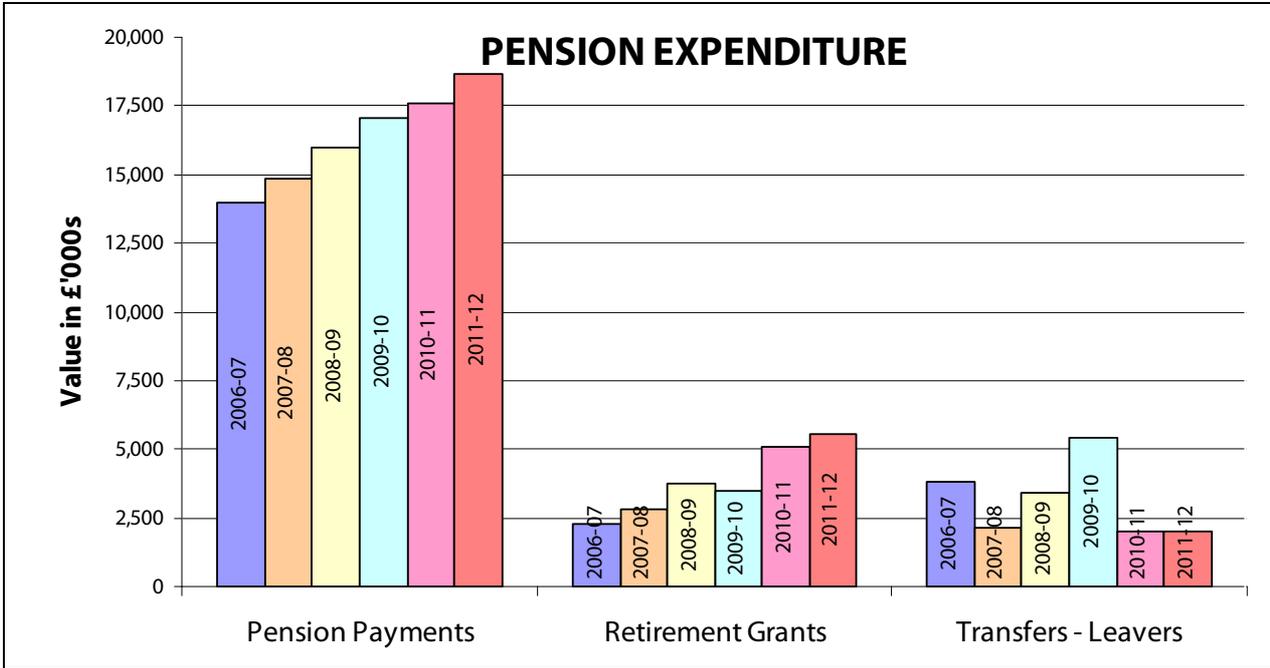
In order to reduce risk, the Fund is invested in various different asset classes. Chart 9 shows how the Pension Fund has been invested between the various different types of asset classes. The majority of the Fund is invested in equities, as equities are expected to provide the best return on investment over the long term. The Fund is currently maintaining a significant investment in corporate bonds, with the objective of obtaining similar returns on investments to that of equities during certain market cycles but with less risk.

**Chart 9 – The Distribution of Assets by Market Value.**



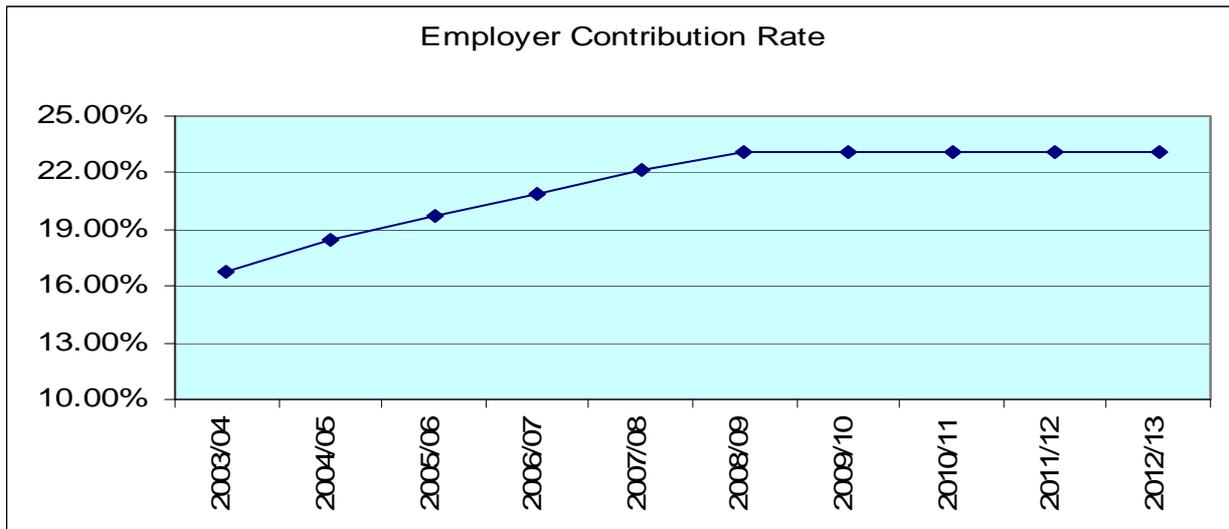
Over the past year, the cost of pension payments has increased by 6.1% mainly due to an increase in the number of pensioners however the current average pension paid remains unchanged from last year at £4,549 per annum. The increase in pension expenditure is shown in Chart 10.

