

Pension Fund

Introduction

1. Under Local Government Pension Scheme Regulations the County Council is required to maintain a Pension Fund for certain categories of its employees together with the majority of employees of District Councils and other bodies that were formerly under the control of Local Authorities.

In addition, certain other bodies are eligible to join if the County Council agrees, and a number of voluntary/charitable bodies have obtained membership in this way. 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. Teachers, Firefighters and Police Officers all have their own schemes.

Details of the other admitted and scheduled bodies in the Fund are shown in note 5.

There were 30,395 contributors to the Fund at 31st March 2006 and 14,678 of pensions were in payment.

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 employer 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 31st March 2004. The change in contribution rates resulting from the actuarial valuation as at 31st March 2004 were effective from 1st April 2005. 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rate set as being payable in the final year (for those employers using a four year phasing period) will ultimately be superseded by the outcome of the 31st March 2007 valuation.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 which is consistent with the aim of achieving a 100% funding level. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases.
- c) 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.

d) 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	4.7%	1.8%
Investment Return:		
Equities	6.7%	3.8%
Bonds (50% gilt 50% corporates)	4.9%	2.0%
Discount Rate (75% equities, 25% bonds)	6.3%	3.4%
Pay increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	0.0%

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

e) 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.

3. The average total employers rate during 2005/06 was approximately 227% (211% 2004/05) of the employees' rate. Thus for an employee paying 6% of earnings, the employer on average will pay 13.62% (12.66% 2004/05).
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.
5. List of admitted and scheduled bodies:

The Pension Fund contributors include Leicestershire County Council, Leicester City Council, Loughborough University, De Montfort University, Leicestershire Constabulary, Rutland County Council, Charnwood Borough Council, North West Leicestershire District Council, Leicestershire & Rutland Probation Board, Hinckley & Bosworth Borough Council, Blaby District Council, Harborough District Council, Connexions Leicester Shire, Oadby & Wigston Borough Council, Melton Borough Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Colleges of Further Education and Sixth Form Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, Regent College, South Leicestershire College, Stephenson College, Wyggeston QE1 College, Parish and Town Councils consisting of Anstey, Ashby, Braunstone, Broughton Astley, Countesthorpe, Earl Shilton, Glen Parva, Kirby Muxloe, Leicester Forest East, Lutterworth, Ravenstone with Snibston, Sileby, Syston, Thurmaston, Whetstone other employers consisting of Apetito Ltd, Bradgate Park Trust, Collegia Care, East Midlands Regional Local Government Association, Leicester and County Mission for the Deaf, Leicester Money Advice, Leicestershire Promotions, National Youth Agency, Rushcliffe Care, Spire Homes, VISTA, and Voluntary Action Leicester.

Fund Account for the Year Ended 31 March 2006

2004/05 £000		Notes	2005/06 £000	
	Contributions and Benefits			
83,535	Contributions Receivable	3	93,249	
11,829	Transfers in	4	14,393	
95,364			107,642	
(55,549)	Benefits payable	5	(59,908)	
(10,182)	Leavers	6	(16,509)	
(1,051)	Administration Expenses	7	(997)	
(66,782)			(77,414)	
28,582	Net additions from dealings with members			30,228
	Returns on investments			
33,513	Investment income	8	36,992	
121,240	Change in market value of investments	9	352,648	
(3,563)	Investment management expenses	11	(4,029)	
151,190	Net returns on investments			385,611
179,772	Net increase in the fund during the year			415,839
1,389,072	Net assets of the scheme At 1 April			1,568,844
1,568,844	At 31 March			1,984,683

Net Assets Statement for the year ended 31 March 2006

2004/05 £000		Notes	2005/06 £000
	Investments	9	
59,670	Fixed interest securities		85,169
597,964	Equities		788,413
15,540	Index-linked securities		14,846
751,270	Pooled investment vehicles		923,317
87,717	Properties	12	96,105
47,195	Cash deposits and equivalents		67,309
5,909	Other investment balances		7,281
1,565,265			1,982,440
3,579	Current Assets and Liabilities	13	2,243
1,568,844	Net Assets of the Fund at 31 March		1,984,683

Notes to the Accounts

1. *Basis of Preparation*

The financial statements have been prepared in accordance with the main recommendations of the Pension SORP (Financial Reports of Pension Schemes) and follow the 2005 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 Fund 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. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report.

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.

Private equity valuations are based on the latest available valuations of the managers (31st December 2005), adjusted for any cash and exchange rate movements in the final quarter.

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

	2004/05 £000	2005/06 £000
Employers		
Normal	54,170	62,442
Voluntary Additional	250	0
Advanced payments for early retirements	2,868	2,636
Members		
Normal	25,763	27,522
Additional voluntary contributions	484	649
Total	83,535	93,249

Additional payments for early retirements are paid by employers to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Purchase of additional benefits by members allows extra service to be credited on top of any service earned via employment.

4. Transfers In

	2004/05 £000	2005/06 £000
Individual transfers in from other schemes	11,829	14,393
Total	11,829	14,393

5. Benefits Payable

	2004/05 £000	2005/06 £000
Pensions	45,112	48,646
Lump sum retirement benefit	9,145	9,542
Lump sum death benefit	1,294	1,722
Net Benefits recharged	(2)	(2)
Total	55,549	59,908

It is not possible to split benefits payable between the administering authority, scheduled and admitted bodies as is required by the Statement of Recommended Practice.

