PENSION FUND

PENSION FUND ACCOUNTS

INTRODUCTION TO THE FUND, ACCOUNTING POLICIES AND PRINCIPLES

Introduction

1. The London Borough of Ealing Pension fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The LGPS benefits are defined and set out in law. There have been no significant changes to the LGPS scheme in the year 2011/12.

2. The objective of the London Borough of Ealing Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund, as well as to show the results of the stewardship of management.

3. The Fund is operated under regulations made by the Department of Communities and Local Government under Section 7 of the Superannuation Act 1972.

4. Membership of the fund consists of contributing members, deferred members, pensioners, widows and dependants.

	31 March 2012	31 March 2011
Contributing members	6,242	6,379
Deferred members	6,350	6,248
Pensioners, widows and dependants	6,571	6,237

5. The council is the administering authority of the scheme and has the major share of contributors and pensioners. There are now 20 contributing scheduled bodies and 7 admitted bodies. All of the bodies shown below contribute to the Fund.

Other employers contributing to the Fund as at 31st March 2012 are:

Scheduled Bodies

Brentside High
Brentside Primary
Cardinal Wiseman
Derwentwater Primary
Dormers Wells Infant
Dormers Wells Junior
Dormers Wells High
Dormers Wells Trust
Drayton Manor High
Edward Betham CE Primary
Ellen Wilkinson School for Girls
Featherstone High
Greenford High
Northolt High
St Ann's
Twyford Academy
University of West London (formally Thames Valley University)
West London Academy
Wood End Infants
Wood End Academy

Admitted Bodies

Compass Group
EC Harris
Greenwich Leisure
May Gurney (left 1 April 2012)
MITIE PFI
NSL Parking
Viridian Housing

6. All investments are managed by external fund managers, Lazard Asset Management Ltd for UK Equities, RCM (UK) Ltd for Global Equities and Royal London Asset Management Ltd for Corporate Bonds.

Accounting Policies

7. The pension fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2011/12 issued by CIPFA (Chartered Institute of Public Finance and Accountancy). The accounting policies contained in the Code apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS19 Employee Benefits and IAS26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements. Where IAS26 is less detailed in its reporting requirements and this leads to lack of clarity then due to the hierarchy of standards recourse is to UK GAAP and thus the Pension SoRP (Statement of Recommended Practice). The fund accounts are not consolidated with the accounts of the council.

8. Contributions from employees and employers, and other committed benefits and expenses are accounted for on an accruals basis.

9. Investment income is accounted for on an accruals basis for all securities.

10. Transfers to and from the fund were previously accounted for on a cash basis (in accordance with CIPFA's Code of Practice) but are now accounted for on an accruals basis. Practically this change only affects transfers out, as it is prudent to account for transfers in only when money has been received. Transfers out however are paid by the Pension Fund so the date of discharging member liability can be easily determined. This change provides more accurate transfer values and debtor/creditor amounts. The value of this change is immaterial, £93,141.56 was accrued for in 2011/12 and £124,552.26 would have been accrued for in 2010/11.

11. Both the costs of the investment management arrangements and pension fund administration expenses are charged to the Fund.

12. Apart from the actuarial valuation there are no estimated figures that can have a significant risk of materially adjusting assets or liabilities within the next financial year.

Actuarial Valuation

13. The Fund is valued by an independent actuary every 3 years. An independent valuation was carried out by Mercer Limited as at 31 March 2010 to determine the contribution rate from 1 April 2011 to 31 March 2014. It showed an excess of liabilities over assets of £258M, representing a funding level of 70%.

14. Contributions to the Scheme by employers are set at rates determined by the Scheme's Actuary and approved by the London Borough of Ealing Pension Fund Panel. The council is meeting the fund's liabilities by a recovery plan that has been certified by the Actuary for the next three years. Since the 2010 Valuation this has required contributions from the council and ex grant maintained schools of 12.1% of pensionable pay plus a fixed cash value (£9,664k in 2011/12, £10,123k in 2012/13 and £10,604k in 2013/14). Notionally this equates to 19.6% of pensionable pay (19.6% in 2010/11). Other Admitted and Scheduled bodies rates differed, reflecting different profiles of liabilities.

