

Pension Fund

Introduction

1. Under Local Government Pension Scheme Regulations the County Council is required to maintain a Pension Fund for certain of its employees together with the majority of employees of District Councils and other bodies that were formerly under the control of Local Authorities, such as higher education establishments and the civilian employees of Leicestershire Police and Fire Authorities. Teachers, Firefighters and Police Officers all have their own schemes. In addition, certain other bodies are eligible to join if the County Council agrees, and a number of voluntary/charitable bodies and Loughborough University have obtained membership in this way. Other contributors include Leicester City Council, Rutland County Council, Parish/Town Councils and Leicestershire and Rutland Probation Board. Membership of the scheme is optional for all employees, although a written election not to join must be made if employees wish to remain outside the scheme.

2. Actuarial Position:

a) Local Government Pension Funds, in common with other pension funds in both public and private sectors, have periodic valuations to assess the extent to which assets accumulated are adequate to meet future liabilities. To ensure that the fund remains financially sound to meet benefit payments, the actuary recommends the rate of employers' contributions on an individual employer basis for each employing body in the fund on a triennial basis.

The Council's actuary, Hymans Robertson and Co completed the latest valuation, as at 31 March 2004. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 215% to 250% of an employee's contribution. This increase is being phased in over a period of up to 4 years commencing in 2005/06 and to be completed in the 2008/09 financial year, although the rate set as being payable in the final year (for those employers using a four year phasing period) will ultimately be superseded by the outcome of the 31st March 2007 valuation. This common rate for all employers is adjusted to reflect the individual circumstances of different employing bodies.

b) The valuation method adopted by the actuary is the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases.

c) The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	Mar 2004 % p. a. Nominal	Mar 2004 % p. a. Real
Minimum Risk rate of return	4.70%	1.80%
Investment Return:		
Equities	6.70%	3.80%
Bonds (50% gilt 50% corporates)	4.90%	2.00%
Discount Rate (75% equities, 25% bonds)	6.30%	3.40%
Pay increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	0.00%

The nominal rate is the actual return and the real return takes into account inflation.

- d) In order to value both those liabilities which have accrued at the valuation date and those accruing in respect of future service, it has been assumed that the Fund's assets are invested in a portfolio consisting of 75% equities and 25% bonds.
 - e) The 2004 valuation revealed that the Fund's assets which at 31 March 2004 were valued at £1,391 million, were sufficient to meet approximately 87% of the liabilities accrued up to that date. Assets were valued at their market value.
3. The average total employers rate during 2004/05 was approximately 211% (201% 2003/04) of the employees' rate. Thus for an employee paying 6% of earnings, the employer on average will pay 12.66% (12.06% 2003/04).
 4. The County Council has delegated the management of the Fund to its Pension Fund Management Board, which consists of 9 voting members and 5 non-voting staff representatives. The voting members are split into five County Council members, two from Leicester City Council and one each representing the District Councils and De Montfort/Loughborough Universities. The Board receives investment advice from Hymans Robertson and meets quarterly to consider relevant issues.

Fund Account for the Year Ended 31 March 2005

2003/04 £000		Notes	2004/05 £000	
	Contributions and Benefits			
74,840	Contributions Receivable	3	83,535	
10,146	Transfers in	4	11,829	
84,986			95,364	
(50,968)	Benefits payable	5	(55,549)	
(10,188)	Leavers	6	(10,182)	
(927)	Administration Expenses	7	(1,051)	
(62,083)			(66,782)	
22,903	Net additions from dealings with members			28,582
	Returns on investments			
29,504	Investment income	8	33,513	
247,067	Change in market value of investments	9	121,240	
(3,102)	Investment management expenses	10	(3,563)	
273,469	Net returns on investments			151,190
296,372	Net increase in the fund during the year			179,772
1,092,700	Net assets of the scheme At 1 April			1,389,072
1,389,072	At 31 March			1,568,844

Net Assets Statement for the year ended 31 March 2005

2003/04 £000		Notes	2004/05 £000
	Investments	9	
48,268	Fixed interest securities		59,670
554,321	Equities		597,964
17,069	Index-linked securities		15,540
650,016	Pooled investment vehicles		751,270
79,555	Properties	12	87,717
33,502	Cash deposits and equivalents		47,195
(321)	Other investment balances		1,041
1,382,410			1,560,397
6,662	Current Assets and Liabilities	13	8,447
1,389,072	Net Assets of the Fund at 31 March		1,568,844

Notes to the Accounts

1. Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (Financial Reports of Pension Schemes) and follow the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year.

2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the latest mid market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market.

Pooled investment vehicles are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

Unquoted securities are valued by the fund managers at the year end in accordance with generally accepted guidelines.

The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.

Property investments are stated at open market value based on an independent valuation.

Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional payments for early retirements relate to the actuarially assessed extra cost to the Fund of employing bodies allowing their members to retire in advance of normal retirement age. These costs are reimbursed to the Fund by employing bodies.

Benefits payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement.

Other benefits are accounted for on the date the member leaves the scheme or on Death.

Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

Other Expenses

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

3. Contributions Receivable

	2003/04 £000	2004/05 £000
Employers		
Normal	48,344	54,170
Voluntary Additional	0	250
Advanced payments for early retirements	2,027	2,868
Members		
Normal	24,051	25,763
Additional voluntary contributions	418	484
Total	74,840	83,535

The contribution can be analysed by type of member body as follows:

	2003/04 £000	2004/05 £000
Leicestershire County Council	21,774	24,444
Scheduled Bodies	48,553	53,696
Admitted Bodies	4,513	5,395
Total	74,840	83,535

4. Transfers In

	2003/04 £000	2004/05 £000
Individual transfers in from other schemes	10,146	11,829
Total	10,146	11,829

5. Benefits Payable

	2003/04 £000	2004/05 £000
Pensions	42,086	45,112
Lump sum retirement benefit	7,815	9,145
Lump sum death benefit	1,068	1,294
Net Benefits recharged	(1)	(2)
Total	50,968	55,549

6. Payments to and on account of leavers

	2003/04 £000	2004/05 £000
Refunds to members leaving scheme	449	408
Payments for members joining state scheme	223	213
Individual transfers to other schemes	9,516	9,561
Total	10,188	10,182

7. Administration Expenses

	2003/04 £000	2004/05 £000
Administration and processing	792	866
Actuarial fees	0	44
Legal and other professional fees	43	42
Computer system costs	92	99
Total	927	1,051

8. Investment Income

	2003/04 £000	2004/05 £000
Income from fixed interest securities	1,612	2,794
Dividends from equities	15,580	16,955
Income from index-linked securities	550	506
Income from pooled investment vehicles	4,163	5,334
Net rents from properties	6,302	6,069
Interest on cash or cash equivalents	1,240	1,702
Net Currency (Loss)	(101)	(33)
Securities Lending Commission	70	87
Underwriting Commission	20	15
Insurance Commission	21	27
Commission Recapture	47	57
Total	29,504	33,513

9. Investments

	Value at 1 April 2004 £000	Net Investments £000	Change In Market Value £000	Value at 31 March 2005 £000
Fixed interest securities	48,268	11,576	(174)	59,670
Equities	554,321	(1,762)	45,405	597,964
Index-linked securities	17,069	(1,988)	459	15,540
Pooled investment vehicles	650,016	33,166	68,088	751,270
Properties	79,555	1,066	7,096	87,717
Cash & cash equivalents	33,502	13,327	366	47,195
Other investment balances	(321)	1,362	0	1,041
Total	1,382,410	56,747	121,240	1,560,397

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

10. Analysis of Investments

	2003/04 £000	2004/05 £000
Fixed interest securities		
UK public sector quoted	24,365	28,482
Overseas public sector	23,903	31,188
	48,268	59,670
Equities		
UK quoted	376,529	401,454
Overseas quoted	177,792	196,510
	554,321	597,964
Index Linked Securities		
UK quoted	17,069	15,540
Unitised Funds		
Property Funds	55,349	66,340
Unit Trust – Other	594,667	684,930
	650,016	751,270
Properties		
UK	79,555	87,717
Cash & Cash Equivalents		
Sterling Denominated	33,502	47,195
Other Investment Balances	(321)	1,362
Total Investments	1,382,410	1,560,397

11. Investment Management Expenses

	2003/04 £000	2004/05 £000
Administration, management and custody	3,059	3,502
Performance measurement services	10	11
Other advisory fees	33	50
Total	3,102	3,563

12. *Property Investments*

	31 March 2004 £000	31 March 2005 £000
Freehold	62,630	69,175
Long Leasehold (over 50 years unexpired)	7,885	8,475
Short Leasehold (under 50 years unexpired)	9,040	10,067
Total	79,555	87,717

All properties, except the Fund's farm investment, were valued on an open market basis by Martin O'Callaghan of Atisreal at 31st March 2005. The Fund's farm was valued on an open market basis by Andrew Coombe of Leicestershire County Council. Both valuers are Associates of the Royal Institute of Chartered Surveyors.

