

# London Borough of Ealing Pension Fund Annual Report 2007/08



**Ealing**

[www.ealing.gov.uk](http://www.ealing.gov.uk)

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# 1. Introduction



Chairman of the  
Pension Fund Panel  
Cllr. John Cowing

Welcome to the first Annual Report produced for members of the Ealing Pension Fund. This is the first report of its kind that we have produced for all our members and will in future be produced on an annual basis. From next year (2008/09), it is a statutory requirement that this report is produced, with the purpose being to provide useful information about your Pension Fund. We have decided to produce the report a year in advance of the statutory requirement, which enables us to seek your views and receive any feedback that would be most welcome in terms of the quality and suitability of information provided in the report. Contact details for feedback are provided at the end of the report.

This report provides you with general information about the Fund and focuses on the Pension Fund position of Ealing Council for the financial year ending 2007/08.

The Council administers the Pension Fund on behalf of its employees, pensioners admitted and Scheduled Bodies under the provisions of the Local Government Pension Acts and Regulations, for the purpose of providing pension benefits to, the above parties. The Fund provides retirement pensions and lump sum retirement grants, death grants and spouses' or civil partners' pensions.

- The Pension Fund provides a guaranteed income that is protected against inflation for those who have retired from employment with the Council. Ealing has a "defined benefits" scheme, which provides benefits related to salary in the final year of employment.
- Both staff and the Council contribute to the Fund from which pensions and other benefits are paid.
- The Fund balance is invested in stocks and shares and fixed interest investments, both in the United Kingdom and overseas, by three external fund managers.
- The benefits you receive are guaranteed and are not affected by the performance of the Fund's investments. The Council has to make up any deficit on the Fund.

Ealing's Pension Fund had net assets of approximately £555 million (page 11) at March 31 2008. The investment objective is to provide long term capital growth and income. Ealing's Pension Fund has enjoyed positive returns over the past five years outperforming the benchmark over the last year by 0.6%.

During the 2007/08 financial year the Fund value fell by 1.5% mainly due to the turmoil in Global Markets and the credit crunch. Few sectors were spared from this uncertainty and the performance of the Fund will continue to be closely monitored by officers and the Pension Fund Panel to ensure its financial health over the long term. I would like to stress that the benefits payable to members and the future of the Fund is guaranteed by statute and my aim is to ensure that this benefit is provided at a reasonable cost to the Council.

Cllr. John Cowing  
Chairman of the Pension fund Panel

## 2. Highlights of 2007/08

- Three new managers commenced management of the Fund in April 2007.
- Market value of the Fund's assets reduced from £550M to £544M.\*
- Out performance of the benchmark by 0.6%.

\*Negative market performance contributed to the total fund value falling, but the benchmark against which performance is measured was outperformed by 0.6%.

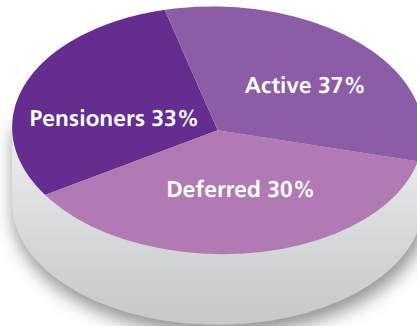
## 3. Membership of the Fund

The membership of the Fund (of which there are three main categories) reported on the Balance Sheet as at 31 March 2008 was as follows:

**\*Active 6286**

**\*\*Deferred 5236**

**\*\*\*Pensioners 5730**



\*Active Members are those in employment with the Council or one of its Admitted or Scheduled Bodies making contributions to the Pension Fund.

\*\*Deferred Members are those who have left the Council or one of its Admitted or Scheduled Bodies, but have not yet become entitled to receive their pension from the scheme.

\*\*\*Pensioners are those who receive a pension from the Scheme (including spouses' and dependants' pension).

All eligible employees who are permanently employed (except teachers who are entitled to be members of the Teachers' Pension Scheme) on a contract of three months or more will automatically join the Fund from the first day of employment. Any member of the scheme can opt out by completing the necessary forms.