**Chart 10 – Pension Expenses since 2006-07**



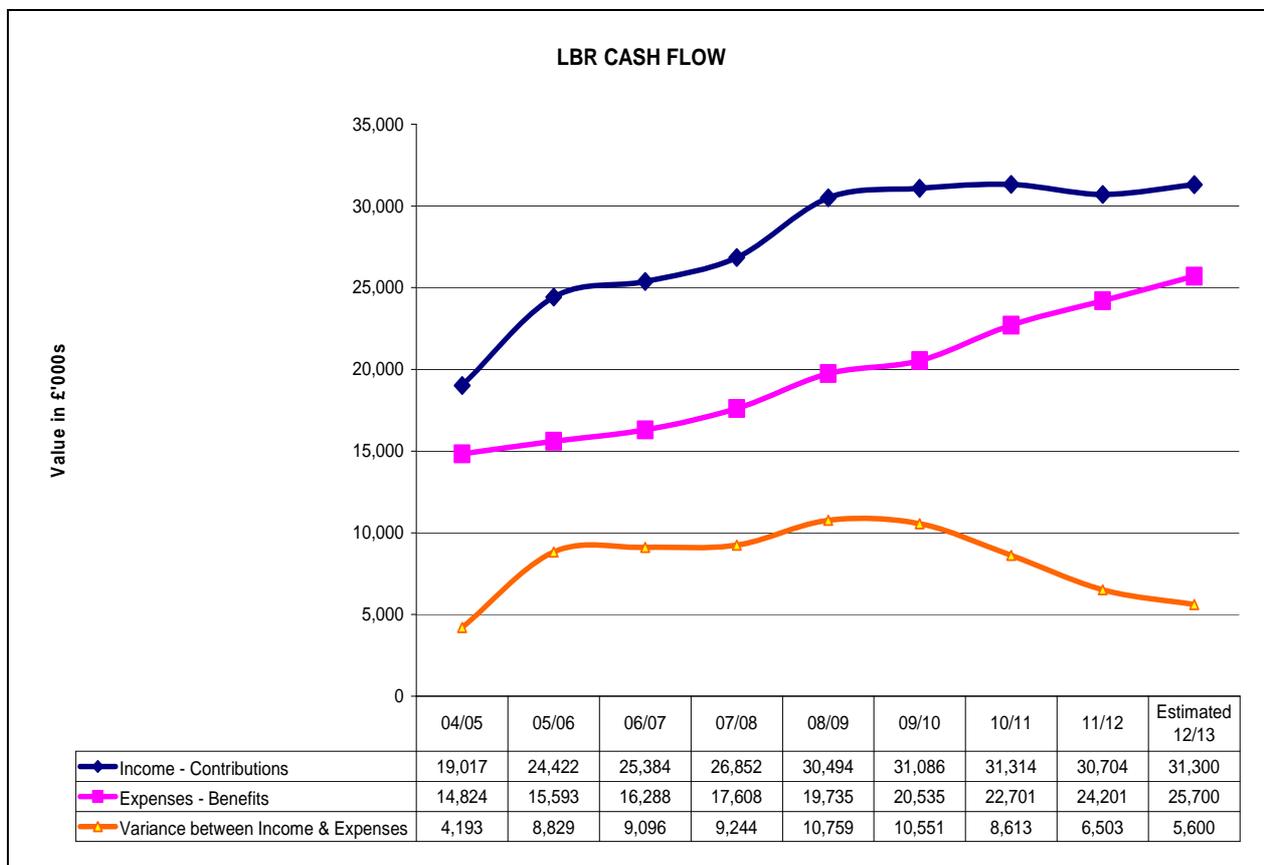
As well as looking to ensure that the contribution rates remain affordable, the Council is also trying to avoid volatility in the rates. The chart below shows the movement of the contribution rates over the past five years as well as for the next year as set by the Fund's Actuary:

**Chart 11 – London Borough of Redbridge Contribution Rates**



The previous charts have shown how the various different sources of income and expenditure have generally increased over the past few years. The chart below shows that despite the changes in both income and expenditure the fund continues to maintain sufficient cash balances to meet its day-to-day liabilities.

**Chart 12 – Cash Flow**



# **London Borough of Redbridge Pension Fund (“the Fund”)**

## **Actuarial Statement for 2011/12**

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

### Description of Funding Policy

The funding policy is set out in the London Borough of Redbridge’s Funding Strategy Statement (FSS), dated 17 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund’s assets, which at 31 March 2010 were valued at £397 million, were sufficient to meet 71.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £162 million.

Individual employers’ contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund’s funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Redbridge, administering authority to the Fund.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

### **Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

\* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, followed by 2 years at 3.3% (CPI), reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.7 years
Future Pensioners	23.8 years	26.5 years

Experience over the year since April 2011:

The funding level is likely to have fallen over 2011/12. The reasons for this are:-

- i. Total investment returns were broadly in line with the long term assumption made at the 2010 valuation; and
- ii. A fall in Government bond yields, leading to a fall in the overall change to the real discount rate. There is therefore an increase to the value placed on the liabilities.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

**Barry McKay**  
**Fellow of the Institute and Faculty of**  
**Actuaries**  
**For and on behalf of Hymans Robertson**  
**LLP**  
**11 May 2012**

Hymans Robertson LLP  
20 Waterloo Street  
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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF REDBRIDGE PENSION FUND**

We have audited the pension fund accounts included in the pension fund annual report of the London Borough of Redbridge Pension Fund for the year ended 31 March 2012 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Respective responsibilities of the Responsible Financial Officer and the auditor**

The Responsible Financial Officer is responsible for the preparation of the pension fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the London Borough of Redbridge Pension Fund's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

### **Opinion on financial statements**

In our opinion the pension fund's accounts:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, of the financial transactions of the pension fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matter**

In our opinion, the information given in the Annual Report for the financial year for which the accounts are prepared is consistent with the accounts.