13. *Current Assets & Liabilities*

	2003/04 £000	2004/05 £000
Contributions due from employers	3,469	4,051
Cash Balances	18	232
Tax recoverable	136	95
Income accrued	3,797	4,773
Other Debtors	363	5
Owed to Leicestershire County Council	67	363
Fund Management Fees Outstanding	(700)	(522)
Other Creditors	(488)	(550)
Total	6,662	8,447

14. Analysis of Investments by Manager

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

Investment Manager	At 31st March 2004 £000	At 31st March 2005 £000
UBS Global Asset Management	479,999	516,017
Barclays Global Investors	284,266	316,715
Capital International	241,574	265,824
Standard Life Investments	145,483	166,894
Morley Fund Management	129,720	145,607
Colliers Capital UK	89,381	101,756
Adams Street Partners	7,618	17,067
Catapult Venture Managers	224	244
Internally Managed	4,145	30,273
	1,382,410	1,560,397

15. Related Party Transactions

From the information currently available there were no material transactions with related parties in 2004/05.

16. Contingent Liabilities and Contractual Commitments

At 31st March 2005, the Fund had the following contractual commitments:-

- a) Undrawn commitments totalling \$113,352,700 (£59,987,669) to nine different pooled private equity funds managed by Adams Street Partners.
- b) An undrawn commitment of £3,600,000 to the East Midlands Regional Venture Capital Fund.

Glossary of Terms

AGENCY

The provision of a service by an authority on behalf of another authority which is legally responsible for providing that service. The authority providing the service in the first instance is reimbursed by the responsible authority.

CAPITAL RECEIPTS

Income from the sale of capital assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

CAPITAL RESERVE

An internal reserve of the Council which is used to generate monies for financing capital expenditure thus avoiding the need to borrow externally.

COLLECTION FUND

The fund administered by each authority collecting Council Tax (district councils in shire areas). The County Council precepts on these funds to finance its net expenditure after taking into account other sources of income, e.g. Government Grants, National Non-Domestic Rate income and charges for services.

CORPORATE & DEMOCRATIC CORE

Consists of costs of democratic representation and corporate management.

CREDITORS

Amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the end of the financial year.

DEBTORS

Amounts due to the Authority but unpaid at the end of the financial year.

DEFERRED CHARGES

Capital expenditure incurred not resulting in an asset to the authority e.g. Grants to village halls.

EMOLUMENTS

All sums paid to an employee, including expenses and allowances, chargeable to UK income tax and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employers or employees are excluded.

FINANCIAL REPORTING STANDARD (FRS)

A statement of common accounting practice, devised by the Accounting Standards Board (itself a division of the Financial Reporting Council), which is applicable to the majority of large organisations, both public and private sector.

GENERAL COUNTY FUND

The main revenue fund of the County Council. Precept income, National Non-Domestic Rate income and government grants are paid into the fund, from which the cost of providing services is met.

IMPAIRMENT

A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value.

INFRASTRUCTURE

The network of roads, bridges, sewers, lighting etc.

INTANGIBLE ASSET

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights (e.g. purchased software licences)

LEASING

A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc.

There are two forms of lease:

- a) A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.
- b) An operating lease involves the payment of a rental by a lessee for a period, which is normally less than the useful economic life of the asset.

LONG TERM BORROWING

Loans raised to finance capital spending which have still to be repaid.

NON DISTRIBUTED COSTS

Costs which comprise pension scheme past service costs, settlements and curtailments.

NON-OPERATIONAL ASSETS

Assets held by the Authority but not directly used for the provision of services, e.g. assets surplus to requirements, commercial properties, and assets under construction.

PRECEPTS

The income which the County Council requires from the collection funds of the district councils.

PROVISION

An amount set aside for any liabilities or losses of uncertain timing or amount that have been incurred.

PUBLIC WORKS LOAN BOARD (PWLB)

A government body from which local authorities may raise long term loans, usually at advantageous interest rates.

REVENUE SUPPORT GRANT (RSG)

Grant paid by the Government in respect of general local authority expenditure.

RECHARGE

The transfer of costs from one service account to another.

RESERVE

An amount set aside for purposes falling outside the definition of a provision.

REVENUE FUNDING OF CAPITAL

The financing of capital expenditure by a direct contribution from revenue.

REVENUE

Expenditure that the County Council incurs on the day to day running costs of its services including salaries and wages, running expenses of premises and vehicles as well as the annual payment of capital charges. The expenditure is financed from charges for services, government grants and income from Council Tax and National Non-Domestic Rates.

SERVICE LEVEL AGREEMENT (SLA)

An agreement between users and providers of support services which specifies the service to be provided and the charge to be made.

SPECIFIC GRANTS

Grants paid by the Government for a particular service, e.g. Probation, Magistrates Courts.

STATEMENT OF STANDARD ACCOUNTING PRACTICE (SSAP)

A statement of common accounting practice, devised by the Accounting Standards Board (itself a division of the Financial Reporting Council), which is applicable to the majority of large organisations, both public and private sector. SSAP's are being progressively replaced by Financial Reporting Standards.

TRUST FUNDS

Funds administered by the County Council for such purposes as charities, prizes and specific projects.