

# 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 33,140 contributors to the Fund at 31<sup>st</sup> March 2010 and 17,946 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 31<sup>st</sup> March 2007. The change in contribution rates resulting from the actuarial valuation as at 31<sup>st</sup> March 2007 were effective from 1<sup>st</sup> April 2008. This review resulted in a requirement for the common contribution rate of employer's contributions to increase from 250% to 255% of an employee's contribution. 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 2007 valuation revealed that the Fund's assets which at 31 March 2007 were valued at £2,182m, were sufficient to meet approximately 93% 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:

<b>Financial Assumptions</b>	<b>Mar 2007 % p. a. Nominal</b>	<b>Mar 2007 % p. a. Real</b>
Minimum risk rate of return	4.5%	1.3%
Finding basis discount rate	6.1%	2.9%
Pay increases	4.7%	1.5%
Price inflation/pension increases	3.2%	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 line with its long term investment strategy.

3. There were changes in employee contribution rates effective from 1<sup>st</sup> April 2008. Employer contribution rate comparability is now only possible by using the percentage of employee pensionable pay that an employer pays into the scheme. In 2009/10 the average employer rate was 15.5% of pay (15.5% 2008/09).

4. The County Council has delegated the management of the Fund to its Pension Fund Management Board, which consists of nine voting members and five 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 Blaby District Council, Charnwood Borough Council, Connexions Services, Connexions Trading, De Montfort University, Harborough District Council, Hinckley & Bosworth Borough Council, Leicester City Council, Leicester, Leicestershire and Rutland Combined Fire Authority, Leicestershire Constabulary, Leicestershire County Council, Leicestershire & Rutland Probation Board, Loughborough University, Melton Borough Council, North West Leicestershire District Council, Oadby & Wigston Borough Council, Rutland County Council, Colleges of Further Education and Sixth Form Colleges consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College, Regent College, Samworth Academy, South Leicestershire College, Stephenson College, Wyggeston QE1 College, Parish and Town Councils consisting of Anstey, Ashby, Ashby Woulds, Braunstone, Broughton Astley, Countesthorpe, Glen Parva, Leicester Forest East, Lutterworth, Market Bosworth, Oakham, Ravenstone with Snibston, Shepshed, Sileby, Syston, Thurmaston, Whetstone, Barrow upon Soar, Mountsorrel.

Other employers consist of Apetito Ltd, Bradgate Park Trust, Charnwood Neighbourhood Housing, Collegia Care, Jeakins Wear, Leicester and County Mission for the Deaf, Leicester Money Advice, Fire Regional Control Centre, Local Government East Midlands, National Youth Agency, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, and Voluntary Action Leicester, Howells Direct, Age Concern Leicestershire Rutland, Three Oaks Housing, Family Action, Northgate Management Services, GSL.

## Fund Account for the Year Ended 31 March 2010

2008/09 £m		Notes	2009/10 £m	
	<b>Contributions and Benefits</b>			
125.0	Contributions	3	132.8	
8.6	Transfers in	4	11.5	
133.6			144.3	
(86.4)	Benefits	5	(96.0)	
(10.7)	Leavers	6	(11.4)	
(1.2)	Administration Expenses	7	(1.2)	
(98.3)			(108.6)	
<b>35.3</b>	<b>Net additions from dealings with members</b>			<b>35.7</b>
	<b>Returns on investments</b>			
35.2	Investment income	8	26.6	
(631.9)	Change in market value of investments	9	537.6	
(5.4)	Investment management expenses	11	(5.5)	
<b>(602.1)</b>	<b>Net returns on investments</b>			<b>558.7</b>
<b>(566.8)</b>	<b>Net increase in the fund during the year</b>			<b>594.4</b>
2,079.4	Net assets of the scheme At 1 April			1,512.6
<b>1,512.6</b>	<b>At 31 March</b>			<b>2,107.0</b>

## Net Assets Statement for the year ended 31 March 2010

2008/09 £m		Notes	2009/10 £m
1,520.2	Investment assets		2,111.0
(11.9)	Investment liabilities		(8.8)
<b>1,508.3</b>		9/10	<b>2,102.2</b>
5.8	Current Assets	13	6.6
(1.5)	Current Liabilities	13	(1.8)
<b>1,512.6</b>	<b>Net Assets of the Fund at 31 March</b>		<b>2,107.0</b>

# 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 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*

All assets that had bid and offer prices were valued at bid price. Many of the Fund's investments are 'single priced' (i.e. no bid and offer prices exist), and these investments use the single price available.