Janet Dawson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Appointed Auditors  
London, SE1 2RT  
Date 27 September 2012

*The maintenance and integrity of the London Borough of Redbridge website is the responsibility of senior officers. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.*

# STATEMENT OF RESPONSIBILITIES

The London Borough of Redbridge as Administering Authority of the London Borough of Redbridge Pension Fund 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 Council, that Officer is the Director of Finance and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

In the Council's Constitution, the following responsibilities have been delegated to the Director of Finance and Resources:

- the duty to maintain and manage a Pension Fund in accordance with the Local Government Pension Scheme Regulations. This power shall be exercised in accordance with the recommendations of the Pension Fund Investment Panel.
- to ensure that the Council's accounting records are kept in accordance with the appropriate accounting standards and mandatory guidance and that the Statement of Accounts is prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom, based on International Financial Reporting Standards.
- the statutory duty to arrange for a triennial Actuarial Valuation of the Fund; to obtain an Actuary Certificate and to send a copy to the Minister; and to supply a copy of the Pension Fund audited accounts to admitted employing authorities.
- the duty to comply with and to exercise and perform any powers and duties under the various Pension Acts and the Superannuation Act 1972 which fall to be exercised or performed by the Council by virtue of its being an employer (powers and duties relating to supervision of pension schemes).

Statement of the Director of Finance and Resources:

I certify that the Accounts set out on pages 22 to 36 have been prepared in accordance with proper practices and present a true and fair view of the transactions of the London Borough of Redbridge Pension Fund during the year ended 31 March 2012 and financial position of the Fund at the date of its assets and liabilities, other than liabilities to pay pensions and benefits after the year end.

**G. Pearce, BA CPFA**  
**Director of Finance & Resources**  
**19 September 2012**

## Pension Fund Account for the Year Ended 31 March 2012

2010/11 £'000		Notes	2011/12 £'000
	<b>Contributions and Benefits</b>		
31,314	Contributions receivable	6	30,703
2,858	Transfers in	7	2,053
<b>34,172</b>			<b>32,756</b>
	<i>Less:</i>		
(22,701)	Benefits payable	8	(24,233)
(2,037)	Leavers	9	(2,017)
(426)	Administrative expenses	10	(528)
<b>(25,164)</b>			<b>(26,778)</b>
<b>9,008</b>	<b>Net additions from dealings with members</b>		<b>5,978</b>
	<b>Returns on Investments</b>		
17,264	Investment income	11	15,500
(459)	Irrecoverable withholding tax	11	(510)
17,935	Change in market value of investments	12(b)	8,090
(1,465)	Investment management expenses	16	(1,435)
<b>33,275</b>	<b>Net returns on Investments</b>		<b>21,645</b>
42,283	<b>Net increase in the Fund during the year</b>		27,623
397,232	<b>Net Assets of the scheme at 1 April 2011</b>		439,515
<b>439,515</b>	<b>Net Assets of the scheme at 31 March 2012</b>		<b>467,138</b>

### Net Assets Statement as at 31 March 2012

RESTATED 2010/11 £'000		Notes	2011/12 £'000
440,221	Investment Assets	12(c)	468,127
(161)	Investment Liabilities	12(c)	(553)
159	Current Assets	17	934
(704)	Current Liabilities	17	(1,370)
<b>439,515</b>	<b>Net Assets of the Scheme at 31 March 2012</b>		<b>467,138</b>

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

I certify that the Pension Fund Account and Net Assets Statement presents a true and fair view of the income and expenditure in 2011/12 and the Pension Fund's financial position as at 31 March 2012.

**G. Pearce BA, CPFA**  
**Director of Finance and Resources**  
**19 September 2012**

## Notes to the Pension Fund Account

### 1. Introduction

The Pension Fund is a funded, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is administered in accordance with the Local Government Pension Scheme (LGPS) Regulations by the London Borough of Redbridge. The scheme is a contributory defined pension scheme that provides pensions and other benefits to former Authority employees (except teachers, who have a separate scheme) and to various admitted and scheduled bodies.

During 2011-12 four schools converted to Academies and Aldborough Free School opened and joined the scheme. Also the employees that had worked for the Authority in the Leisure Services area were transferred under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to Vision Redbridge Culture and Leisure.

The admitted and scheduled bodies in the scheme as at 31 March 2012 were: Redbridge Theatre Company Limited, London & Quadrant Housing Trust, Housing 21, Morrison plc, Redbridge Homes Limited (ALMO), Redbridge Vision Culture & Leisure, Redbridge College, Chadwell Heath Academy, Mayfield School, Ilford Ursuline Academy, Little Heath School, Forest Academy, Palmer Academy and Aldborough Free School.

As at 31 March 2012 the membership of the scheme was as follows:

<b>Active Members</b>	<b>As at 31 March 11</b>	<b>As at 31 March 12</b>
Redbridge Council	5,049	4,669
Scheduled Bodies	316	401
Admitted Bodies	72	262
<b>TOTAL</b>	<b>5,437</b>	<b>5,332</b>

<b>Pensioners</b>	<b>As at 31 March 11</b>	<b>As at 31 March 12</b>
Redbridge Council	3,796	3,898
Scheduled Bodies	81	89
Admitted Bodies	106	117
<b>TOTAL</b>	<b>3,983</b>	<b>4,104</b>

<b>Deferred Members</b>	<b>As at 31 March 11</b>	<b>As at 31 March 12</b>
Redbridge Council	3,662	3,920
Scheduled Bodies	199	214
Admitted Bodies	46	52
<b>TOTAL</b>	<b>3,907</b>	<b>4,186</b>

With effect from May 2004, Councillors under the age of 70 have been entitled to join the Pension Scheme. 34 Councillors contribute to the scheme.

The Fund is financed by contributions as well as interest, dividends and profits from realised investments. The contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employee contributions are matched by employers' contributions which are set on triennial actuarial funding valuations. The funding policy is to ensure that over time the assets held by the Fund are adequate to meet future pension scheme liabilities.

Five Councillors are appointed annually by the Authority to the Pension Fund Investment Panel, which has the role of dealing with the management of the Pension Fund's investments in accordance with regulations laid down in statute and the Fund's Statement of Investment Principles.

The administration of the scheme is managed in-house

The Pension Fund's financial statements provide a stewardship report on the Fund, together with a statement of the assets position at the financial year-end.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 47 of these accounts.