15. The contribution rates were calculated using the projected unit actuarial method from the 2010 Actuarial Valuation and the main assumptions were as follows:

	For Past Service Liabilities	For Future Liabilities
Investment Return	6.50%	6.75%
Earnings Growth	4.75%	4.75%
Price Inflation	3.00%	3.00%

16. The most recent actuarial valuation was carried out as at 31 March 2010 to determine the contribution

rates for the next three years. It showed an excess of liabilities over assets of £258M. This excess will be addressed by increases in employer's contributions as necessary over a 20-year recovery period. The Actuary used a "market value" basis for the valuation of the Fund at 31 March 2010. Assets amounted to £610M representing 70% of the Fund's accrued liabilities of £868M.

17. In accordance with IAS 26 the actuarial present value of promised retirement benefits are shown in the attached report by the Actuary in the Appendix.

Basis for Valuation

18. Investments are shown in the accounts at market value, which is determined as follows:

    18.1. All valuations for investments at 31 March 2012 and transactions during 2011/12 financial year are obtained from the accounting records of the Custodian Bank of New York Mellon (BNYM). This is the same principle as applied in the 2010/11 accounts.

    18.2. All UK investments are valued using an official vendor feed, usually International Data Corporation (IDC), but data from other vendors is used as appropriate in line with the Custodian BNYM Global Pricing Guidelines.

    18.3. Actively traded investments are valued on the basis of bid market prices where available or at fair value where these prices are not available.

    18.4. Unit trust and In-house funds are stated at the bid point of the latest prices quoted by their respective managers.

    18.5. Overseas investments are valued using official vendor feeds in accordance with BNYM's Global Pricing Guidelines and translated into sterling at the rate prevailing on 31st March 2012. IDC is usually used for foreign equities except US equities that are typically priced using Interactive Data Pricing and Reference Data Inc (IDSI).

    18.6. Dividends received from foreign investments during the year are accounted for in sterling at the foreign exchange rate prevailing on the day of receipt.

19. The Custodian BNYM completes a monthly reconciliation of its portfolio valuation to external fund manager at a line-by-line security level. The custodian works to the following tolerances

Nominal Value:	Zero tolerance
Market Value:	200 basis points at an individual line level
	20 basis points at a portfolio level
Accruals:	1,000 currency units per line

Statement of Investment Principles (SIP)

20. The Statement of Investment Principles for Ealing Pension Fund was reviewed as part of the annual report covering the 2010/11 Annual Accounts and approved by the Pension Fund Panel as Trustees of the Fund on 8 December 2011. The SIP is published on Ealing's web site and is available to any interested party.

PENSION FUND - FUND ACCOUNT

Dealings with members, employers and others directly involved in the scheme	2011/12 £000	2010/11 £000
INCOME		
Contributions: (note 11)		
-employer contributions	31,519	27,191
-member contributions	9,206	9,777
Transfers in from other pension funds	4,543	5,089
Other Income (note 10)	1,129	309
	46,397	42,366
EXPENDITURE		
Benefits: (note 12)		
-pensions	27,096	25,562
-commutation of pensions & lump sum retirement benefits	6,981	4,203
-lump sum death benefits	211	759
Payment to and on account of leavers:		
-refunds of contributions	39	22
-transfers out to other schemes	2,803	9,253
Other Payments:		
Administrative expenses (note 8)	1,006	1,149
	38,136	40,948
Sub-total: Net additions from dealings with members	8,261	1,418
RETURNS ON INVESTMENTS		
Investment Income		
-income from fixed interest securities	11,085	10,088
-dividends from equities	13,965	11,075
-pooled funds	328	227
-interest on cash deposits	41	32
Profit and losses on disposal of investments and changes in value of investments	2,568	20,844
Investment management expenses (note 9)	(2,223)	(2,324)
Sub-total: Net returns on investments	25,764	39,942
Surplus / (Deficit) on the fund for the year	34,025	41,360
Net assets of the scheme at 1 April	657,507	616,147
Net assets of the scheme at 31 March	691,532	657,507

