DERBYSHIRE COUNTY COUNCIL

Pension Fund Annual Report

Year ended 31 March 2013

Pension Fund Annual Report for the Year ended 31 March 2013

Introduction

Derbyshire County Council is the administering authority for the Derbyshire Pension Fund under the terms of the Local Government Pension Scheme (Administration) Regulations 2008 (the Regulations).

This report has been produced in accordance with Section 34 of the Regulations. It aims to set out the way in which the Pension Fund is managed both in relation to the administration of benefits and to the investment of the Fund. Details of investment performance are provided for 2012-13 and over the longer term and these are compared with benchmark index returns and local authority average returns over the same periods. The Fund's accounts for the year are included in section E of the report whilst the Actuary's latest statement under Section 77 of The Local Government Pension Scheme Regulations 1997 is included under section G.

Further information relating to the Fund is available on the Council's website www.derbyshire.gov.uk in the Working for Us section.

A Management and Financial Performance

1. Investments

Responsibility for the investment of the Pension Fund is delegated to the County Council's Investment Committee. In accordance with best practice, the committee comprises members representing Derby City Council and the Local Government Association (Derbyshire) as well as the County Council. Employee representatives attend as non-voting members. The committee receives advice from the County Council's Director of Finance and 2 independent Investment Advisers:

Patricia O'Loughlin (Aviva Investors)
Philip Williams (AllenbridgeEpic)

Investment Committee Membership 2012/13

County Councillors

S Ellis (chair)
M Lacey
G J E MacDonald
P Makin
B Ridgway
W Burrows
M Higginbottom
D Allen

Nominated by the Local Government Association (Derbyshire)

Councillors

A Cox
A Hodkin

Derby City Council

Councillors

D Roberts
S Russell

Employee representatives attend the meetings as non-voting members

S Featherstone (UCATT)

Terms of Reference

The main powers and duties of the Investment Committee are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 1998, as amended, and are designed to ensure that the Fund is properly and effectively managed.

The main responsibilities of the Committee are as follows:

Statutory Duties

- To appoint managers, advisers etc

- To monitor performance

- To determine an investment policy having regard to:

The advisability of investing in a wide variety of investments

The suitability of particular investments and types of investments

The above Regulations require that advice should be taken in carrying out the above duties.

- To produce and publish the Fund's Statement of Investment Principles which sets out the Fund's policy and its compliance with Myners' Principles for Institutional Investment.

- To produce and publish the Fund's Governance Policy Statement

- To produce and publish the Fund's Communications Policy Statement.

The Governance Policy and Communications Statements have been produced jointly by the Investment Committee and the Pensions Committee and are available on the Council's website.

Other Duties

- Non-routine matters

- Investment decisions relating to unquoted investments such as direct property, private equity and infrastructure.

- Voting decisions not covered by voting guidelines

Investment Committee minutes are reported directly to the Council.

Investment Management

The Fund's investment assets are managed as follows:

(a) UK bonds, International bonds, UK equities, Japanese equities*, Asia Pacific equities*, Emerging Market equities*
(* through pooled investment funds)

By the in-house team comprising:

Richard Appleby (Assistant Director of Finance)

The Investment Section

Investment Management
Steve McManus (Investment Officer)
David Henry (Fund Manager)
Vanessa Jacka (Fund Manager)
Dawn Kinley (Fund Manager)
Christopher Gooding (Research Analyst)
Neil Smith (Research Analyst)

Accounts/Treasury Management/Administrative Support
Rajwant Dosanjh (Pension Fund Accountant)
Jonathan Clarke (Senior Assistant)
Lesley Crowder (Settlements Officer)
Catherine Bedford (Investment Clerk)

(b) Direct Property

Keneth Peters & Co. (Advisors and Agents)

(c) Indirect Property

Cushman & Wakefield Healey and Baker Finance Ltd (in an advisory capacity)

(d) European Equities

UBS Global Investment Management (in a discretionary capacity)

(e) North American Equities

Wellington Management International (in a discretionary capacity)

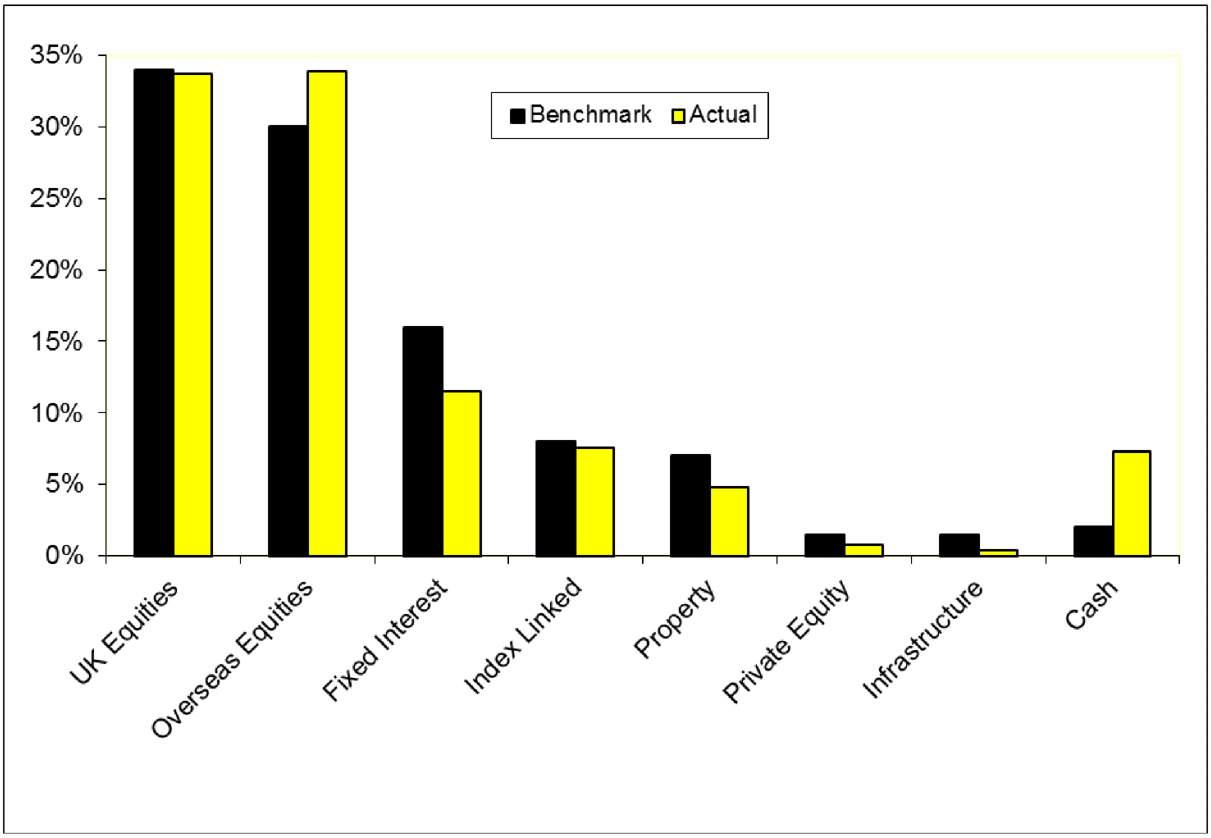
2 Financial Performance

The costs of managing the pension fund in 2012/13 were as follows:

	Cost £000s	Members	Cost per member
Investment Management	3,953	81,605	£48.44
Pensions Administration	1,145	81,605	£14.03
Actuarial/Audit fees	58	81,605	£0.71

Asset Allocation 31 March 2013

The Fund's asset allocation as at 31 March 2013 was as follows:



The Pension Fund added to its holdings in Global Equities, particularly in developed markets, throughout the year as volatility presented some attractive buying opportunities. Funds were also added to some Private Equity funds, where there were pre-existing commitments. Government Bond holdings were reduced and the proceeds invested in higher yielding Corporate Bonds.