## 3. Summary of Significant Accounting Policies

### Fund account – revenue recognition

- A) **Contribution Income** – Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.
- B) **Transfers to and from other schemes** – Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.
- C) **Investment Income** –
  - (i) **Interest Income** – Interest income is recognised in the Fund account as it accrues.
  - (ii) **Dividend Income** – Dividends have been accounted for on an accrual basis. Investment income on overseas investments has been converted into sterling at the rate of exchange on settlement date. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
  - (iii) **Distributions from pooled equity funds** – Pooled investment vehicles are accumulation funds and as such the change in market value includes income, net of withholding tax which is re-invested in the fund.
  - (iv) **Distributions from pooled property funds** – Income distributions from the pooled property fund investments have been accounted for on an accrual basis.
  - (v) **Movement in the net market value of investments** – Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Fund account – expense items

- D) **Benefits Payable** – pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities. Recoverable withholding tax is accrued on the same basis as dividend income.
- E) **Taxation** – the fund is a registered public service scheme under section 1(1) of Schedule 36 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 incurs withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.
- F) **Administration Expenses** – all administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with the Authority's policy.
- G) **Investment Management Expenses** – all investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. Broadly, these are based on the market value of

the investments under their management and therefore increase or decrease as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the Authority's in-house fund management team are charged direct to the fund and a proportion of the Authority's costs representing management time spent by officers on investment management are also charged to the fund.

### Net assets statement

- H) **Financial Assets** – financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial 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 of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
  - ii) Fixed Interest Securities – are recorded at net market value based on their bid price.
  - iii) Pooled Investment Vehicles – these are valued at either the closing bid price where a bid price exists or on the single unit price provided by the investment managers.
- I) **Foreign Currency Transactions** – dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value any cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- J) **Derivatives** – the fund uses derivative financial instruments to manage its exposure to specific risk arising from its investment activities. The fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivatives contracts are included in change in market value.
- K) **Cash and cash equivalents** – cash comprises of cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.
- L) **Financial Liabilities** – the Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.
- M) **Actuarial present value of promised retirement benefits** – the actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.
- As permitted under IAS 26, 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 22).
- N) **Additional Voluntary Contributions** – AVCs are not included in the accounts which is in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 23).

#### 4. Critical Judgements in Applying Accounting Policies

**Pension fund liability** – the pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### 5. Events after the Year End Date

Since 31 March 2012 there has been a decline in the global stock markets, however, this change is deemed to be a non-adjusting post year end event.

There have been no events since 31 March 2012 and up to the date when these accounts were authorised that require any adjustment to these accounts.

#### 6. Contributions Receivable

Contributions represent those amounts receivable from the various employing bodies in respect of their own contributions and those of their contributing employees. Under the provisions of the scheme, employees' rates are based on pay bandings and range from 5.5% to 7.5% of pensionable pay. The Fund's Actuary determines employer contribution rates (as a percentage of pensionable pay) which currently range from 12.5% to 23.1% plus any additional lump sum contributions required in respect of funding shortfalls at the time of the triennial actuarial valuation.

Early retirement - All capital costs, such as employee and employer contributions forgone, and the cost of making pension payments early in respect of non ill-health early retirements, are met by the employer that approved the early retirement.

		<b>2010/11</b>	<b>2011/12</b>
		<b>£'000</b>	<b>£'000</b>
<b>Employers</b>			
LBR	LBR	22,284	21,152
	Scheduled Bodies	1,362	1,383
	Admitted Bodies	763	1,489
		<b>24,409</b>	<b>24,024</b>
<b>Members</b>			
	LBR	6,310	5,802
	Scheduled Bodies	444	458
	Admitted Bodies	151	419
		<b>6,905</b>	<b>6,679</b>
		<b>31,314</b>	<b>30,703</b>

Contributions split between normal, deficit funding and augmentation are outlined below:

	<b>2010/11</b>	<b>2011/12</b>
	<b>£'000</b>	<b>£'000</b>
Normal Employer Contributions	14,120	15,238
Deficit Payments *	9,582	8,189
Augmentation (Early Retirements)	707	597
	<b>24,409</b>	<b>24,024</b>

\* The deficit recovery policy is set out the Scheme's Funding Strategy Statement

## 7. Transfers In

Sums received for scheme members from other pension schemes that relate to periods of previous pensionable employment.

	<b>2010/11</b> <b>£'000</b>	<b>2011/12</b> <b>£'000</b>
Individual Transfers from other schemes – LBR	2,626	2,048
Individual Transfers from other schemes – Scheduled Bodies	232	5
	<b>2,858</b>	<b>2,053</b>

## 8. Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme regulations.

	<b>2010/11</b> <b>£'000</b>	<b>2011/12</b> <b>£'000</b>
Pensions - LBR	16,904	17,831
- Scheduled Bodies	313	362
- Admitted Bodies	375	476
Commutation of Pensions and Lump Sum Retirement Benefits	4,361	4,969
Lump Sum Death Benefit	748	563
Interest	0	32
	<b>22,701</b>	<b>24,233</b>

## 9. Payments to and on Account of Leavers

Regulations permit a refund of employee contributions to be made to new members with less than three months initial scheme membership. Individual transfers are payments of accrued pension benefits in respect of scheme members who have left the Authority and joined a pension scheme elsewhere.

	<b>2010/11</b> <b>£'000</b>	<b>2011/12</b> <b>£'000</b>
Refunds to members	5	2
Payment for members joining the state scheme	2	0
Individual Transfers to other Schemes	2001	2,015
Interest	29	0
	<b>2,037</b>	<b>2,017</b>

## 10. Administrative Expenses

In accordance with the regulations, all administrative expenses are chargeable to the Fund. The London Borough of Redbridge carries out the administrative function in-house.