PENSION FUND - NET ASSETS STATEMENT

	2011/12 £000	2010/11 £000
INVESTMENT ASSETS		
Fixed Interest Securities		
UK Corporate Bonds	186,262	162,821
UK Government	813	964
Other UK	3,912	10,748
Equities		
UK	231,203	228,127
North America	73,275	59,295
Europe	106,179	107,497
Japan	16,407	22,061
Pacific	18,497	18,166
Emerging Markets	10,919	17,492
Other	6,987	5,728
Pooled Investment Vehicles		
Other managed funds	4,191	3,931
Cash deposits (note 6)		
Cash held by custodian	79	992
Money market instrument	13,051	6,131
Other Short Term Investment Balances		
Debtors		
Interest due	4,218	3,794
Dividends due	2,131	1,428
Recoverable tax on dividends	546	498
Unsettled sales	1,327	-
Other Income receivable	5	5
Total Investment Assets	680,002	649,678
INVESTMENT LIABILITIES		
Other Investment Balances		
Creditors		
Unsettled purchases	(3,509)	(1,175)
NET INVESTMENTS (Under External Management)	676,493	648,503
LONG-TERM FINANCIAL ASSETS		
Long Term Debtors (note 7)	-	938
Total Long-term Financial Assets	-	938
CURRENT ASSETS		
Contributions due from employers (note 13)	364	525
Payments in advance (note 13)	6	1
Other Debtors (note 13)	-	862
Cash balances not forming part of investment assets	16,076	7,318
Total Current Assets	16,446	8,706
CURRENT LIABILITIES		
Unpaid benefits (note 14)	(735)	(18)
Accrued expenses (note 14)	(672)	(622)
Total Current Liabilities	(1,407)	(640)
TOTAL NET ASSETS	691,532	657,507

RECONCILIATION OF OPENING NET ASSETS TO CLOSING NET ASSETS

	Net Assets of Scheme 31/03/2011 £000	Purchases of Investments £000	Sales of Investments £000	Increase in fund during year £000	Cash Applied to Investment during year £000	Net Assets of Scheme 31/03/2012 £000
Lazard	244,474	120,824	(114,162)	(2,512)		248,624
RCM	213,892	59,760	(57,877)	(932)		214,843
RLAM	178,464	50,907	(40,309)	6,116		195,178
Cash held by Custodian	992			(1,284)	371	79
Money Market Instruments	6,131	106,526	(99,606)			13,051
Investment Income Due	5,720			26,602	(25,427)	6,895
Unsettled Sales	-				1,327	1,327
Other Investment debtors	5					5
Unsettled Purchases	(1,175)				(2,334)	(3,509)
Net External Investments	**648,503**	**338,017**	**(311,954)**	**27,990**	**(26,063)**	**676,493**
Net Current Assets with LBE	9,004			6,035		15,039
Net Assets	**657,507**	**338,017**	**(311,954)**	**34,025**	**(26,063)**	**691,532**
				Note (i)	Note(ii)	

Increase in Fund during Year	**2011/12 £000**	**2010/11 £000**	
Change in Market Value of Investments	2,568	20,844	
Net Additions from dealings with Members	8,261	1,418	
Investment Management Expenses	(2,223)	(2,324)	
Investment Income	25,419	21,422	
Net Increase in Fund during the year	**34,025**	**41,360**	Note (i)

Change in Investments during 2011/2012	**2011/12 £000**	**2010/11 £000**	
Purchases for the Year	338,017	358,877	
Less Sales for the Year	(311,954)	(336,925)	
Net increase in Investments at book cost	**26,063**	**21,952**	
Funded By:			
Distribution of Cash Fund managers	-	-	
Investment Income received for re-investment during year	25,427	20,912	
Cash receipts applied to investment during year	636	1,040	
Net Investment in Fund	**26,063**	**21,952**	Note(ii)

NOTES TO THE ACCOUNTS

1. The Fund investment management arrangements were last reviewed in 2006/07. The Pension Fund Panel appointed RCM for Global Equities, Lazards for UK Equities and Royal London Asset Management (RLAM) for UK Corporate Bonds and the transition to the new arrangements was completed in April 2007. The three specialised managers have also been set out-performance targets of 2.0% pa for Lazard and RCM and 1.0% pa for RLAM against their selected benchmarks.