The Pension Fund's targets

The Fund's targets are as follows:

To beat the actuary's long term assumptions of returns (currently an investment return of 6.75% pa)

To outperform the Fund's benchmark index return by ¼% over 1, 3, 5 and 10 year periods

(Comparisons for periods prior to the Fund benchmark's introduction on 1 April 2004 are against an index return based on Local Authority average weightings).

Market Background 2012/13

Despite continuing concerns about the slowing rate of global economic growth, equity markets recovered strongly over the year as investor risk appetite increased. Equity returns to Sterling investors ranged from 19.3% (North America) to 7.4% (Emerging Markets). Bond returns were also good, with Corporate Bonds returning 13.3%, Index Linked Bonds 10.2% and Gilts 5.2%. Returns from property remained subdued at 2.5%.

B Investment Performance

Investment performance is calculated independently by the WM Company on a quarterly basis. Results are considered by the Investment Committee as they become available and are reported to Fund members on an annual basis as part of this report.

Comparative annual returns for the Fund are shown below for 2012/13. Also shown are rolling 3, 5, and 10-year results along with inflation figures to give an indication of real returns.

1 April 2012 - 31 March 2013

The Fund's results for 2012/13 are shown below and compared with Benchmark index returns and the average Local Authority Fund for the same period

	DCC %	Benchmark Index %	Local Authority Average %
UK Equities	17.7	16.8	18.0
Overseas Equities			-
North America	20.3	19.3	19.0
Europe	17.2	18.0	20.4
Japan	18.1	14.3	15.4
Pacific ex Japan	20.4	18.1	19.2
Emerging Markets	10.5	7.4	10.5
Fixed Interest			
UK Government Bonds	6.0	5.2	6.4
UK Corporate Bonds	10.3	13.3	12.6
Index linked	10.4	10.2	11.2
Property	6.6	2.5	2.8
Total	**14.3**	**13.5**	**13.8**

The Fund returned 14.3% overall, ahead of its own benchmark return of 13.5%, and ahead of the Average Local Authority Fund return of 13.8%.

Within equities, the Fund outperformed its Benchmark in all areas except Europe. Comparing the Fund's returns from equities against those of the Local Authority Average Fund, results were mixed, better in some markets and weaker elsewhere.

The Fund outperformed the Benchmark in Property, UK Gilts and UK Index Linked Bonds but underperformed in Corporate Bonds.

The Fund's Property returns were ahead of those of the Local Authority Average Fund, whereas for UK Gilts, UK Index Linked and Corporate Bonds, the reverse was true.

The Fund return of 14.3% was way ahead of CPI inflation of 2.8%. The Fund value rose from £2,725.0m at 31 March 2012 to £3,120.0m at 31 March 2013.

Longer Term Performance (periods to 31 March 2013)

Performance for the Fund over 3, 5 and 10 years to 31 March 2013 is shown below.

	3 years % pa	5 years % pa	10 years % pa
Derbyshire	8.4	7.4	9.9
Average Local Authority	8.1	6.5	9.4
Benchmark Returns	8.5	6.9	9.6
Retail Price Index	4.1	3.2	3.3

The Derbyshire Pension Fund has marginally underperformed against its benchmark for the three year period, but outperformed for the five and ten year periods. The Fund has outperformed against the Local Authority Average Fund over all periods under review. Its performance is ranked at the 44th, 21st, and 19th percentile of local authority pension fund returns over 3, 5 and 10 years respectively.

Costs

The cost of investing the Fund expressed as a cost per member for the past 3 years was:

	2010-11	2011-12	2012- 13
DCC	£40.48	£44.08	£48.44
Shire County average*	£79.46	£84.40	N/A

[* Source: Department for Communities & Local Government (CLG) statistics on the Local Government Pension Scheme. The figures for 2012/13 were not available as at September 2013.

The Fund costs are significantly lower than the average because the Fund has a high proportion of in-house management, which costs much less than external management costs.

Largest Holdings

The Fund's 10 largest Equity Investments at 31 March 2013 were as follows:

Name of company	Value of Holding £000s
Royal Dutch Shell plc	66,770
HSBC plc	59,010
Vodafone Group plc	56,447
BP plc	49,664
GlaxoSmithkline plc	47,694
British American Tobacco plc	34,388
Rio Tinto plc	28,074
AstraZeneca plc	26,380
Diageo plc	26,321
BG Group plc	25,967

C Arrangements for the Administration of the Fund

Introduction

As an administering authority under the Local Government Pension Scheme (Administration) Regulations 2008 the Council is responsible for administering the Local Government Pension Scheme for all local authority employers in the County and certain other organizations. Some participate under admission agreements. A full list of employers is given at Appendix 5.

Responsibility for the administration of the Pension Fund is delegated to the County Council's Pensions Committee. In accordance with best practice, the Committee comprises members representing Derby City Council [and the Local Government Association (Derbyshire)] as well as the County Council. Employee representatives attend as non-voting members. The Committee receives advice from the County Council's Directors of Finance and Legal Services.

Pension Committee Membership 2012/13

County Councillors

P Makin (Chair)
G MacDonald
S J Ellis
M Lacey
W Burrows
B C Lucas
B Ridgway
D B Taylor

Derby City Councillors

D Roberts
S Russell

The Derbyshire Pension Fund is administered in-house on a day to day basis by the Pensions Section which is part of the Finance Division of the Corporate Resources Department. The officers responsible for administration are:

Peter Handford	Director of Finance
Richard Appleby	Assistant Director of Finance
Ian Howe	Pensions Manager

The Local Government Pension Scheme (LGPS) is a statutory scheme with regulations made under the Superannuation Act 1972. It is a "final salary" occupational pension scheme that is contracted out of the Second State Pension, therefore, Scheme members pay lower National Insurance contributions.

Scheme members were required to pay a contribution between 5.5% and 7.5% of their pensionable pay, depending on their pay banding.

Each employer had an individual rate of contribution comprising an amount for the future accrual of benefits. The contribution to past service deficit is expressed as a cash sum.

The tri-annual scheme valuation took place on 31 March 2013 and the Scheme Actuary is currently assessing the Fund position to determine Employer contribution rates from the three years starting 1 April 2014.

Administration

Pensions administration broadly comprises:

- maintaining a computerised database for:

    1. active members (i.e. contributors)
    2. pensioners including widows, widowers and dependants
    3. those with deferred benefits that will become payable in the future

- providing annual benefit statements to active and preserved Scheme members
- providing estimates of benefits
- calculation and payment of retirement benefits
- calculation and payment of transfer values to other schemes
- processing transfer values from “club” and local government schemes
- providing valuations and splitting pensions in divorce cases
- communicating with employers and Scheme members on Scheme changes and pensions issues
- training for employers on pensions issues
- providing data for triennial valuations and annual FRS17 disclosures
- reporting to the Pensions Committee on Scheme changes, discretions, disputes and applications for admission body status
- verification of the rates of employees’ contributions used by employers
- replying to queries from Scheme members and employers

Cost

There were 27.2 full-time equivalent members of staff and the cost of administration, excluding actuarial and audit fees, was £1,203,000, comprising staffing costs, IT, central charges and the cost of providing a pensions payroll for pensioners.