6. Payments to and on account of leavers

	2004/05 £000	2005/06 £000
Refunds to members leaving scheme	408	182
Payments for members joining state scheme	213	75
Individual transfers to other schemes	9,561	16,252
Total	10,182	16,509

7. Administration Expenses

	2004/05 £000	2005/06 £000
Administration and processing	866	866
Actuarial fees	44	14
Legal and other professional fees	42	45
Computer system costs	99	72
Total	1,051	997

8. Investment Income

	2004/05 £000	2005/06 £000
Income from fixed interest securities	2,794	3,901
Dividends from equities	16,955	20,232
Income from index-linked securities	506	343
Income from pooled investment vehicles	5,334	3,387
Net rents from properties	6,069	6,443
Interest on cash or cash equivalents	1,702	2,673
Net Currency (Loss)	(33)	(85)
Securities Lending Commission	87	10
Underwriting Commission	15	12
Insurance Commission	27	28
Commission Recapture	57	48
Total	33,513	36,992

9. **Investments**

	Value at 1 April 2005	Purchases at Cost	Sales Proceeds	Change In Market Value	Value at 31 March 2006
	£000	£000	£000	£000	£000
Fixed interest securities	59,670	223,632	199,006	873	85,169
Equities	597,964	214,682	179,994	155,761	788,413
Index-linked securities	15,540	51,260	53,275	1,321	14,846
Pooled investment vehicles	751,270	38,681	53,182	186,548	923,317
Properties	87,717	1,067	0	7,321	96,105
Cash & cash equivalents	47,195	19,290	0	824	67,309
Other investment balances	5,909	1,372	0	0	7,281
Total	1,565,265	549,984	485,457	352,648	1,982,440

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

	2004/05 £000	2005/06 £000
Fixed interest securities		
UK public sector quoted	28,482	32,985
Overseas public sector	31,188	52,184
	59,670	85,169
Equities		
UK quoted	401,454	524,299
Overseas quoted	196,510	264,114
	597,964	788,413
Index Linked Securities		
UK quoted	15,540	14,846
Unitised Funds		
Property Funds	66,340	80,360
Unit Trust – Other	684,930	842,957
	751,270	923,317
Properties		
UK	87,717	96,105
Cash & Cash Equivalents		
Sterling Denominated	47,195	67,309
Other Investment Balances	5,909	7,281
Total Investments	1,565,265	1,982,440

11. Investment Management Expenses

	2004/05 £000	2005/06 £000
Administration, management and custody	3,502	3,978
Performance measurement services	11	8
Other advisory fees	50	43
Total	3,563	4,029

12. *Property Investments*

	31 March 2005 £000	31 March 2006 £000
Freehold	69,175	76,675
Long Leasehold (over 50 years unexpired)	8,475	9,470
Short Leasehold (under 50 years unexpired)	10,067	9,960
Total	87,717	96,105

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd of Colliers Capital UK Limited at 31st March 2006. 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*

	2004/05 £000	2005/06 £000
Contributions due from employers	4,051	4,528
Cash Balances	232	66
Other Debtors	5	112
Due from Leicestershire County Council	363	(882)
Fund Management Fees Outstanding	(687)	(986)
Fund Management Fee rebate outstanding	165	0
Other Creditors	(550)	(595)
Total	3,579	2,243

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 :-

	At 31st March 2005 £000	At 31st March 2006 £000
<i>Investment Manager</i>		
UBS Global Asset Management	518,078	644,535
Barclays Global Investors	316,715	404,856
Capital International	266,841	364,800
Standard Life Investments	168,112	217,137
Morley Fund Management	146,027	170,738
Colliers Capital UK	101,756	117,750
Adams Street Partners	17,067	31,741
Catapult Venture Managers	244	784
Internally Managed	30,425	30,099
Total	1,565,265	1,982,440

15. *Custody of Assets*

All of the Fund's assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. The custodian used is dependent on the type of asset and the portfolio to which the asset belongs.

16. *Related Party Transactions*

From the information currently available there were no material transactions with related parties in 2005/06 that require disclosure under FRS8.

17. *Contingent Liabilities*

When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value covering the value of the benefits gained whilst they were a scheme member. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these 'frozen refunds' has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £900,000, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

18. Contractual Commitments

At 31st March 2006, the Fund had the following contractual commitments:-

- a) Undrawn commitments totalling \$119,594,100 equal to £68,948,200 to twelve different pooled private equity funds managed by Adams Street Partners (31st March 2005 £59,987,669 to nine different funds).
- b) An undrawn commitment of £3,216,000 to the East Midlands Regional Venture Capital Fund (31st March 2005 £3,600,000).

19. Securities lending

There were no securities on loan at the year end.

20. Additional Voluntary Contributions (AVC's)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits.

21. Compliance Statement

Income and other taxes

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

Self-investment

There has been no material employer related investment in 2005/06 or 2004/05.

Calculation of transfer values

There are no discretionary benefits included in the calculation of transfer values.

Pension Increase

All pensions increases are made in accordance with the Pensions Increase (Review) Order 1997.

Changes to LGPS

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

Statement of Investment Principles

A statement of investment principles has been agreed by the Pension Fund Management Board. A copy is available on request from the investments section of the County Council.

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.

LOCAL AREA AGREEMENT (LAA)

A three year agreement that sets out the priorities of a local area in certain policy fields as agreed with central government and other partners within that area, represented by local authorities and other, largely public sector bodies, within the local strategic partnership. The County Council will act as the accountable body for the LAA in Leicestershire.

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 amounts 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. School Standards Grant, Supporting People.

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.