2. The Fund's investments as at 31st March 2012 continued to be managed by Lazard, RCM and RLAM, acting under the direction of the Pension Fund Panel. The Market Value of the investments managed by each fund manager at 31st March 2012 was £254m, £222m and £200m respectively based on the Custodian BNYM valuation. The asset classification by sector shown in the accounts for 2011/12 is provided by the Custodian, this is consistent with the figures in 2010/11.

3. The proportion of the externally managed assets held by the fund managers as at 31st March 2012 compared to the target allocation are:

	Proportion 2011/12	Proportion 2010/11	Target Allocation
Lazard	37%	38%	42%
RCM	33%	34%	33%
RLAM	30%	28%	25%

4. Investment transactions for the Fund, excluding cash instruments, are shown below. Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs charged directly to the scheme include fees, commissions, stamp duty and other fees. In addition to the transaction costs disclosed above, 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 scheme.

	2011/12	2010/11
Sales	£212m	£222m
Purchases	£231m	£242m
Transaction Costs	£918k	£961k

5. Securities which exceed 5% of an asset class or type of security are shown below. There are no securities which exceed 5% of net assets.

Holding	2011/12 £000		2010/11 £000	
Royal Dutch Shell Plc B Shares	12,926	5.6% of Global equities	14,626	6.2% of Global equities
BP Plc Ordinary Shares	15,395	6.7% of UK equities	14,329	6.5% of UK equities
Vodafone Group Ordinary Shares	12,457	5.4% of UK equities	13,861	6.3% of UK equities
GlaxoSmithKline Ordinary Shares	12,229	5.3% of UK equities	7,259	3.3% of UK equities
British American Tobacco Ordinary Shares	11,886	5.1% of UK equities	4,467	2.0% of UK equities
RBS Global Treasury GBP Fund	13,051	100% of Cash instruments	6,131	100% of Cash instruments
RLAM Bond Funds Plc Sterling Extra Yield	4,191	100% of Pooled Funds	3,931	100% of Pooled Funds

6. In addition to the sales and purchases of investments there was a further net investment during the year in an overnight money market fund. The Custodian also held some funds in currency accounts at 31 March 2012.

	2011/12 £000	2010/11 £000
Cash held by custodian	79	992
Money market instrument	13,051	6,131

7. Long term debtors in 2010/11 relate to money due to be paid to the Pension fund, payable within 1 and 5 years in relation to Augmentation strain costs from Early retirements. This debtor was paid in 2011/12.

8. Administrative Expenses

	2011/12 £000	2010/11 £000
Actuarial expenses	32	93
Pension administration & payroll	859	937
External audit	34	26
Other administrative expenses	81	93
	1,006	**1149**

9. Investment Expenses

	2011/12 £000	2010/11 £000
Fund management	1,833	1,951
Custodian	69	74
Investment consultancy	40	41
LB Ealing recharge	255	220
Other Investment expenses	26	38
	2,223	**2,324**

10. Other income earned by the pension fund includes the costs from early retirements, class action claims, and internal interest on cash balances held by the council. There were no tax refunds during 2011/12. During 2011/12 there were 44 early retirements accounted for (5 in 2010/11).

	2011/12 £000	2010/11 £000
Income in relation to Early retirements	1,063	228
Internal interest	53	35
Class action income	13	6
Tax refunds	0	40
	1,129	**309**

11. The total contributions split by administering authority, scheduled bodies and admitted bodies.

	2011/12 £m	2010/11 £m
Administering authority (LB Ealing)	35.1	29.7
Scheduled bodies	5.1	6.8
Admitted bodies	0.5	0.5
	40.7	**37.0**

During 2011/12 London Borough of Ealing paid £5m to the Pension Fund as an initial payment for the conversion of Compensatory Added Years Pensions into Fund Benefits as enabled by 13(A) of the LGPS (Benefits Membership and Contributions) Regulations 2007. Annual payments of £1.09m are then to be paid until 31st March 2032.