Restructure

Administration costs increased in 2012/13 because a new pension administration structure was implemented (working in conjunction with Cabinet, Management and the Unions). However, the cost of administration, expressed as a cost per member, still remains very competitive when compared to the Shire county average.

The structure was designed to deal with increasing pressures in the Pension Section including:

- Auto Enrolment legislation
- 2014 scheme changes
- Increasing scheme membership
- Reduced timescales for the production of annual benefit statements and pension saving statements to meet HMRC tax requirements.

The Pension Section now has three teams designed to deal with specific areas of pension administration managed by Pension Team Managers:

Scheme Benefits/Administration	Sue Hubbleday
Technical/Financial/Communications	Rachel James
Regulations/Employers/Appeals	Sarah Rex

The cost of administration expressed as a cost per member for the past three years was:

Year	2010-11	2011-12	2012-13
DCC	£12.37	£12.16	£14.74
Shire county average*	£25.66	£24.56	N/A
Metropolitan authorities average*	£23.05	£21.18	N/A

* Source: Department for Communities & Local Government (CLG) statistics on the Local Government Pension Scheme.

Disputes

If a person is dissatisfied with a decision relating to their pension they can invoke the internal dispute resolution procedure (IDRP). This is a two-part process with the complaint being considered in the first instance by a person specified by their Scheme employer or, where the administering authority made the decision, to a person specified by the authority.

If, after receiving the specified person's decision, the Scheme member is still dissatisfied they can refer their complaint to the administering authority for determination. At DCC it is the Council's Pensions Committee that considers such cases and its role is to:

- reconsider the decision taking account of the facts and any evidence submitted by either party for the first stage decision
- ensure that the regulations were applied correctly
- check that impartial procedures were used to arrive at the decision.

If, having exhausted the two stage internal procedure, the applicant is still dissatisfied they can appeal to the Pensions Ombudsman.

During the year 2012-13, Pensions Committee considered five cased under stage 2 of the internal dispute resolution procedure. Three cases related to the early payment of preserved benefits on ill health grounds and were turned down by Pensions Committee. Two cases related to requests for ill health retirement that were turned down by Pensions Committee.

Communications

In line with the Policy Statement on Communications, included as Appendix 6 on page 93, the Pensions Section communicated with employers and Scheme members using DCC's website, benefit statements, employer training events, publications and seminars.

Employers received 14 Employers' Newsletters in the year. These are available on the employer's area of DCC's pensions website.

Scheme members received an annual benefit statement during the year.

Those Scheme members with additional voluntary contributions (AVCs) received statements on their investment.

The Pensions Section ran an employer training event aimed at employers' HR and payroll staff.

The staff of the Pensions Section spoke at pre-retirement courses and pensions seminars for individual employers.

Scheme members and pensioners were invited to attend the Annual General Meetings held in November 2012 in Matlock, Chesterfield and Derby. Questions and answers from the AGMs and the presentations are available on the website.

The 2012 Report to Pensioner Members was issued to all pensioners in December 2012 and is available on the website.

Auto Enrolment

From October 2012 Government introduced national changes to pension legislation, known as “auto enrolment”.

Using a phased approach, starting from October 2012 and running to 2017, employers have to “auto enroll” certain employees who are not already in a pension scheme into a “qualifying pension scheme” at the employers staging date. The Local Government Pension Scheme (LGPS) is a qualifying pension scheme for auto enrolment.

Derbyshire County Council is the largest scheme employer in the Derbyshire Fund and these changes started to affect certain employees from February 2013.

The Pension Section now has to hold a pension record for non-scheme members under auto enrolment legislation as well as scheme members. Every three years people who have opted out of the LGPS are re-enrolled with the option to opt back out if they so choose.

Employees are brought into the LGPS at their employers’ staging date if:

- They are aged between 22 and stage pension age
- They have earnings in excess of £8,105 per annum

Employees are written to by their employer at their employers staging date.

2014 Scheme Changes

The Local Government Pension Scheme rules are significantly changing from 1 April 2014.

A summary of the main changes are listed below, but protection applies to:

- All pensions in payment or built up before April 2014. We anticipate currently contributing scheme member’s pre-April 2014 pensionable service will still be based on final salary at retirement and the current normal pension age.
- Extra protection applies for those scheme members age 55 or over at April 2012 (born pre 31.3.57).

Scheme members already paying into the current LGPS will automatically join the full 2014 scheme.

	New LGPS 2014	**Current LGPS 2008**
Basis of pension	Career average revalued earnings (CARE)	Final salary
Accrual rate	1/49th	1/60th from 1 April 2008 1/80th to 31 March 2008

Revaluation rate	Consumer price index (CPI)	Based on final salary
Pensionable pay	Pay including non-contractual overtime and additional hours for part-time scheme members	Pay excluding non-contractual overtime and non-pensionable hours
Employee contribution rate	For part-time scheme members the rate based on actual pensionable pay*	For part-time scheme members the rate based on full-time equivalent pensionable pay*
Contribution flexibility	Yes, scheme members can pay half their normal contributions to get half of the pension benefit** (50/50 scheme)	No
Normal pension age	Equal to the individual scheme member's stage pension age (minimum age 65)	65
Pension to lump sum conversion	£1 annual pension for £12 lump sum	£1 annual pension for £12 lump sum
Death in service benefits	3 times pensionable pay	3 times pensionable pay
Death in service survivor	1/160th accrual based on tier 1 ill health enhancement	1/160th accrual based on tier 1 ill health enhancement
Ill health provision	**Tier 1** – immediate payment with service enhanced to normal pension age **Tier 2** – immediate payment with 25% service enhanced to normal pension age **Tier 3** – temporary payment of pension for up to 3 years	**Tier 1** – immediate payment with service enhanced to normal pension age (65) **Tier 2** – immediate payment with 25% service enhanced to normal pension age (65) **Tier 3** – temporary payment of pension for up to 3 years
Pension increase	Consumer price index (CPI)	Consumer price index (CPI). Retail price index (RPI) for pre 2011 increases
Minimum period to qualify for benefits	2 years	3 months

* Contribution bandings are available on DCC website

** For auto enrolment purposes, scheme members will be enrolled into the full scheme as the 50/50 is not a qualifying scheme.

This information is based on draft regulations and will be subject to confirmation in due course.

These changes present a significant administrative challenge for the Pensions Section and the Fund employers, hence the restructure of the Pension Section to help deal with the implementation of these changes.

D Pensions Administration

An administering authority may choose to prepare a Pensions Administration Strategy containing such matters as:

(i) procedures for liaison and communication with employing authorities

(ii) performance targets and agreements about levels of performance

(iii) procedures which aim to secure that the administering authority and employing authorities comply with statutory requirements and with any agreement about levels of performance

(iv) procedures for improving communication of information by the administering authority and employing authorities to each other

(v) the circumstances in which the administering authority may consider administering authority and employing authorities giving written notice to an employing authority on account of that authority's unsatisfactory performance.

In view of the increasing complexity of pensions administration and the importance of meeting the timescales for the submission of data by employers to the administering authority (DCC), a Pensions Administration Strategy detailing the obligations of both parties would be beneficial. It would be appropriate to consider this as part of the implementation of the new pensions administration system in 2014.