## 4. Contributions to the Fund

### 4. CONTRIBUTIONS TO THE FUND

In 2007/08 employee and employer contributions to the scheme were:

Employee contributions – 6% of pensionable pay, although some employees retained the right to contribute at 5% of pensionable pay;

However, from 1 April 2008, employees who are members of the scheme make contributions by deductions from earnings at the following rate:

Pay bands from 1st April 2008:

Band	If your Whole Time Equivalent pay rate is:	Your contribution rate will be:
1	Up to £12,000	5.5%
2	More than £12,000 and up to £14,000	5.8%
3	More than £14,000 and up to £18,000	5.9%
4	More than £18,000 and up to £30,000	6.5%
5	More than £30,000 and up to £40,000	6.8%
6	More than £40,000 and up to £75,000	7.2%
7	More than £75,000	7.5%

The pay bands will be adjusted each April in line with the cost of living.

The contributions enjoy full tax relief and, in addition, result in reduced National Insurance Contributions for the contributor. The Council is required to make balancing contributions determined by the Fund's actuary (Mercer) to maintain the solvency of the Fund. The employers' contributions were 19.6% of salary in 2007/2008. The Council's annual contribution is reviewed every three years. The next review will take place in 2010.

## 5. Management Structure

### 5. MANAGEMENT STRUCTURE

The Ealing Council Pension Fund is run by the Council, as the statutory administering authority, on behalf of employers in the local government pension scheme. The Pension Fund Panel has overall responsibility for the Fund under the Council's constitutional arrangements. The Pension Fund Panel meets at least four times a year.

The day-to-day management of the fund is undertaken by the Director of Corporate Finance and Audit, assisted by officers and professional advisors, and uses three external investment fund managers.

## 5. Management Structure

### 5.1 Management Structure

#### **The Pension Fund Panel's Terms of Reference are:**

- (i) To decide all matters relating to policy and target setting for, and monitoring the investment performance of, the Pension Fund
- (ii) To consider and decide all matters regarding the management of the Pension Fund's investments, including sales and acquisitions of properties to be owned by the Council for statutory pension purposes
- (iii) To consider and make recommendations on policy and staff related issues which have an impact on the Pension Fund directly or indirectly through changes in employer pension contribution rates .

Minutes and papers for the Panel are available on the Council's website at [http://www.ealing.gov.uk/services/council/committees/agendas\\_minutes\\_reports/](http://www.ealing.gov.uk/services/council/committees/agendas_minutes_reports/)

#### **Administering Authority**

Ealing Council, Perceval House, 14-16  
Uxbridge Road, Ealing London W5 2HL

#### **Administrator**

Director of Corporate Finance & Audit.

#### **Pension Fund Scrutiny Panel**

Cllr Cowing (Chairman)  
Cllr Gupta  
Cllr Potts  
Cllr Young  
Cllr Johnson (Vice Chair)  
Cllr Reeves  
TVU - Helen Strand  
GMB Chris Yap  
Unison Chris Morrey

#### **Investment Managers**

Lazard (UK Equities)  
RCM (Global Equities)  
RLAM (Bonds)

#### **AVC Providers**

Scottish Widows  
Equitable life

#### **Independent Advisor**

Mercer Investment Consulting

#### **Actuary**

Mercer

#### **Custodian**

Bank of New York Mellon

#### **Auditor**

Audit Commission

#### **Performance Measurement**

WM Company

Members during the 2007/08 Municipal year: Cllr Barbara Yerolemou (Chairman), Cllr Yvonne Johnson (Vice-Chairman), Cllr Cowing (deputy member), Cllr Jagdish Gupta, Cllr Ian Potts, Cllr Anthony Young, Cllr Brian Reeves, Thames Valley University (Helen Strand), Unison (Chris Murray), GMB (Chris Yap).