12. Benefits Payable

	2011/12 £m	2010/11 £m
Administering authority (LB Ealing)	31.3	27.6
Scheduled bodies	2.7	2.6
Admitted bodies	0.3	0.3
	34.3	**30.5**

13. Debtors

	2011/12 £000	2010/11 £000
Central government bodies	0	0
Local authorities	235	1,154
NHS bodies	0	0
Public corporations & trading funds	0	0
Bodies external to general government	135	234
	370	**1,388**

14. Creditors

	2011/12 £000	2010/11 £000
Central government bodies	1	1
Local authorities	0	0
NHS bodies	0	0
Public corporations & trading funds	0	0
Bodies external to general government	1,406	639
	1,407	**640**

Additional Voluntary Contributions

15. The Fund provides an Additional Voluntary Contribution (AVC) scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The scheme providers are Scottish Widows and Equitable Life, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions. Funds are invested across a range of Funds. Employee contributions made into the AVC facilities during the year were:

- Scottish Widows £103,754.96, 1 April 2011 - 31 March 2012 (£63,356.11, 1 April 2010 - 31 March 2011)
- Equitable Life £7,325.12, 1 November 2010 - 31 October 2012 (£8,339.07, 1 November 2009 - 31 October 2010)

The latest available fund valuations are as follows:

	2011/12 £000	2010/11 £000
Scottish Widows with Profits Fund (31 March 2012)	**586**	**478**
Equitable Life with Profits Fund	194	240
Equitable Life Unit Linked Fund	164	187
Equitable Deposit Account Fund	60	96
Total Value of Equitable Life Funds (31 October 2011)	**418**	**523**
	1,004	**1,001**

IFRS 7 Nature and extent of risks arising from Financial Instruments

16. The Pension Fund activities expose it to a variety of financial risks:

Credit risk - the possibility that other parties might fail to pay amounts due to the Fund.

Liquidity risk - the possibility that the Fund might not have funds available to meet its commitments, in particular pension benefits.

Market risk - the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.

17. **Credit Risk**

The entire Pension Fund investment portfolio is exposed, to a greater or lesser degree, to credit risk. This risk is minimised through the Statement of Investment Principles and the Funding Strategy Statement. The Fund also appoints Fund Managers on an active mandate, which helps to manage this risk by looking at company fundamentals rather than broad sector movements.

The Funds maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments.

The Bond portfolio is managed closely with reference to credit ratings and duration management. The managers are only allowed to invest in investment grade bonds. The council's bond manager also invests in unrated bonds on which they carry out their own due diligence and award proprietary ratings to. The bond manager, has a comprehensive set of risk controls against which all portfolios are measured and monitored. Portfolio risk is evaluated using UBS Delta allowing them to Value At Risk (VAR). Portfolios are monitored on a live basis on a fund management system, 'ThinkFolio', where applicable mandate guidelines are built in.

From 1 April 2011, Pension Fund cash has been managed separately from the council's in a separate bank account. Under the current strategy, the Pension Fund is only permitted to invest in nationalised or part-nationalised UK banks and HSBC (AA rated by Fitch), thereby severely limiting credit risk.

Non-investment transactions go through Ealing Council’s bank account and balances are transferred throughout the year. As Ealing Council is a local authority the Pension Fund’s credit risk is considered negligible. There is however indirect exposure to the council’s investments but credit risk is managed by employing a restricted counterparty list (Local Authorities, UK banks rated at least AA- or who have been fully or partly nationalised and UK Treasury Bills).

The table below highlights the credit risk exposure to internally managed Pension Fund cash as at 31st March 2012.

Counterparty	Fitch Long Term Rating	2011/12 £m	2010/11 £m
Lloyds TSB Bank plc	A	6	-
RBS Banking Group plc	A	8	-
HSBC Bank plc	AA	-	-
London Borough of Ealing	N/A	2	-
		16	**-**

Payments are received from admitted and scheduled bodies in regard the contributions of their members of the scheme. Based on experience of default and uncollectability over the last five financial years, the risk of default in the future is considered very low. Bond Agreements are in place for Admitted Bodies to ensure liabilities would be met in the event a contractor were to be dissolved, wound-up, liquidated or cease to exist.