Facts and Figures

(a) Membership

	31/03/2011	31/03/2012	31/03/2013
Contributors	35,791	33,151	33,586
Deferred Pensions	20,652	23,260	23,859
Pensioners/Dependants	22,024	23,451	24,160

Each of the 27.2 full-time equivalent members of staff administered the Scheme for an average of 3,000 Scheme members.

(b) Retirements from active status:

	31/03/2011	31/03/2012	31/03/2013
Ill Health	34	39	34
Age retirement	642	516	427
Flexible	63	61	50
Redundancy	259	303	181
Efficiency	28	23	12
Employer Consent	11	14	11
Total	**1037**	**956**	**715**

(c) Retirements from deferred status

	31/03/2011	31/03/2012	31/03/2013
Ill Health	10	16	10
Age retirement	444	377	377
Employer Consent	1	7	7
Total	**455**	**394**	**394**

(d) Deaths in service

	31/03/2011	31/03/2012	31/03/2013
Deaths in service	30	30	27

(e) Deaths of deferred pensioners

	31/03/2011	31/03/2012	31/03/2013
Deaths of deferred pensioners	25	28	26

(f) Deaths of pensioners/dependants

	31/03/2011	31/03/2012	31/03/2013
Deaths of pensioners & dependants	529	618	661

(g) Transfers-in

	31/03/2011	31/03/2012	31/03/2013
Interfund Transfers (from the Local Government Pension Scheme)	247	187	106
Club Transfer (Public Sector Transfer Club)	29	16	18
Non Club	61	16	3
Personal Pension	61	49	1
Total	**398**	**218**	**128**

(h) Transfers-out

	31/03/2011	31/03/2012	31/03/2013
Interfund Transfers (from the Local Government Pension Scheme)	149	127	114
Club Transfer (Public Sector Transfer Club)	96	110	54
Non Club	11	15	17
Personal Pension	1	-	-
Overseas	5	9	5
Total	**262**	**261**	**190**

(i) Trivials (new area)

	31/03/2013
From active status	16
From deferred status	78
Total	**94**

Trivials are payment of small pensions via a single one-off lump sum.

(j) Schedule of Contributions

A schedule of contributions for the year showing the amounts paid by individual employers and their employees is given at Appendix 5.

(k) Arrears of Contributions

Employers are required to collect contributions from active Scheme members and pay these together with their employer's contribution to the County Council not later than the 19th of the following month to which the contributions relate.

Derbyshire County Council
Improving life for local people

Statement of Accounts
Pension Fund
2012-13

DIRECTOR OF FINANCE, PETER HANDFORD CPFA

Derbyshire County Council administers the Local Government Pension Scheme ("LGPS") for employees, pensioners and dependents of a variety of bodies in Derbyshire, including Councils, Police and Fire Authorities, the University of Derby, colleges and over 50 other organisations including academies, charities and some private companies providing services to local councils.

The Fund manages the pensions of over 80,000 individuals either active contributors, pensioners or deferred pensioners, receiving almost £143 million in contributions each year and paying out over £128 million in pension benefits. The Fund also manages investment assets of £3.1 billion over a full range of asset classes, including equities, gilts, other bonds, property and cash.

Members' Statistics

	Actuals		
	31.03.2011	**31.03.2012**	**31.03.2013**
Contributors	35,791	33,151	33,586
Pensioners and Dependants	22,024	23,451	24,160
Deferred Pensions	20,652	23,260	23,859

Employers' Contributions

Employers pay pension contributions into the Fund. The contribution rates payable by the County, Unitary and District Councils expressed as a percentage of pensionable payroll and fixed cash amounts are:

Council	2012-13 %	Stepped or full rate	2013-14 %	Stepped or full rate
Derbyshire County	18.45	stepped	18.53	stepped
Amber Valley Borough	11.5 plus £960,200	full	11.5 plus £1,005,800	full
District of Bolsover	11.9 plus £1,041,800	full	11.9 plus £1,041,800	full
Chesterfield Borough	12.2 plus £1,768,800	full	12.2 plus £1,768,800	full
Derby City	18.74	stepped	19.79	stepped
Derbyshire Dales	11.6 plus £567,900	full	11.6 plus £595,000	full
Erewash Borough	24.67	stepped	24.67	stepped
High Peak Borough	11.4 plus £1,260,000	full	11.4 plus £1,319,900	full
North East Derbyshire	11.7 plus £1,370,900	full	11.7 plus £1,436,000	full
South Derbyshire	22.51	stepped	22.50	stepped

The percentage rates determined by the Actuary in the valuation of the Fund as at 31 March 2010 are intended to cover the cost of future service of active Fund members, with the past service deficit being identified as a fixed cash amount. The County Council, Derby City Council and two District Councils have elected to include the past service deficit contributions in an all-inclusive rate. Adjustments will be made if the combined contribution rate is insufficient to recover the deficit sum required.

Members' Contributions

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 came into force on 1 April 2008. These determine the contribution rates payable by members into the Fund. The rates are currently between 5.5% and 7.5% of members' pay, excluding non-contractual overtime, depending on their pay banding.

Investment Policy

During 2012-13 responsibility for policy matters rested with an Investment Committee of seven County Councillors, two Derby City Councillors, two representatives of the Local Government Association (Derbyshire) and two Trades Union representatives attending as non-voting members. The Investment Committee received advice from the Director of Finance and from two independent external advisers. From 15 May 2013 the Investment Committee was combined with the Pensions Committee to form a new Pensions and Investment Committee. The new Committee has inherited the full roles and responsibilities of the previous committees.

Day-to-day management of the Fund is delegated to the Director of Finance and his
in-house staff, operating within a policy framework laid down by the Committee. Policy is determined by reference to investment regulations issued under the Superannuation Act, 1972, which require that advice is taken at regular intervals and that the investments are suitably diversified. In addition, the regulations place limitations on investments, for example, the maximum investment in a single holding and in 'unlisted securities' (no more than 10% in each category).

The table below shows the Fund's returns over 1, 3, 5 and 10 years to 31 March 2013, compared to those of its specific benchmark, as well as the impact of inflation on Fund returns.

	Return		Inflation		Fund Real Return	
Periods to 31 March 2013	Derbyshire Fund	Benchmark	CPI	RPI	Versus CPI Inflation	Versus RPI Inflation
	% pa	% pa	%	%	%	%
1 Year	14.3	13.5	2.8	3.3	11.2	10.6
3 Years	8.4	8.5	3.4	4.1	4.8	4.1
5 Years	7.4	6.9	3.3	3.2	4.0	4.1
10 Years	9.9	9.6	2.7	3.3	7.0	6.4

On a year by year basis, returns tend to fluctuate significantly according to economic and market conditions and long-term returns are a more appropriate guide to the performance of the Fund.

Despite continuing concerns about the slowing rate of global economic growth, equity markets recovered strongly over the year as investor risk appetite increased. Equity returns to Sterling investors ranged from 19.3% (North America) to 7.4% (Emerging Markets). Bond returns were also good, with Corporate Bonds returning 13.3%, Index Linked Bonds 10.2% and Gilts 5.2%. Returns from property remained subdued at 2.5%.

Actuarial Position of the Fund

Every three years an actuarial valuation of the Fund is undertaken in accordance with the provisions of the Local Government Pension Scheme (Administration) Regulations 2008. The purpose of the valuation is to determine the solvency of the Fund and to set the level of contributions payable by each participating employer for the following three years. A valuation of the Fund was undertaken as at 31 March 2010 to set the level of employer contributions for the three years commencing 1 April 2011. The Net Assets of the Pension Fund at 31 March 2010 were £2.409 billion.