	<b>2010/11</b> <b>£'000</b>	<b>2011/12</b> <b>£'000</b>
Administration and processing	349	451
Actuarial fees	42	42
Audit fees	35	35
	<b>426</b>	<b>528</b>

## 11. Investment Income

Interest, dividends and other income shown in the revenue statement have been broken down as follows:

	<b>2010/11</b>	<b>2011/12</b>
	<b>£'000</b>	<b>£'000</b>
Fixed interest securities	7,356	7,314
Index Linked	38	82
Equities	3,114	3,430
Pooled Equity Unit Trusts	5,213	2,764
Property Unit Trusts	752	1,240
Cash Deposits	90	65
Other Investment Income	301	530
Compensation Payment <sup>1</sup>	400	75
	<b>17,264</b>	<b>15,500</b>
Less irrecoverable withholding tax	(459)	(510)
	<b>16,805</b>	<b>14,990</b>

<sup>1</sup> Payment received from AXA Rosenberg for investment loss due to a coding error within one of the quantitative based models, which formed part of AXA Rosenberg's investment process.

## 12. Investments

The table below shows a detailed analysis of the investments held by the Fund as at 31 March 2012 with comparison table showing detailed analysis of the investments held by the Fund as at 31 March 2011.

	<b>Value at 31/03/11</b>	<b>Purchases at cost</b>	<b>Sales Proceeds</b>	<b>Change in Fair value</b>	<b>Cash movement</b>	<b>Value at 31/03/12</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	75,611	43,229	(43,158)	17,788	0	93,470
Fixed Interest Securities	132,218	100,592	(87,451)	11,198	0	156,557
Index Linked	4,808	0	0	1,129	0	5,937
Pooled Equity Unit Trusts	171,000	162,763	(153,105)	(21,433)	0	159,225
Property Unit Trusts	26,498	1,041	0	271	0	27,810
Commodities	6,859	3,022	(4,684)	145	0	5,342
	<b>416,994</b>	<b>310,647</b>	<b>(288,398)</b>	<b>9,098</b>	<b>0</b>	<b>448,341</b>
<b>Derivative Contracts</b>						
Derivatives	163	6,469	(7,016)	(137)	0	(521)
	<b>417,157</b>	<b>317,116</b>	<b>(295,414)</b>	<b>8,961</b>	<b>0</b>	<b>447,820</b>
<b>Other Balances</b>						
Cash Instruments	2,204	1	(2,204)	0	0	1
Cash Deposits	14,696	0	0	(871)	3,545	17,370
Receivable – Sales	3,649				(3,590)	59
Receivable - Investment Income	2,354				(30)	2,324
Payable - Purchases	0				(630)	(630)
	<b>440,060</b>	<b>317,117</b>	<b>(297,618)</b>	<b>8,090</b>	<b>(705)</b>	<b>466,944</b>

	Value at 31/03/10	Purchases at cost	Sales Proceeds	Change in Fair value	Cash movement	Value at 31/03/11
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	71,934	24,885	(24,846)	3,638	0	75,611
Fixed Interest Securities	130,395	51,172	(51,395)	2,046	0	132,218
Index Linked	4,325	0	0	483	0	4,808
Pooled Equity Unit Trusts	152,626	10,338	(31)	8,067	0	171,000
Property Unit Trusts	11,356	14,975	0	167	0	26,498
Commodities	6,766	1,629	(3,927)	2,391	0	6,859
	<b>377,402</b>	<b>102,999</b>	<b>(80,199)</b>	<b>16,792</b>	<b>0</b>	<b>416,994</b>
<b>Derivative Contracts</b>						
Derivatives	498	6,694	(6,536)	(493)	0	163
	<b>377,900</b>	<b>109,693</b>	<b>(86,735)</b>	<b>16,299</b>	<b>0</b>	<b>417,157</b>
<b>Other Balances</b>						
Cash Instruments	2,204	0	0	0	0	2,204
Cash Deposits	14,233	0	0	1,636	(1,173)	14,696
Receivable – Sales	591				3,058	3,649
Investment Income	2,420				(66)	2,354
Payable - Purchases	(92)				92	0
	<b>397,256</b>	<b>109,693</b>	<b>(86,735)</b>	<b>17,935</b>	<b>1,911</b>	<b>440,060</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and changes in the sterling value of assets caused by changes in exchange rates. In the case of the pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes, amounting to £0.1million (£0.1 million in 2010/11). In addition to transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund

Cash balances invested by the Authority on behalf of the Pension Fund are included within cash deposits. As at 31 March 2012 the Authority invested cash amounting to £2.1 million (£3 million at 31 March 2011).

The Fund Manager, Newton, seeks to benefit from the potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements. During the year the Fund bought a number of option contracts that helps protect against the volatility of the stock markets.

	2010/11 £'000	2011/12 £'000
<b>Equities</b>		
UK Quoted	21,780	16,396
Overseas Quoted	53,831	77,074
	<b>75,611</b>	<b>93,470</b>
<b>Fixed Interest Securities</b>		
UK – Public Sector	48,116	57,896
Overseas – Public Sector	6,051	17,330
UK - Other	32,618	37,093
Overseas- Other	45,433	44,238
	<b>132,218</b>	<b>156,557</b>
<b>Index Linked Securities</b>		
UK – Public Sector	2,330	3,001
Overseas	2,478	2,936
	<b>4,808</b>	<b>5,937</b>
<b>Pooled Investment Vehicles</b>		
Unit trusts – UK	101,983	103,537
Unit trusts – Overseas	69,017	55,688
	<b>171,000</b>	<b>159,225</b>
<b>Property Unit Trusts</b>		

UK	26,498	27,810
	<b>26,498</b>	<b>27,810</b>
<b>Cash</b>		
Cash Instruments	2,204	1
Sterling Deposits	14,696	17,370
	<b>16,900</b>	<b>17,371</b>
<b>Commodities</b>		
Commodities	6,859	5,342
	<b>6,859</b>	<b>5,342</b>
<b>Derivatives</b>		
Call Options	(11)	(533)
Put Options	174	12
	<b>163</b>	<b>(521)</b>
<b>Investment Balances</b>		
Investment Income Due	2,354	2,324
Outstanding Sales	3,649	59
Outstanding Purchases	0	(630)
	<b>6,003</b>	<b>1,753</b>