We would like to thank Cllr Barbara Yerolemou the Chair for the municipal year 2007/08 for her dedicated service to a Pension Fund Panel over a number of years in her capacity as both chair and member of the Panel and to welcome our new Chair Cllr John Cowing.

## 6. Investment Strategy

The strategic management of the assets is the responsibility of the Pension Fund Panel. The main principles of the Investment Strategy are incorporated within two documents. The Statement of Investment Principles and the Funding Strategy Statement.

### **A. Statement of Investment Principles**

This Statement sets out the Council's objectives and policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated. In addition, the Council has outlined how it complies with ten key principles of investment.

### **B. Funding Strategy Statement (FSS)**

The Council also produces a Funding Strategy Statement which encompasses the aims and purposes of the Fund, and the overall investment strategy.

The FSS outlines the methodology for achieving the key objectives of the Fund, these are: to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

- to manage employers' liabilities effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due, and
- to maximise the returns from investments within reasonable risk parameters.

Both of these statements have been published on the Council's website at: [www.ealing.gov.uk/services/council/strategies\\_and\\_policies/ealing\\_pension\\_fund/](http://www.ealing.gov.uk/services/council/strategies_and_policies/ealing_pension_fund/)

### **C. Governance Policy Statement**

The Local Government Pension Scheme regulations also include a requirement for the administering authority to prepare and publish a written statement covering governance policy. This statement is available on the Council's website [http://www.ealing.gov.uk/services/council/strategies\\_and\\_policies/ealing\\_pension\\_fund/](http://www.ealing.gov.uk/services/council/strategies_and_policies/ealing_pension_fund/)

### **D. Socially Responsible Investment Issues**

The Pension Fund Panel has also adopted the principle of using its votes to favour improved environmental policies and reporting. There is an obvious link between investment in companies who manage their environmental impact in a responsible manner and the council's objectives in promoting sustainability. Whilst taking account of Socially Responsible Investment issues, returns are paramount though. The aim of the Fund is to maximize the returns from investments within reasonable risk parameters.

## 7. Management of the Fund

### MANAGEMENT OF THE FUND

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pension Fund Panel. The Panel also oversees the Fund's investment arrangements and each year, in line with regulations, publishes a Statement of Investment Principles (SIP) on the council's website.

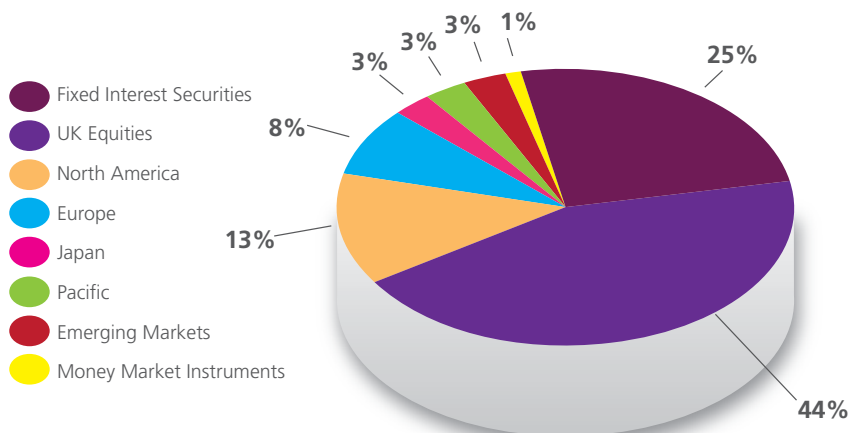
The Director of Corporate Finance and Audit supports the Pension Fund Panel and is responsible for the monitoring of the external investment managers' performance. The Director of Human Resources and Organisational Development is responsible for pensions administration.

There was a major restructure of the investment management of the Fund during 2007/08. The Pension Fund Panel implemented a change in strategy and the Fund assets were allocated to three specialist mandates. Responsibility for the day to day investment of assets has been delegated to three new managers: Lazards (UK Equity), RCM (Global Equities) and Royal London Asset Management (UK Corporate Bonds) commencing management of the Fund in April 2007.