The contributions required in respect of future service have been determined using the “projected unit” method. The full rate of employer’s contribution provides for the cost of year-by-year accrual of benefits in respect of current Fund members and the amount required to meet a past service deficiency.

The valuation was undertaken using a market value approach. The assets were valued at their market value with market related discount rates used as the basis for determining the present value of the liabilities. There are a number of assumptions used in determining the value of past service liabilities, which are detailed in the following table.

The financial assumptions used were as follows:

	Past Service	Future Service
Fixed Interest Gilts Yield	4.50%	n/a
Index Linked Gilts Real Yield	0.70%	n/a
Asset Out-Performance Assumption (Pre-Retirement)*	2.50%	n/a
Asset Out-Performance Assumption (Post Retirement)*	1.00%	n/a
Real Earnings Inflation (Over CPI Inflation)	1.75%	1.75%
Discount Rate (Pre Retirement)	7.00%	6.75%
Discount Rate (Post Retirement)	5.50%	6.75%
CPI Price Inflation	3.00%	3.00%
Salary Increases	4.75%	4.75%
Pension Increases	3.00%	3.00%

*Asset out-performance assumptions represent the expected out-performance of investment returns relative to gilts. This partly depends on the proportion of the Fund invested in equities.

The actuarial value placed on the assets represented 81% of the value of the past service liabilities compared with 80% at the 2007 valuation. This deficit is being dealt with in accordance with the Funding Strategy Statement, which is available on the Council's website at www.derbyshire.gov.uk/pensions/investments/funding strategy.

A number of factors, both positive and negative, have impacted on the funding level. The cash value of the deficit has increased but as the fund value itself has risen significantly, the overall funding level has improved. Investment return, though good when compared to the local authority average, was less than the return in the actuarial assumptions, increasing the deficit. This was largely compensated by deficit funding contributions from the contributing employers and the impact of the change from RPI to CPI, which has reduced liabilities.

The next valuation of the Fund is being undertaken as at 31 March 2013. The results of that valuation will be made available during 2013-14 and will be disclosed in the accounts for the year ending 31 March 2014.

Further Information

The Derbyshire Pension Fund Statement of Investment Principles, Funding Strategy Statement, Actuarial Valuation Report, Governance Compliance Statement, Communications Policy Statement, Annual Report and Annual Business Plan are available on the Derbyshire County Council's website at www.derbyshire.gov.uk/pensions.

PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

PENSION FUND ACCOUNT

2011-12 £'000		Note	2012-13 £'000
	Contributions and Benefits		
138,894	Contributions	7,24	135,195
9,604	Transfers In	8	7,604
148,498			142,799
(128,580)	Benefits	9,24	(121,270)
(7,913)	Payments to and on Account of Leavers	10	(7,926)
(1,034)	Administrative Expenses	11	(1,203)
(137,527)			(130,399)
10,971	**Net Additions from Dealings with Members**		**12,400**
	Return on Investments		
72,092	Investment Income	12	74,223
(4,206)	Taxes on Income	13	(4,330)
21,934	Profits and Losses on Disposal of Investments and Changes in Value of Investments	14	316,671
(3,520)	Investment Management Expenses	16	(3,953)
86,300	**Net Return on Investments**		**382,611**
97,271	**Net Increase in the Net Assets Available for Benefits During the Year**		**395,011**
2,627,763	Net Assets of The Fund at 1 April		2,725,034
2,725,034	**Net Assets of the Scheme Available to Fund Benefits at the Period End**		**3,120,045**

NET ASSETS STATEMENT

31.03.2012 £'000		Note	31.03.2013 £'000
2,730,727	Investment Assets	14,15	3,122,885
(15,636)	Investment Liabilities	14,15	(8,185)
12,359	Current Assets	18	8,089
(2,416)	Current Liabilities	19	(2,744)
2,725,034	**Net Assets of the Scheme Available to Fund Benefits at the Period End**		**3,120,045**

The Pension Fund ("Fund") of Derbyshire County Council is governed in accordance with the various Local Government Pension Scheme Regulations. The Fund is a funded defined benefit final salary scheme, administered locally by the Council on behalf of its own employees (except teachers, for whom separate pension arrangements apply), Unitary and District Council employees within Derbyshire and employees of other bodies who are specifically authorised by the Regulations.

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Investment Committee. 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 of the Fund, which does take account of such obligations, is dealt with in the Pension Fund – foreword to Financial Statements and the actuarial statement included in the Annual Report and these accounts should be read in conjunction with them.

1. Basis of preparation

The accounts have been prepared in accordance with the Statement of Recommended Practice ("SORP"): Financial Reports of Pension Schemes (Revised May 2007) insofar as it is relevant and follow the Code of Practice on Local Authority Accounting ("the Code") issued by the Chartered Institute of Public Finance in Accountancy (CIPFA).

The amount of separately invested Additional Voluntary Contributions ("AVCs") paid by members during the year and their value at the net assets statement date are not included in the Pension Fund financial statements in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (S1 1998 No 1831).

2. Accounting policies

Contributions
Employee contributions are accounted for when deducted from members' pay.

Employer normal contributions are accounted for in the period to which the corresponding pay relates.

Other employer contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

Benefits
Benefits and payments to leavers are accounted for in the period they fall due for payment.

Where a member has a choice about the form of their benefit, the benefit is accounted for and the liability is recognised when the member notifies the Council of their decision as to what form of benefit they will take.

Where a member has no choice about the form of benefit, the benefit is accounted for in the period of leaving/retirement/death, being the period in which the liability to pay the benefit arises.

Transfers
Where past service liabilities do not transfer between schemes until assets/liabilities have been transferred, transfers are accounted for on a cash basis.

Where trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer is accounted for in accordance with the terms of the agreement.

Expenses
Administrative and Investment expenses are accounted for on an accruals basis.

Investment income
Dividends from quoted securities are accounted for when the securities are quoted ex-dividend.

Rent is accounted for in accordance with the terms of the lease.

Interest on cash and bonds is accrued on a daily basis.

Income arising on the underlying investments of accumulation funds is accounted for within change in market value of investments.

Foreign currency translation
Overseas assets are translated into Sterling from local currency at the exchange rate ruling at the Balance Sheet date.

Exchange gains and losses are treated as follows:

- those relating to the translation of investments are accounted for as part of change in market value included in the Fund Account;
- those relating to current assets and liabilities are accounted for within the Fund Account under an appropriate heading.

Cash and cash equivalents
Cash comprises cash in hand and on-demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

3. Basis of valuation
Investments are valued on the net assets statement at their market value as at 31 March 2013. Quoted securities are included at closing bid prices.

Fixed interest stocks are valued excluding accrued income.

Unquoted investments are included at fair value estimated by the Trustees, based on the latest financial information available at the year end.

Pooled investment vehicles are included at closing bid price for funds with bid/offer spreads, or if single priced, at the closing price.

Property is included at market value as at 31 March 2013, determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The property portfolio was independently valued by Matthews & Goodman incorporating Edmund Kirby, Property Advisers.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract on that date. All gains and losses arising on forward foreign exchange contracts are reported within "Profits and losses on disposal of investments and changes in value of investments".

4. Accounting Standards issued and not yet applied

There are no Accounting Standards that have been issued and not yet applied in the preparation of these Pension Fund Accounts.