Private equity valuations are based on the latest available valuations of the managers, adjusted for any cash movements where this valuation is not at 31<sup>st</sup> March.

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 expert valuation.

Forward foreign exchange contracts and currency options are valued at fair value.

### *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

	2008/09 £m	2009/10 £m
<b>Employers</b>		
Normal	85.9	92.5
Voluntary Additional	0	0
Advanced payments for early retirements	3.2	3.2
<b>Members</b>		
Normal	35.2	36.4
Additional voluntary contributions	0.7	0.7
<b>Total</b>	<b>125.0</b>	<b>132.8</b>

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.

The contributions can be analysed by the type of Member Body as follows:-

	2008/09 £m	2009/10 £m
Leicestershire County Council	43.0	47.8
Scheduled bodies	74.0	77.0
Admitted bodies	8.0	8.0
<b>Total</b>	<b>125.0</b>	<b>132.8</b>

### 4. Transfers In

	2008/09 £m	2009/10 £m
Individual transfers in from other schemes	8.6	11.5
<b>Total</b>	<b>8.6</b>	<b>11.5</b>

## 5. *Benefits*

	2008/09 £m	2009/10 £m
Pensions	61.7	67.3
Lump sum retirement benefit	21.7	25.6
Lump sum death benefit	3.0	3.1
Net Benefits recharged	0	0
<b>Total</b>	<b>86.4</b>	<b>96.0</b>

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*

	2008/09 £m	2009/10 £m
Refunds to members leaving scheme	0	0
Payments for members joining state scheme	0	0
Individual transfers to other schemes	7.2	11.4
Group transfers to other schemes	3.5	0
<b>Total</b>	<b>10.7</b>	<b>11.4</b>

## 7. *Administration Expenses*

	2008/09 £m	2009/10 £m
Administration and processing	1.0	1.1
Actuarial fees	0.1	0
Legal and other professional fees	0	0
Computer system costs	0.1	0.1
<b>Total</b>	<b>1.2</b>	<b>1.2</b>



## 8. Investment Income

	2008/09 £000	2009/10 £000
Income from fixed interest securities	0	0.1
Dividends from equities	21.5	15.0
Income from index-linked securities	0.2	0.4
Income from pooled investment vehicles	4.0	5.4
Net rents from properties	6.0	5.8
Interest on cash or cash equivalents	2.2	0.2
Net Currency Profit / (Loss)	1.0	(0.4)
Securities Lending Commission	0.3	0.1
Underwriting Commission	0	0
Insurance Commission	0	0
Commission Recapture	0	0
<b>Total</b>	<b>35.2</b>	<b>26.6</b>

## 9. Investments

	Value at 1 April 2009 £m	Purchases at Cost £m	Sales Proceeds £m	Change In Market Value £m	Value at 31 March 2010 £m
Equities	353.9	263.0	(222.9)	164.8	558.8
Fixed interest securities	0	2.9	(3.3)	0.3	0
Index-linked securities	0	52.6	(16.3)	3.3	39.6
Pooled investment vehicles	1,074.0	213.2	(220.4)	354.3	1,421.1
Properties	60.0	5.3	(0.1)	3.8	68.9
Cash and currency	21.4	0	(2.2)	0	19.2
Derivatives contracts	(4.6)	0	(11.5)	11.1	(5.0)
Other investment balances	3.6	0	(4.0)	0	(0.4)
<b>Total</b>	<b>1,508.3</b>	<b>537.0</b>	<b>(480.7)</b>	<b>537.6</b>	<b>2,102.2</b>