A summary of individual investments exceeding 5% of the Fund's total net assets is set out below:

<b>Investment</b>	<b>31 March 2012</b>	<b>% of net assets</b>
UK Equity Index Unit Trust	101,203	22
North America Equity Index Unit Trust	25,483	5

A summary of the options held at the year end is set out below:

<b>Notional Holding</b>	<b>Market Value as at 31.03.11 £'000</b>	<b>Asset</b>	<b>Expiring</b>	<b>Put/Call</b>	<b>Notional Holding</b>	<b>Market Value as at 31.03.12 £'000</b>
148	12	CBOE	One Month	Put	0	0
0	0	S&P 500 Index	Three Month	Put	49	32
168	185	FTSE 100	Three Month	Put	0	0
187	48	Australian	Three Month	Put	0	0
58	19	Euro	Three Month	Put	0	0
120	60	US Long Bond Future	Three Month	Call	0	0
	<b>324</b>					<b>£32</b>

<b>Notional Holding</b>	<b>Market Value as at 31.03.11 £'000</b>	<b>Liability</b>	<b>Expiring</b>	<b>Put/Call</b>	<b>Notional Holding</b>	<b>Market Value as at 31.03.12 £'000</b>
0	0	S&P 500 Index	One Month	Call	(152)	(200)
0	0	FTSE 100	Two Month	Call	(226)	(24)
(199)	(71)	FTSE 100	Two Month	Put	0	£0
0	£0	FTSE 100	Three Month	Call	(19)	(3)
(168)	(90)	FTSE 100	Three Month	Put	0	(0)
0	£0	S&P 500 Index	Three Month	Put	(49)	(20)
0	£0	S&P 500 Index	Three Month	Call	(156)	(306)
	<b>(161)</b>					<b>(553)</b>
	<b>163</b>	<b>NET</b>				<b>(521)</b>

## 12(a) Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

Designated as fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000	Designated as fair value through profit & loss £'000	Loans & Receivables £'000	Financial Liabilities at amortised cost £'000
<b>Financial Assets</b>					
132,218					
4,808			156,557		
75,611			5,937		
171,000			93,470		
			159,225		
26,498			27,810		
6,859			5,342		
323			32		
	16,900			17,371	
	6,162			3,317	
<b>417,317</b>	<b>23,062</b>	<b>0</b>	<b>£448,373</b>	<b>£20,688</b>	<b>£0</b>
<b>Financial Liabilities</b>					
(160)			(553)		
		(704)			(1,370)
<b>(160)</b>	<b>0</b>	<b>(704)</b>	<b>(553)</b>	<b>£0</b>	<b>(1,370)</b>
<b>417,157</b>	<b>23,062</b>	<b>(704)</b>	<b>447,820</b>	<b>20,688</b>	<b>(1,370)</b>

## 12 (b) Net Gains and Losses on Financial Instruments

31.03.11 £'000		31.03.12 £'000
16,299	<b>Financial Assets</b>	8,961
1,636	Fair value through profit & loss	0
<b>17,935</b>	Loans and receivables	<b>8,961</b>
	<b>Financial Liabilities</b>	
0	Fair value through profit & loss	0
0	Loans and receivables	(871)
<b>17,935</b>	<b>TOTAL</b>	<b>8,090</b>

## 12 (c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair value.

Carrying Value £'000	Fair Value £'000		Carrying Value £'000	Fair Value £'000
		<b>Financial Assets</b>		
396,201	417,318	Fair value through profit & loss	413,227	448,373
22,373	22,903	Loans and Receivables	19,751	19,754
<b>418,574</b>	<b>440,221</b>		<b>432,978</b>	<b>468,127</b>
159	159	Current asset debtors	934	934
<b>418,733</b>	<b>440,380</b>	<b>Total Financial Assets</b>	<b>433,912</b>	<b>469,061</b>
		<b>Financial Liabilities</b>		
(161)	(161)	Fair value through profit & loss	(553)	(553)
(704)	(704)	Financial Liabilities at amortised cost	(1,370)	(1,370)
<b>(865)</b>	<b>(865)</b>	<b>Total Financial Liabilities</b>	<b>(1,923)</b>	<b>(1,923)</b>

## 12 (d) Valuation of Financial Instruments carried at fair value

The valuation of financial instruments has been classified into two 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 and unit trusts.

### 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 the fair value and where these techniques use inputs that are based significantly on observable market data.

#### Values as at 31 March 2012

	Level 1	Level 2	TOTAL
<b>Financial Assets</b>			
Financial Assets at fair value through profit & loss	203,501	244,872	448,373
Loans and receivables	20,688	0	20,688
<b>Total Financial Assets</b>	<b>224,189</b>	<b>244,872</b>	<b>469,061</b>
<b>Financial Liabilities</b>			
Financial liabilities at fair value through profit & loss	(553)	0	(553)
Financial liabilities at amortised cost	(1,370)	0	(1,370)
<b>Total Financial Liabilities</b>	<b>(1,923)</b>	<b>0</b>	<b>(1,923)</b>
<b>Net Financial Assets</b>	<b>222,266</b>	<b>244,872</b>	<b>467,138</b>

#### Assets as at 31 March 2011

	Level 1	Level 2	TOTAL
<b>Financial Assets</b>			
Financial Assets at fair value through profit & loss	222,176	195,142	417,318
Loans and receivables	23,062	0	23,062
<b>Total Financial Assets</b>	<b>245,238</b>	<b>195,142</b>	<b>440,380</b>
<b>Financial Liabilities</b>			
Financial liabilities at fair value through profit & loss	(161)	0	(161)
Financial liabilities at amortised cost	(704)	0	(704)
<b>Total Financial Liabilities</b>	<b>(865)</b>	<b>0</b>	<b>(865)</b>
<b>Net Financial Assets</b>	<b>244,373</b>	<b>195,142</b>	<b>439,515</b>

## Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the fund's forecast cash-flows. The Authority manages these investment risks as part of its overall pension fund risk management programme.