5. Critical judgements made in applying the accounting policies

In applying the accounting policies in Note 2, it has not been necessary to make any critical judgements about complex transactions or in respect of uncertain future events.

6. Assumptions made and other estimation uncertainty

There are no significant estimation techniques that have been employed and no other major sources of estimation uncertainty at the end of the reporting period.

7. Contributions

	2011-12	**2012-13**
	£'000	**£'000**
Employers		
Normal	70,733	66,702
Deficit Funding	33,900	34,886
Augmentation	-	12
Members		
Normal	34,261	33,595
	138,894	**135,195**

The rates of employers' contributions payable in 2011-12 and 2012-13 were set as part of the 2010 valuation which revealed an overall funding level of 81%.

8. Transfers in

	2011-12	2012-13
	£'000	£'000
Group transfers in from other schemes	417	-
Individual transfers in from other schemes	9,172	7,604
Restitution payments for mis-sold personal pensions	15	-
	9,604	**7,604**

9. Benefits

	2011-12	2012-13
	£'000	£'000
Pensions	88,100	95,871
Commutation of pensions and lump sum retirement benefits	37,691	22,118
Lump sum death benefits	2,789	3,281
	128,580	**121,270**

10. Payments to and on account of leavers

	2011-12	2012-13
	£'000	£'000
Refund of contributions	7	10
Individual transfers out to other schemes	7,906	7,916
	7,913	**7,926**

11. Administrative expenses

	2011-12	2012-13
	£'000	£'000
Administration and processing	971	1,145
Actuarial fees	16	33
Audit fee	47	25
	1,034	**1,203**

12. Investment income

	2011-12	2012-13
	£'000	**£'000**
Income from fixed interest securities	10,148	9,106
Dividends from equities	51,568	54,171
Income from index-linked securities	3,083	2,988
Income from pooled investment vehicles	1,762	1,895
Net rents from properties	4,430	5,138
Interest on cash deposits	1,101	925
	72,092	**74,223**

13. Taxes on income

	2011-12	2012-13
	£'000	**£'000**
Irrecoverable taxation	**4,206**	**4,330**

14. Investment assets and liabilities

	Value at 1st April	Purchases & hedging payments	Sales & hedging receipts	Profits & losses on disposal of investments & changes in value of investments	Value at 31st March
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Fixed interest securities	315,916	525,143	(556,680)	9,091	293,470
Equities	1,491,823	415,606	(346,770)	206,875	1,767,534
Index-linked securities	203,339	117,341	(118,655)	35,632	237,657
Pooled investment vehicles	426,853	26,649	(10,999)	67,560	510,063
Properties	91,115	2,296	-	3,224	96,635
Currency hedging contracts	241	109,420	(108,462)	(1,199)	-
	2,529,287	*1,196,455*	*(1,141,566)*	*321,183*	*2,905,359*
Cash deposits & short term loans	182,695				203,988
Other investment balances	18,745				13,538
	2,730,727				**3,122,885**
Investment liabilities					
Currency hedging contracts	-	78,268	(76,803)	(4,512)	(3,047)
Other investment balances	(15,636)				(5,138)
	(15,636)				**(8,185)**
	2,715,091				**3,114,700**

The total profits and losses on disposal of investments and changes in value of investment assets and investment liabilities is an increase of £316.671m.

Included within the above purchases and sales figures are transaction costs of £0.608m. These comprise stamp duty (£0.261m) and commissions paid to stockbrokers (£0.347m).

Costs are also incurred by the Fund through the bid-offer spread on investments within pooled investment vehicles. Such costs are not separately identifiable.

The profits and losses on disposal of investments and changes in value of investments during the year comprise 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.

Currency hedging receipts and payments represent the transactions settled during the year on currency hedging contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match a proportion of assets that are already held in the portfolio without disturbing the underlying assets. At the year end, there were two currency hedging contracts, both with less than six months to expiry, with a gross contract value of £73.977m (2012, two contracts, both with less than six months to expiry, with a gross contract value of £37.491m).

	31.03.2012	31.03.2013
	£'000	£'000
Fixed interest securities		
UK public sector quoted	287,615	253,846
UK corporate quoted	6,717	16,782
Overseas public sector quoted	21,584	22,842
	315,916	**293,470**
Equities		
UK quoted	882,010	1,019,781
Overseas quoted	609,813	747,753
	1,491,823	**1,767,534**
Index-linked securities		
UK public sector quoted	152,132	176,545
Overseas public sector quoted	51,207	61,112
	203,339	**237,657**
Pooled Investment Vehicles		
Property – unquoted	51,163	51,114
Other quoted	277,023	343,786
Other unquoted	98,667	115,163
	426,853	**510,063**

	31.03.2012	31.03.2013
	£'000	**£'000**
Properties		
UK freehold	55,675	61,325
UK leasehold	35,440	35,310
	91,115	**96,635**
Cash deposits and short term loans		
Sterling cash deposits	16,061	37,680
Money market funds	46,439	42,606
Other Sterling short term loans	117,750	119,500
Foreign currency	2,445	4,202
	182,695	**203,988**

The proportion of the market value of net investment assets managed in-house and by each external manager at the year end is set out below. Pooled investment vehicles held as stock selection decisions are included under 'in-house'.

	31.03.2012		31.03.2013	
	£'000	**%**	**£'000**	**%**
In-house	2,240,385	82.5	2,525,416	81.1
Wellington Management International Ltd	259,614	9.6	312,486	10.0
UBS Global Asset Management (UK) Ltd	215,092	7.9	276,798	8.9
	2,715,091	**100**	**3,114,700**	**100**

All fund managers operating the pooled investment vehicles are registered in the United Kingdom except for:

Fund	**Country of registration of fund manager**
Partners Group – Global Value 2008 Fund	Channel Islands
Montanaro UK Smaller Companies Fund	Republic of Ireland
Atlantis Asian Recovery Fund	Republic of Ireland
Baring Australia Fund	Republic of Ireland
Saracen Growth Fund	Republic of Ireland
FPP Global Emerging Markets Fund	Republic of Ireland
Aberdeen Global Japan Smaller Companies Fund	Luxembourg
J P Morgan Funds Latin American Equity Fund "A"	Luxembourg
Martin Currie Global Funds - Greater China Fund	Luxembourg
Polunin Emerging Markets Developing Countries Fund	Luxembourg

No single investments exceed 5% of net assets available for benefits at the year end (2012, none).

15. Fund investments by geographical sector (at market value)

	31.03.2012		31.03.2013	
	£'000	%	£'000	%
UK	1,780,254	65.6	1,971,384	63.3
N America	304,955	11.2	362,444	11.6
Europe	245,067	9.0	312,911	10.1
Asia and other	384,815	14.2	467,961	15.0
	2,715,091	**100**	**3,114,700**	**100**

16. Investment management expenses

	2011-12	2012-13
	£'000	£'000
Administration, management and custody	3,372	3,814
Performance measurement services	8	15
Legal and other advisory fees	140	124
	3,520	**3,953**

17. Additional Voluntary Contributions

In accordance with Regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, the Accounts do not include employees' Additional Voluntary Contributions ("AVCs"). The amounts involved are not material in relation to the size of the overall Pension Fund.

Members may make AVCs which are invested separately from the Fund's assets. These investments are specifically allocated to the provision of additional benefits for those members. These are money purchase arrangements where the member uses the invested amount to provide an additional lump sum or to purchase an annuity or buy additional benefits in the Local Government Pension Scheme.