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

	2008/09 £m	2009/10 £m
<b>Equities</b>		
UK quoted	212.6	339.2
Overseas quoted	141.3	219.6
	<b>353.9</b>	<b>558.8</b>
<b>Index Linked Securities</b>		
UK quoted	0	14.1
Overseas quoted	0	25.5
	<b>0</b>	<b>39.6</b>
<b>Pooled investment vehicles (unquoted)</b>		
Property funds	107.3	174.1
Private equity	83.0	96.2
Corporate bond funds	133.2	165.8
Hedge funds	138.1	233.5
Equity-based funds	612.4	751.5
	<b>1,074.0</b>	<b>1,421.1</b>
<b>Properties</b>		
UK (Note 12)	<b>60.0</b>	<b>68.9</b>
Cash and currency	<b>21.4</b>	<b>19.2</b>
<b>Derivatives contracts</b>		
Forward foreign exchange assets	5.4	2.4
Currency option assets	1.9	1.5
Forward foreign exchange liabilities	(11.6)	(8.8)
Currency option liabilities	(0.3)	(0.1)
Sterling Denominated	<b>(4.6)</b>	<b>(5.0)</b>
<b>Other Investment Balances</b>	<b>3.6</b>	<b>(0.4)</b>
<b>Total Investments</b>	<b>1,508.3</b>	<b>2,102.2</b>

## 11. Investment Management Expenses

	2008/09 £m	2009/10 £m
Administration, management and custody	5.3	5.4
Performance measurement services	0	0
Other advisory fees	0.1	0.1
<b>Total</b>	<b>5.4</b>	<b>5.5</b>

## 12. Property Investments

	31 March 2009 £m	31 March 2010 £m
Freehold	45.3	55.7
Long Leasehold (over 50 years unexpired)	6.8	6.5
Short Leasehold (under 50 years unexpired)	7.9	6.7
<b>Total</b>	<b>60.0</b>	<b>68.9</b>

All properties, except the Fund's farm investment, were valued on an open market basis by Adrian Payne of Colliers Capital UK at 31<sup>st</sup> March 2010. The Fund's farm was valued on an open market basis by James Foreman of Leicestershire County Council. Both valuers are Associates of the Royal Institute of Chartered Surveyors.

## 13. Current Assets & Liabilities

	2008/09 £m	2009/10 £m
Contributions due from employers	5.5	5.8
Cash Balances	0.1	0.3
Other Debtors	0.2	0.3
Due from/(to) Leicestershire County Council	0	0.2
<b>Current assets</b>	<b>5.8</b>	<b>6.6</b>
Due from/(to) Leicestershire County Council	(0.3)	0
Fund Management Fees Outstanding	(0.5)	(1.3)
Other Creditors	(0.7)	(0.5)
<b>Current liabilities</b>	<b>(1.5)</b>	<b>(1.8)</b>
<b>Net current assets and liabilities</b>	<b>4.3</b>	<b>4.8</b>

#### 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 31 <sup>st</sup> March 2009 £m	At 31 <sup>st</sup> March 2010 £m
<b>Investment Manager</b>		
UBS Global Asset Management	83.7	85.3
Capital International	175.7	245.5
Standard Life Investments	204.0	300.4
Goldman Sachs	6.2	10.5
Morley Fund Management	174.8	275.0
Legal & General	588.7	706.5
Fauchier Partners	114.6	108.0
Colliers Capital UK	73.5	85.7
Pictet Asset Management	0	85.3
Ruffer LLP	0	95.3
Adams Street Partners	80.3	93.5
Catapult Venture Managers	2.7	2.7
Internally Managed and Currency Managers	4.0	8.5
<b>Total</b>	<b>1,508.2</b>	<b>2,102.2</b>

#### 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 2009/10 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 £792,000, 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 31<sup>st</sup> March 2010, the Fund had the following contractual commitments:-

- a) Undrawn commitments totalling \$83,805,150 (£55,247,643) to eighteen different pooled private equity funds managed by Adams Street Partners (31<sup>st</sup> March 2009 £66,285,276 to eighteen different funds).
- b) Undrawn commitment of £3,184,605 to two private equity funds managed by Catapult Venture Managers (31<sup>st</sup> March 2009 £3,703,642 to two funds).
- c) An undrawn commitment of £75,000,000 to the Prudential/M&G UK Companies Financing Fund (31<sup>st</sup> March 2009 £nil).

## **19. Securities lending**

At 31<sup>st</sup> March 2010 the value of securities on loan was £21.0m, backed by collateral valued at £22.8m. All of the securities on loan were equities and the collateral was also equities.

## **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. AVC's are not included in the Pension Fund Accounts in accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

## **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 2009/2010 or 2008/2009.

### ***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 at the following address: Room 139, Corporate Resources Department, County Hall, Glenfield, Leicester, LE3 8RB.