### Market Risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sector and individual securities. To mitigate market risk, the Authority and the Fund's investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Exchange traded option contracts on individual securities are used periodically to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### Other price risk

Other price risk represents the risk that the value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and other financial instruments is monitored by the Authority to ensure it is within limits specified in the fund's investment strategy.

### Other price risk – sensitivity analysis

Following analysis of historical data and expected instrument return movements during the financial year, in consultation with the fund's performance monitoring advisers, the Authority has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

<b>Asset Type:</b>	<b>Potential Market movement (+/-)</b>
UK Equities	12.5%
Overseas Equities	12.5%
UK Government Bonds	10.2%
UK Corporate Bonds	7.9%
Overseas Bonds	8.0%
Index-Linked	6.8%
Property	6.3%
Commodities	18.0%

If the market price of the fund investments had increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

#### Price Risk:

Asset Type	Value (£'000)	% Change *	Value on Increase	Value on Decrease
UK Equities	119,934	12.5%	134,938	104,930
Overseas Equities	132,761	12.5%	149,409	116,113
UK Government Bonds	57,896	10.2%	63,813	51,979
UK Corporate Bonds	37,093	7.9%	40,023	34,163
Overseas Bonds Inc Hedging	61,568	8.0%	66,469	56,667
Index Linked	5,937	6.8%	6,338	5,536
Property	27,810	6.3%	29,554	26,066
Commodities	5,342	18.0%	6,305	4,379
Cash	17,371	0.0%	17,374	17,368
Derivatives	(521)	0.0%	(521)	(521)

#### 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 on financial instruments that are denominated in any currency other than the base currency of the fund, i.e. £Sterling.

A 9.3% fluctuation in the currency is considered reasonable based on the Fund's performance monitoring adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

A 9.3% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

#### Currency Risk (by asset class):

Asset Type	Value (£'000)	% Change *	Value on Increase	Value on Decrease
Overseas Equities	132,761	9.3%	145,073	120,414
Overseas Bonds	31,382	9.3%	34,292	28,472

- % change has been rounded to 0.1 decimal point

#### Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

#### Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments.

The pension fund has immediate access to its cash holdings that are invested by the Authority. The levels of cash held are reviewed by the Authority as part of the periodic cash-flow forecasting and form part of the fund's investment strategy. The fund's investment strategy ensures that the majority of the fund is invested in assets that can be sold at short notice to avoid any liquidity risk.

### 13. Fund Management

As at 31 March 2012, the fair value of assets under management was £467 million. The Fund has undertaken work in conjunction with the Fund's external adviser, JLT Consultants and Actuaries, to implement a long-term strategy to match the objective of being fully funded. The structure of the Fund resulted in a strategic benchmark of 80% equities (including property and cash) and 20% bonds. As set out in the Pension Fund's Statement of Investment Principles, the asset allocation may be varied and rebalancing may be suspended at the discretion of the Pension Fund Investment Panel. As at 31 March 2012, the Fund was allocated as shown in the table below:

<b>Manager</b>	<b>Mandate</b>	<b>Value of Portfolio £'000</b>	<b>% of the Fund %</b>
Standard Life	Fixed Income Mandate	121,255	26
Newton	High Alpha Mandate	126,647	27
SSgA	Global Equity Index Tracking Mandate	156,891	34
BlackRock	Asia Pacific Equity Mandate	13,055	3
Schroders	Emerging Markets Equity Mandate	19,582	4
BlackRock	Property	17,729	4
Schroders	Property	10,599	2
LBR	Cash	1,380	0
		<b>467,138</b>	<b>100%</b>

### 14. Investments as at 31 March 2012

**Investments:** the Fund's asset mix was as follows:

	<b>2010/11</b>	<b>2011/12</b>
Equities	56%	54%
Bonds	31%	35%
Property	6%	6%
Cash and other investments	7%	5%
	<b>100%</b>	<b>100%</b>

### 15. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Fund's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated. A copy of the SIP can be found on the Authority's website [www.redbridge.gov.uk](http://www.redbridge.gov.uk).

### 16. Investment Management Expenses

The fees in respect of the Fund's general investment management have been accounted for on the basis contained within the appropriate management agreements. A proportion of relevant Authority officers' salaries, including on-costs, have been charged to the Fund in respect of time spent on investment related business.

	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>
Fund Manager Fees	1,176	1,262
Custodian Fees	71	73
Performance Management Services	16	16
Other Advisory & Investment Fees	202	84
	<b>1,465</b>	<b>1,435</b>

## 17. Current Assets and Liabilities

	2010/11 £'000	2011/12 £'000
Contributions due	107	880
Prepaid Expenses	52	54
<b>Total of Current Assets</b>	<b>159</b>	<b>934</b>
Accrued benefits	(271)	(145)
Accrued expenses	(433)	(1,225)
<b>Total of Current Liabilities</b>	<b>(704)</b>	<b>(1,370)</b>

## 18. Stock Lending

The Fund does not participate in stock lending arrangements.

## 19. Related Party Transactions

During the year no Councillors or Chief Officers with direct responsibility for Pension Fund issues have undertaken any declarable transactions with the Pension Fund, other than the following.

- Administrative services undertaken by the Authority of the Pension Fund were £411,000 (no change from 2010/11).

## 20. Actuarial Valuation

In 2011/12, the contribution paid by the Authority as an employer was determined following an actuarial valuation of the Fund as at the 31 March 2010. The valuation as at 31 March 2010 set the employer's contribution rates for the years 2011/12, 2012/13 and 2013/14. The actuarial method used by the Actuary is known as the "projected unit method". The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund which is open to new members.