18. **Liquidity Risk**

The Pension fund transactions are actioned through the Administering Authority Bank Account. The authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Pension fund transaction will continue to be transacted through the Administering Authority Bank Account and the relevant balance will be transferred between the authority and the fund throughout the year. The pension fund maintains the liquidity of its internal cash balances by investing in highly liquid accounts (RBS account is instant access and Lloyds a 32 day notice account). This enables instant access to cash to meet expenditure liabilities as they fall due.

The pension Fund is cash positive so there is a very low risk that the pension fund cash would be fully depleted. Budgeting and forecasting exercises are carried out to monitor this situation. The Pension fund could draw money down from the Fund managers' investment portfolios if expenditure exceeded income, as the scheme is mainly invested in highly marketable securities.

19. **Market Risk**

19.1. Actuarial Risk

The funding of defined benefits is by its nature uncertain. Funding of the Pension Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance of gilts between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2010 valuation assumptions.

19.2. Price Risk

The Fund invests in equity shares; consequently it is exposed to losses arising from movements in the prices of shares. The council is responsible for the investment return achieved on the Fund's assets. The investment objective is to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income). The Pension Fund Panel has decided that, given the financial circumstances of the Fund, it can afford to take on some risk in the pursuit of incremental return particularly given the strong liquidity status of the fund i.e. being cash flow positive.

The council seeks to diversify risk through having more than one investment management firm with different strategies and investment philosophies to manage the assets of the Fund. Currently, there are three investment managers, with an additional investment manager to be appointed in 2012 to manage a commercial property mandate. The investment policy is to appoint expert investment managers with clear performance benchmarks and to place maximum accountability for out performance against those benchmarks on the investment manager. Ealing has adopted an active specialist approach to investment management.

The individual managers' current activity and transactions are reported quarterly to the Pension Fund Panel who question and seek explanations from the investment consultant and investment managers (when asked to attend Panel meetings) on their activities and performance. The investment performance of the managers is calculated independently by the WM Company. Performance is monitored against the benchmark and a peer group universe of other local authorities.

The Fund invests in UK Fixed Interest Corporate Bonds, which also exposes the Fund to losses arising from price movements and downgrading of bonds. Bonds in general are considered less risky than stocks, because Bonds carry the promise of their issuer to return the face value of the security to the holder at maturity. Most bonds also pay investors a fixed rate of interest income that is also backed by a promise from the issuer. Historically the bond market has been less vulnerable to price swings or volatility than the stock market, however the average returns from bond investments have also been historically lower, if more stable, than average stock market returns.

Where the bond manager is holding bonds that have been downgraded, and this bond is retained in the portfolio, the Investment manager must explain to the Pension Fund Panel the reasons for retention and update regularly. With downgraded bonds there is the risk that their value will sustain further significant falls, however the Investment manager may predict the reason for downgrade to be temporary based on their expert knowledge of the market.

The table below is a sensitivity analysis looking at the effect of market movements on the Total Net Asset value. Potential price changes (calculated by our performance analysts The WM Company) are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
UK Bonds	190,987	7.5	205,311	176,663
UK Equities	231,203	14.6	264,959	197,447
Overseas Equities	232,264	14.9	266,871	197,657
Pooled Investment Vehicles	4,191	7.5	4,505	3,877
Other non-market balances	32,887	0.0	32,887	32,887
Total Net Assets	**691,532**		**774,533**	**608,531**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
UK Bonds	174,533	7.5	187,623	161,443
UK Equities	228,127	14.6	261,434	194,820
Overseas Equities	230,239	14.9	264,545	195,933
Pooled Investment Vehicles	3,931	7.5	4,226	3,636
Other non-market balances	20,677	0.0	20,677	20,677
Total Net Assets	**657,507**		**738,505**	**576,509**

19.3. Inflation Risk

The Fund is invested in a broad range of assets, which have a stake in the real economy and will generally be expected to perform relatively well in an inflationary environment. The decision to diversify into property will provide an additional inflation hedge for the fund as lease agreements tend to stipulate long term inflationary linked cash flows from rental income.

19.4. Interest Rate Risk

Cash balances and Fixed interest securities have a more direct exposure to interest rate movements than equities. The cash flows of the former and market value of the latter are influenced by movements in market interest rates. The sensitivity analysis below looks at the effect of a change in year of 0.5% (GBP 7 day LIBID).