	Manager Valuation as at 31 March 2008	Valuation as at 31 March 2007
Lazard (UK equities)	£217,449	n/a
RCM (global equities)	£190,604	n/a
RLAM (corporate bonds)	£136,217	n/a
Total Fund	£544,270	£549,866

### Investments

The market value of the investments as at 31st March 2008 was £544 million. (i.e. excluding cash held in house). The pie chart below shows the breakdown of the Pension Fund in terms of asset distribution. It can be seen for example that 44% of the Fund is held in UK Equities.



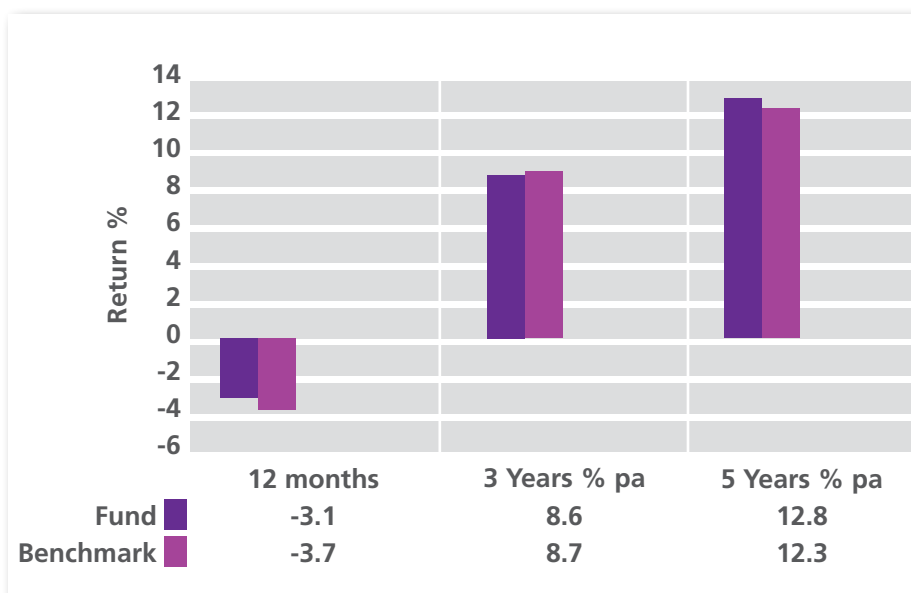


## 8. Investment Performance to 31 March 2008

### 8. INVESTMENT PERFORMANCE TO 31 MARCH 2008

#### Investment Performance

The Council uses The WM Company to monitor the investment performance of the Fund and the Fund Managers. Each Capital Fund Manager is given a performance target to achieve, compared to a benchmark. The table below shows the fund's performance against the Benchmark, which is the combination of each manager's individual benchmark. The performance over one, three and five years against the benchmark are shown below.



The total Fund return for the year to 31st March 2008 at -3.1% outperformed the Benchmark of -3.7% by 0.6%. This means the return has outperformed the markets in which the fund invests (equities and bonds). However, negative market performance has contributed to the total fund value falling from approximately £550m to £544m. As the Fund has only been under its new arrangement since April 2007, historical performance of one year is no reflection of the new strategy as a longer term view must be taken. Over the longer term periods of 3 years and 5 years the fund has had positive absolute returns of 8.6% p.a. and 12.8% p.a. respectively. The performance of the Pension Fund Investments will not affect pension benefits to scheme members, as benefits are guaranteed by Statutory Regulations irrespective of performance.