**For this valuation the actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are:**

<b>Assumption</b>	<b>Rate</b>
The rate of increase in pensionable earnings	3.3%
The rate of return on investments	4.8%
"Gilt-based" discount rate	4.5%
The level of increase in earnings growth	6.3%

The result of the 2010 valuation was that the value of the Fund's assets was actuarially assessed as £397 million, which was sufficient to meet 71% of its accrued liabilities. The employer's contribution rate required as a result of the valuation incorporates a phased increase in the balance of the Fund to meet 100% of future benefit liabilities, as required by Pension Fund regulations. As a result of the 2010 valuation, those employers within the Fund that have funding shortfalls are required to make repayment over an agreed period in accordance with the policies set out in the Pension Fund's Funding Strategy Statement (available on the Authority's web site [www.redbridge.gov.uk](http://www.redbridge.gov.uk)), and certified by the Actuary in the Actuarial Report. The new employer contribution rates and shortfall payments commenced from 1 April 2011.

## 21. International Accounting Standard 19

The Fund's Actuary prepares reports for the purposes of IAS19 for the Authority and other employers participating in the Pension Fund upon request. Further information pertaining to the Authority is included at note 47 of the Notes to the Core Financial Statements on pages 76 to 80.

The Actuary has calculated that the liabilities at 31 March 2012 for the entire Fund comprises of:

<b>Type of Member</b>	<b>2010/11 Liability £'millions</b>	<b>2011/12 Liability £'millions</b>
Employees	306	367
Deferred Members	97	113
Pensioners	238	249
<b>Total</b>	<b>641</b>	<b>729</b>

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is as follows (based upon IAS19 information).

	<b>31 March 2011 £'millions</b>	<b>31 March 2012 £'millions</b>
Present value of funded obligations	(641)	(729)
Fair value of Fund Assets	440	467
<b>Net Liability for the whole Fund</b>	<b>(201)</b>	<b>(262)</b>

These calculations have been determined using the following financial assumptions:

<b>Year Ended</b>	<b>31 March 2011 % p.a.</b>	<b>31 March 2012 % p.a.</b>
Inflation / Pension Increase Rate	2.8	2.5
Salary Increase Rate	4.6	4.3
Expected Return on Assets	5.2	6.4
Discount Rate	5.5	4.8

## 22. Additional Voluntary Contributions (AVC's)

The Authority has a statutory obligation to provide an additional voluntary contribution (AVC) facility. This facility provides the means for members of the Pension Fund to pay contributions into a policy, which will be used to buy additional pension benefits when the member retires. The Authority has appointed Clerical Medical and Standard Life as joint AVC providers to provide a range of AVC fund options. A residual arrangement remains with the Authority's previous provider, Equitable Life, specifically for pension fund members who were contributing to this fund and wished to continue to do so. A total of 22 members of the Pension Fund contribute to the AVC schemes. In 2011/12 £54,704 of contributions were made to the AVC Scheme (£58,579 in 2010/11).

The Authority, as employer, does not make any contribution to the AVC scheme and these funds do not form part of the Authority's Pension Fund accounts.

## 23. Contingent Liabilities

There were no material contingent liabilities or contractual commitments at the year-end (2011 - Nil).

## PUBLICATIONS

The Pension Fund published the following documents of the Council's website [www.redbridge.gov.uk](http://www.redbridge.gov.uk) within the section "The Council" : "Our Finance" : "Pension Fund"

### **Annual Business Plan**

The Pension Fund Investment Panel undertakes a review of the activities of the Panel over the previous twelve months and sets out the tasks for the forthcoming year. This would include reviewing policy statements and monitoring the performance of the fund. The Annual Business Plan is agreed each year at the Investment Panel meeting held in May.

### **Annual Review**

This review sets out details of the activities of the Investment Panel over the Committee cycle and assesses this work with the objectives as set out in the Annual Business Plan. This Review is presented to the Investment Panel meeting held in September and is distributed to the members of the Council's Cabinet for their information.

### **Communication Statement**

This statement is produced by the Pension Administration Team and is reviewed periodically to ensure that it remains consistent with recommended practices. The statement sets out the Council's policy for:

- communicating with interested parties including members and other employers within the scheme,
- the method & frequency of communications used such as newsletters, fact sheets & booklets,
- promoting the LGPS to seek to increase membership within the scheme,
- performance objectives for administering the scheme.

### **Fund Strategy Statement**

This statement is prepared in collaboration with the Fund's Actuary and after consultation with the Fund's employers and investment advisers and sets out:

- the strategy for the Pension Fund to show how the pension liabilities are to be met whilst seeking to achieve a constant and affordable employer contribution rate,
- shows details as to how the Fund is seeking to achieve its objectives and the risk associated with the strategy,
- details of the responsibilities for each key party, including the employers, employees and actuary.

The Funding Strategy Statement is under review to coincide with the next valuation due for 1 April 2013.

### **Governance Statement**

The objective of this statement is to make the administration and stewardship of the scheme more transparent and accountable to its stakeholders. It therefore provides details of:

- how the Council, as Administering Authority maintains and manages its pension fund function in accordance with regulatory requirements,
- the structure for the decision making process, which includes details of the various responsibilities for administering the Pension Fund,
- the frequency of Investment Panel meetings,
- the voting rights of the Panel members,
- accessibility to information and training.

### **Statement of Investment Principles (SIP)**

Administering Authorities are required to prepare, maintain and publish a written statement of the principles governing their decisions about investments. This document therefore sets out details of:

- the framework of the Redbridge Fund,
- the responsibilities of the various parties involved with the Pension Fund, including the Investment Panel and the Director of Finance & Resources, together with the services of the actuary and independent investment advisers,
- the investment objective & style,
- the various fund managers, the terms of the mandates, the risks associated with the investments and the measures undertaken to reduce the risk. Also the role of the custodian,
- the fund's compliance with the Investment Principles.

A copy of these documents can be obtained by contacting the Corporate Accounting Team.

The Agenda and Minutes of the Investment Panel meetings are also available on the Council's web-site "Redbridge i"

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