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	190,987	0.5	191,942	190,032
Cash held externally	13,130	0.5	13,196	13,064
Cash held internally	16,076	0.5	16,156	15,996
Total	**220,193**		**221,294**	**219,092**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
Fixed Interest Securities	174,533	0.5	175,406	173,660
Cash held externally	7,123	0.5	7,159	7,087
Cash held internally	7,318	0.5	7,355	7,281
Total	**188,974**		**189,920**	**188,028**

19.5. Foreign Exchange risk

Investments in non-sterling securities are subject to extra risk in the form of exchange rate risk. The Fund does not hedge against currency risk as the foreign exchange rates can lead to gains as well as loses. The fund diversifies its risk with foreign exchange by investing in securities in multiple currencies.

Within the Global equities mandate the manager has been set a target allocation Mandate for each asset class, which the manager is assessed against in the performance figures. The mandate reduces the risk of the global manager investing in assets of one currency. The allocations in the mandate are -

UK Equities	9.1%
Europe ex UK Equities	31.8%
North American Equities	31.8%
Japanese Equities	10.9%
Asia Pacific ex Japan Equities	9.1%
Emerging Markets Equities	7.3%

The table below analyses the effect of exchange rate changes on the Pension Fund. Potential currency fluctuations were calculated by our performance analysts The WM Company.

Asset Type	2011/12 £000	% change	Increase £000	Decrease £000
North America	73,275	9.2	80,016	66,534
Europe	106,179	7.8	114,461	97,897
Japan	16,407	13.3	18,589	14,225
Pacific	18,497	7.2	19,829	17,165
Emerging Markets	10,919	7.9	11,782	10,056
Other balances	466,255	0	466,255	466,255
Total	**691,532**		**710,932**	**672,132**

Asset Type	2010/11 £000	% change	Increase £000	Decrease £000
North America	59,295	9.2	64,750	53,840
Europe	107,497	7.8	115,882	99,112
Japan	22,061	13.3	24,995	19,127
Pacific	18,166	7.2	19,474	16,858
Emerging Markets	17,492	7.9	18,874	16,110
Other balances	432,996	0	432,996	432,996
Total	**657,507**		**676,971**	**638,043**

IAS 24 Related Party Transactions

20. The London Borough of Ealing is the administrator of the London Borough of Ealing Pension Fund. The council charged the Pension Fund £732k for expenses incurred in administering the fund in 2011/12 (£697k 2010/11). The council paid £8k interest in respect of 2011/12 cash balances held on behalf of the Pension Fund (£35k 2010/11). The total cash balance held by the council at 31 March 2012 on behalf of the Pension Fund was £2.2M (£7.3m at 31 March 2011).

Members of the Pension Fund panel are required by law to declare certain interests when they become a Councillor and a full register is kept by the Head of Democratic Services and published on the council's website. Councillor Johnson is portfolio holder for Finance and Performance at Ealing Council and Councillor Sabiers is deputy. Councillor Manro is Governor of Greenford High School, a Scheduled body in the Pension Fund. Councillor Potts, Councillor Young and Councillor Manro are all members of the Pension Fund. There were no other relevant declarations of interest by members of the Pension Fund panel.

All council employees acting as officers of the Pension Fund were members of the Pension Fund during 2011/12.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the council, for the supply of goods or services to the Fund.

£364k was due in contributions from employers of admitted and scheduled bodies contributing to the fund at 31 March 2012.

There are no known material transactions with related parties that are not already disclosed.

PENSION FUND APPENDIX – ACTUARIAL REPORT

LONDON BOROUGH OF EALING PENSION FUND

Accounts for the year ended 31 March 2012

Statement by Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the London Borough of Ealing Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £610 million represented 70% of the Funding Target of £868 million at the valuation date. The valuation also showed that a common rate of contribution of 12.1% 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 assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 9.6% of pensionable pay for 20 years. This would imply an average employer contribution rate of 21.7% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, 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.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum

	For past service liabilities	For future service liabilities
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 is £916 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £822 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2011