## 9. Extract of Accounts

### 9. EXTRACT OF ACCOUNTS

Detailed reporting of the Pension Fund Accounts for 2007/08 is contained in the Council's Annual Statement of Accounts, which covers all the Council Services. This can be found at the following link:

[http://www.ealing.gov.uk/Council/CouncilStructure/policy\\_performance/policy/Statement\\_of\\_Accounts/](http://www.ealing.gov.uk/Council/CouncilStructure/policy_performance/policy/Statement_of_Accounts/)

#### PENSION FUND ACCOUNT as at 31 March 2008

	2007/08 £'000	2006/07 £'000
<b>INCOME</b>		
<b>Contributions Receivable</b>		
Contributions		
From employers		
-normal	(24,207)	(22,205)
-deficit funding	(800)	(800)
From members		
-normal	(7,722)	(7,370)
Transfer Values Received	(7,046)	(3,392)
Other Income (note 10)	(3,392)	(1,548)
	<b>(43,167)</b>	<b>(35,315)</b>
<b>EXPENDITURE</b>		
<b>Benefits Payable</b>		
Retirement Pensions	21,621	19,755
Retirement Grants	5,851	3,940
Death Grants	296	(163)
<b>Payments to and on account of leavers</b>		
Transfer Values Paid	3,974	6496
Refunds of Contributions and Interest	82	204
<b>Administration and other expenses</b>		
Administrative expenses	640	711
	<b>32,464</b>	<b>30,943</b>
<b>Net withdrawals/(additions) from dealing with members</b>	(10,703)	(4,372)
<b>Returns on Investments</b>		
Investment Income	(18,461)	10,797
<b>Change in market value of investments</b>		
Realised profit (-) or loss on sales	33,932	24,078
Investment management expenses	2,127	(988)
<b>Net Return on Investments</b>	17,598	33,887
Net (increase)/Decrease in the fund during the year	(6,895)	38,259
<b>Net assets of the scheme at 1 April</b>	<b>561,405</b>	<b>523,146</b>
<b>Net Assets at the scheme at 31 March</b>	<b>554,510</b>	<b>561,405</b>

## 10. Extract of Accounts

### 10. EXTRACT OF ACCOUNTS

#### STATEMENT OF NET ASSETS as at 31 March 2008

##### Investments at market value

Investments at market value

UK Fixed Interest

Overseas Fixed Interest

UK Equities

Overseas Equities

UK Index Linked

Managed Funds & Unit Trusts

Cash Deposits

##### Total Investments

##### Current assets and liabilities

Dividends Due

Unsettled Sales& Purchases

Debtors'& Creditors'

Cash Held by – Ealing Council

##### NET ASSETS OF THE SCHEME

**2007/08**

£'000

136,781

234,288

167,459

5,742

**544,270**

5,076

(4,088)

(360)

9,612

**554,510**

**2006/07**

£'000

118,772

21,123

239,983

162,575

7,413

**549,866**

2,007

847

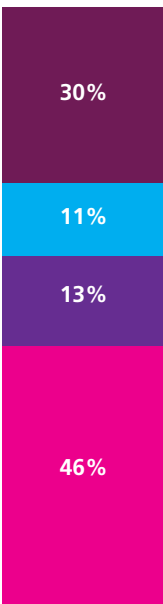
(352)

9,037

**561,405**

# 11. Financial Summary

## Income



## Pension Fund Income 2007/08 for the year totalled £61.2m

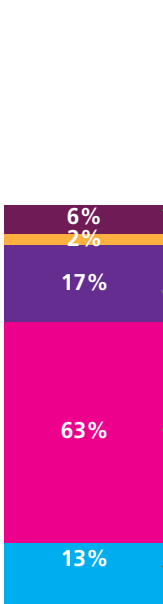
Investment Income  
£18,461,000

Transfer Values Received  
£7,046,000

Contributions from Employees  
£7,722,000

Contributions from Employers  
£28,399,000

## Expenditure



## Pension Fund Expenditure 2007/08 for the year totalled £34.6m

Investment & Administrative Expenses  
£2,127,000

Transfer Values Out  
£640,000

Retirement Lump sums  
£5,851,000

Pensions  
£21,621,000

Other lump sum payments & refunds  
£4,352,000

There was a net cash inflow during the year of £27m, which enables the fund to continue to put aside adequate funds to meet future liabilities.

# 12. Solvency of the Fund

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using actuarial methods and assumptions). This period together with the funding level is calculated triennially by the Actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice.