The total value of funds provided by these contributions was:

	31.03.2012	31.03.2013
	£'000	£'000
Equitable Life Assurance Society		
with profits fund	352	299
unit-linked funds	532	523
building society fund	8	8
Total Equitable Life Assurance Society	*892*	*830*

	31.03.2012	31.03.2013
	£'000	**£'000**
Standard Life		
managed fund	443	524
cautious managed fund	46	-
multi asset managed fund	-	61
protection fund	15	24
ethical fund	65	70
with profits fund	277	263
Total Standard Life	*846*	*942*
Prudential Assurance Company Ltd		
deposit fund	3,051	3,254
with profits cash accumulation fund	-	231
cash fund	-	7
discretionary fund	-	40
fixed interest fund	-	25
global equity fund	-	24
index-linked fund	-	35
international equity fund	-	8
property fund	-	16
retirement protection fund	-	60
socially responsible fund	-	1
UK equity fund	-	30
UK equity (passive) fund	-	9
Total Prudential Assurance	*3,051*	*3,740*
Clerical Medical		
with profits fund	600	449
unit linked fund	53	32
Total Clerical Medical	*653*	*481*
Total AVC Investments	**5,442**	**5,993**
Death in Service Cover		
Equitable Life	**460**	**435**

Death in Service cover is payable by the AVC provider where an employee has opted to pay an extra life insurance sum. The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) increased the death grant payable for contributors from two times to three times their "final pay" (in the case of a part-time employee it is three times their actual pensionable pay). The Inland Revenue limit is four times "final pay", so the maximum amount insurable is, therefore, restricted to an amount equivalent to one times "final pay" and in the case of a part-time contributor, their actual pensionable pay. "Final pay" is defined in the above Regulations.

	Equitable Life £'000	Prudential £'000	Standard Life £'000	Clerical Medical £'000	Total £'000
Value at 1.4.2012	892	3,051	846	653	**5,442**
Income					
Contributions received	11	716	49	29	**805**
Interest and bonuses and change in market value	63	55	97	22	**237**
Transfers in	-	234	10	-	**244**
Expenditure					
Life assurance premiums	(1)	-	-	-	**(1)**
Retirement benefits	(65)	(316)	(33)	(127)	**(541)**
Transfers out and withdrawals	(70)	-	(27)	(96)	**(193)**
Value at 31.3.2013	**830**	**3,740**	**942**	**481**	**5,993**

18. Current assets

	31.03.2012 £'000	31.03.2013 £'000
Employers' contributions due	4,733	5,225
Employees' contributions due	1,556	1,584
Amounts owed by Derbyshire County Council	2,657	425
Sundry debtors	3,413	855
	12,359	**8,089**

Employers' and employees' contributions due at 31 March 2013 have been received since the year-end, except for amounts due from one Admission Body in respect of the period from the date of their admission on 1 May 2012. The arrears (employer's contributions of £1,286.78 and employees' contributions of £450.78) have arisen because of an administrative oversight at the employer following the retirement of the staff member to whom the rates had been notified. The employer has put in place arrangements to ensure that the arrears are paid to the Fund in 2013-14. Pension contributions in respect of the two members concerned will be backdated.

19. Current liabilities

	31.03.2012	31.03.2013
	£'000	£'000
Unpaid benefits	1,323	1,217
Sundry creditors	1,093	1,527
	2,416	**2,744**

20. Related party transactions

Derbyshire County Council is the administering authority for the purposes of the Fund under the Local Government Pension Scheme (Administration) Regulations 2008.

Included in administrative expenses and investment management expenses in 2012-13 are charges from the Corporate Finance Division and other Council departments of £1.755m (2011-12, £1.419m) for expenses incurred in administering the Fund.

In addition, interest of £0.001m (2011-12, £0.002m) was paid by the Council to the Fund in 2012-13.

At 31 March 2013 the Council owed the Fund £0.425m (2012: the Council owed the Fund £2.657m).

It has not been possible to apportion, on a reasonable basis, the costs and benefits of key management personnel between the Council and the Fund. However, Members' Allowances and Officers' Remuneration are disclosed in Notes 42 and 44 of the Council's Statement of Accounts.

21. Investment commitments

Unquoted investment commitments are commitments to private equity and infrastructure investments, not yet drawn down by the managers.

Other Sterling short-term loans commitments are commitments to make two short-term investments of £2m each, to be paid on 30 August 2013 and 25 September 2013 respectively. There is no provision or creditor for these amounts in the financial statements as the legal obligation to pay was not fulfilled at 31 March 2013. These commitments will be met using funds received from the maturity of earlier investments and therefore have no impact to the financial position reported.

There are no property commitments in respect of properties in the course of construction (2012, one).

At the end of the financial year, investment commitments in respect of future payments were:

	31.03.2012	31.03.2013
	£'000	**£'000**
Unquoted investments	14,930	11,744
Other Sterling short-term loans	-	4,000
Properties	2,322	-
	17,252	**15,744**

22. Financial instruments

Many requirements of the financial instruments standards (IAS 39, IAS 32 and IFRS 7), which govern the recognition, measurement, presentation and disclosure of financial instruments, are not applicable to the Fund's accounts, since all material financial instruments are carried in the net assets statement at fair value.

Nature and extent of risks arising from financial instruments
Certain financial risks are a necessary and appropriate component of the investment strategy of the Fund in order for it to achieve the targeted long term rate of return assumed by the Fund Actuary. This rate of return is used in drawing up the Funding Strategy Statement and setting employer contribution rates.

The overall financial risk for the Fund is that its assets could be insufficient to meet its liabilities to pay benefits. At the financial instrument level, the Fund's key risks are:

- **Credit risk** – the risk of the Fund suffering loss due to another party defaulting on its financial obligations;
- **Liquidity risk** – the risk that funds might not be available to meet commitments because the Fund's assets are not readily marketable or easily turned into cash;
- **Market risk** - the risk that the Fund's financial instruments may suffer an adverse change in value, which is common to an entire class of assets or liabilities.

Responsibility for Fund investments has been delegated to the Fund's Investment Committee. From 15 May 2013 the Investment Committee was combined with the Pensions Committee to form a new Pensions and Investment Committee ("Committee"). The new Committee has inherited the full roles and responsibilities of the previous committees. The Committee delegates day to day responsibility for the management of the Fund to the Director of Finance and appoints managers and advisers to manage investment risk on its behalf. The Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks.

As required by the Committee's Statement of Investment Principles, the Fund is invested in accordance with strategic Asset Allocation Guidelines, to maximise returns within appropriate levels of risk, taking into account the Fund's liabilities and projected cashflows. These Asset Allocation Guidelines were designed by an independent adviser, following an external asset/liability study.

Economic background, market returns, asset allocation, investment activity, investment strategy and investment performance are monitored and reviewed by the Committee on a quarterly basis. The Committee also receives a quarterly report to monitor specific risk measures associated with managing the fund.

Credit risk

The Fund is primarily exposed to credit risk through its daily treasury management activities and through its forward currency contracts, which address the currency risk on overseas bonds. Credit risk on cash deposits and short term loans arises from deposits with banks, financial institutions and UK government and local authorities. Credit risk on forward currency contracts arises from contracts with large banks.

Treasury activities - The Fund places security of capital and liquidity ahead of investment return. Credit risk on treasury activities is minimised through the Fund's annual Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Ratings Services and are approved counterparties on this basis. Investments with local authorities, the Government's Debt Management Office, UK Treasury Bills and Certificates of Deposit are also permissible. The Fund has agreed maximum loan durations and joint limits for each counterparty.