- The actuarial valuation results at 31st March 2007, revealed a solvency level for the Fund of 73%, which was a 5% improvement on the previous valuation.

## Improving the Solvency Level of the Fund

- The Council has a recovery plan in place to address the shortfall. The Council adopted the actuary's recommendation to increase the employer's contribution rate and for the financial year 2007/08 this amounted to 19.6% of payroll, on the basis of a 17 year recovery period i.e. March 2025. More details are contained in the Statement by the Consulting Actuary in the following pages.

## 13. Statement by the Consulting Actuary

### 13. Statement by the Consulting Actuary

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The valuation allowed for the new look LGPS benefit structure which was introduced from 1 April 2008. On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 73% of the Funding Target at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assisting the Funding Target the deficit would be eliminated by an average additional contribution rate of 10.2% of pensionable pay for 17 years. This would imply an average employer contribution rate of 22.7% of pensionable pay in total. In practice, each individual employer's position is assessed separately and the contribution required is set out in our report dated 31 March 2008. In addition to the contribution rates shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

For certain employers in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions for the duration of the employer's deficit recovery period.

The assets were assessed at market value and the value as at 31 March 2007 (excl AVCs) was £561.4m. Full details of the assumptions and the methodology adopted for the valuation are set out in the actuarial valuation report.

The valuation results as summarised above are based on the financial position and market levels at the valuation date, 31 March 2007. As such the results do not make allowance for the significant market falls which have occurred during the financial year to 31 March 2008. The implications of this and the current volatility in the markets will continue to be monitored.

The next triennial actuarial valuation of the Fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

Paul Middleman  
Fellow of the Institute of Actuaries  
Mercer Limited August 2008.

## 13. Pensions Administration

### 13. PENSIONS ADMINISTRATION

The Council's pension administration section is responsible for all aspects of scheme membership including payment of benefits, processing joiners and leavers, administering scheme member and employer contribution records and administration of the Council's Additional Voluntary Contributions (AVC) scheme.

#### **Communication Policy Statement**

The Local Government Pension Scheme regulations were updated with a requirement for the administering authority to prepare and publish a written statement covering communications with members and employing authorities. This statement is available on the Council's website at [http://www.ealing.gov.uk/service/council/strategies\\_and\\_policies/ealing-pension-fund/](http://www.ealing.gov.uk/service/council/strategies_and_policies/ealing-pension-fund/)

## 14. Further Details

### 14. FURTHER DETAILS

The Local Government Pension Scheme (LGPS) is a final salary scheme with pensions payable being based on the best of the last three year's pay and the number of years of reckonable service. Pensions are increased annually in line with the Retail Price Index. The scheme also pays a death benefit in the form of a lump sum and a widow(er)'s pension to the spouse or civil partner of a member who dies in service. A dependant's pension is generally also paid to the spouse or civil partner of a member who dies after retirement.

Up to date information about the Local Government Pension Scheme, its benefits and to the general pension issues can also be found on the National Local Government Scheme website [www.lgps.org.uk](http://www.lgps.org.uk)

## 15. Contact points for further information

### 15.1 CONTACT POINTS FOR FURTHER INFORMATION

If you would like to find out more about anything covered in this report, or have any questions about your individual benefits you should contact the Pensions Team. The Pensions Team can also supply you with copies of any of the Scheme's official documents.

Telephone enquiries from current scheme members – 0208 666 9919

Written enquiries should be addressed to:

Pensions' Administration

Liberata UK Ltd

PO Box 1598

Croydon CR0 0Z

For general telephone enquiries about pension scheme benefits

Jane Lynham

Payroll & Pensions Manager

Telephone 0208 825 7093

Pension Fund Investments – For general enquiries about the Pension Fund Investment or any aspects of this report:

Bridget Uku

Group Manager Treasury and Investments

Telephone: 020 8825 5981

or

Shanthi Sivanesan

Senior Accountant Pension & Investments

Telephone: 020 8825 7269