The limits for financial institutions are based on the above credit assessment and are approved each year. The financial institutions' credit ratings and supplementary information are monitored throughout the year to ensure compliance with the policy.

The Treasury Management Investment Strategy for 2012-13 was approved by the Full Council on 1 February 2012. On 19 March 2012 relevant extracts were approved by the Committee.

The Fund's maximum exposure to credit risk in relation to its treasury/cash deposit investments in banks, building societies, money market funds and UK local authorities of £203.988m (2012, £182.695m) 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, generally, for such entities to be unable to meet their commitments; the approach to risk assessment taken by the Fund makes this remote.

A risk of non-recovery applies to all of the Fund's deposits, but there was no evidence at 31 March 2013 that this was likely to occur. No breaches of the Fund's counterparty criteria occurred during the reporting period. However, on 5 April 2013, the credit rating agency Fitch downgraded the Co-operative Bank's credit ratings to a level which is below the Fund's minimum credit criteria for investment counterparties. The Co-operative Bank is the main bank of the Fund and the Council. The Fund's current joint limit with the Co-operative Bank is £10m for investment purposes and £10m for operational and liquidity requirements, with a maximum duration of 100 days. At 31 March 2013 the Fund had £10.750m invested in a Public Sector Reserve account and £0.225m in an operational account with the Co-operative Bank. No notice is required to withdraw funds from either of these accounts. As a result of the downgrade, action has been take to reduce the joint limit to £10m for operational and liquidity requirements only, with the funds remaining instantly accessible at all times.

Forward currency contracts - Credit risk from forward currency contracts is minimised by limiting the extent of these contracts to managing the currency risk on overseas bonds, the value of which comprise less than 3% (2012, less than 3%) of investment assets at the year end and by selecting large banks as the counterparties. All forward currency contracts at the year end were with Bank of New York Mellon.

The maximum credit risk exposure on forward currency contracts is the full amount of the foreign currency which the Fund pays when the settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund. At the year end, there were two currency hedging contracts, both with less than six months to expiry, with a gross contract value of £73.977m (2012, two contracts, both with less than six months to expiry, with a gross contract value of £37.491m). The Fund does not expect any losses from non-performance by any of its counterparties in relation to these contracts.

Other financial assets - Fixed interest and index-linked securities mainly include investments in UK, US, French and German Government securities and certain supranational banking organisations, such as the European Investment Bank. The Fund does not expect any losses from non-performance by any of its counterparties in relation to these financial assets.

Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets as they are marked to market. The market value of financial assets represents the Fund's exposure to credit risk in relation to those assets.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur during settlement of transactions.

Liquidity risk

The Fund is not yet mature and is cash flow positive each month in respect of its dealings with members. There is therefore no present requirement to realise assets in order to meet liabilities to pay benefits, as these are more than covered by contributions, and there is net cash available for investment. The Fund does, however, sell investments from time to time as part of normal investment management activities.

The majority of the Fund's investments are readily marketable and may be easily realised, if required. Emphasis is placed on treasury deposits of up to six months' duration to ensure that longer term investment strategy is not compromised by lack of liquidity. Listed equities may also be liquidated at short notice, normally three working days. Holdings of investments which may be less easy to realise are limited. Investment regulations limit investments in unquoted entities to 10% of the Fund and Investment Committee guidelines limit investments in direct property to 7%, private equity to 3% and infrastructure to 3%.

Sufficient funds are retained on instant access accounts to ensure that payment of benefits and the settlement of investment transactions can be made without the need to borrow.

The Fund manages its liquidity position using a comprehensive cash flow management system, as required by the CIPFA Code of Practice.

Maturity analysis for liabilities at the year end:

- There were no financial liabilities within the portfolio at the year end other than those that arose from the trading of investments. Such liabilities fall due within 12 months of the year end.
- The only derivative financial liabilities held at the year-end were two currency hedging contracts, both with less than six months to expiry, on which the net liability was £3.047m (2012, none).

Market risk

The Fund is exposed to market risk because it is inherent in the investments the Fund makes. It can result from changes in such measures as interest and exchange rates and changes in prices due to factors other than these. This risk cannot be eliminated but it can be reduced.

The objective of market risk management is to manage and control market risk exposure to within acceptable parameters, whilst optimising the return on risk. Excessive volatility in market risk is managed through diversification. The risk reduction arises from the different investments not being perfectly correlated.

The Fund has applied diversification at various levels; that is, diversification between countries, asset classes, sectors and individual securities. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

Risk of exposure to specific markets is limited by adhering to defined ranges within the asset allocation guidelines, which are monitored and reviewed by the Committee on a quarterly basis.

Interest rate risk – This risk primarily impacts on the valuation of the Fund's bond holdings and to a lesser degree the return it receives on cash held. A rise in interest rates would have the following effects:

- investments at variable rates – the interest income credited to the Fund Account would rise;
- investments at fixed rates – the fair value of the assets would fall.

The Fund's correlation to interest rates indicates whether the Fund will under-perform (a negative correlation) or out-perform (a positive correlation) for a given change in interest rates. This correlation varies depending on the profile of investments held. During the reporting period the Fund's UK equity portfolio had a slight negative correlation to interest rates.

The Fund has a number of strategies for managing interest rate risk. Interest rates are monitored during the year, by the Fund's in-house and external managers. Within the annual treasury management strategy, maximum limits are set for fixed and variable interest rate exposure. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, subject to liquidity requirements.

Other price risk – Other price risk originates from factors specific to the individual instrument or to its issuer, or from factors affecting all instruments in the market.

The Fund manages price risk by holding bonds, index-linked stocks and property and by holding a diversified equity portfolio spread geographically, across market sectors and across investments. Contracts specify the level of risk to be taken by the external Fund managers investing in overseas equities. These external managers are monitored by in-house managers. The Northfield risk monitoring system is used to monitor risk associated with the Fund's UK equity portfolio, which is managed by in-house managers. This risk is reported to the Committee each quarter. Pooled investment vehicles are used for specialist areas.

A fund specific benchmark has been drawn up, which is designed to meet the Fund's performance requirements for the level of risk agreed by the Committee. Economic background, asset allocation, recent transactions, investment strategy and performance are monitored by the Committee on a quarterly basis.

The table below quantifies the level of price risk that the Fund's investment assets and liabilities at 31 March 2013 are potentially exposed to. Potential price changes are determined based on the observed historical volatility of asset class returns, for example, 'riskier' assets such as equities display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. The volatility shown for total investment assets and liabilities incorporates the impact of correlation across asset classes, which dampens volatility, therefore the value on increase/decrease figures of the asset classes will not sum to the total assets figure.

	Value at 31.03.2013 £'000	Change %	Value on increase £'000	Value on decrease £'000
Underlying asset type				
Bonds	614,074	3.97	638,453	589,695
UK equities	1,064,800	12.90	1,202,159	927,440
Overseas equities	1,052,645	12.41	1,183,278	922,011
Alternatives	23,044	8.42	24,984	21,104
Cash	203,988	0.02	204,029	203,947
Other investment balances	8,400	-	8,400	8,400
Properties (non-financial instruments)	147,749	3.28	152,595	142,903
Total investment assets and liabilities	**3,114,700**	**8.01**	**3,364,187**	**2,865,212**

Currency risk - The Fund is exposed to currency risk through its overseas equity shares, its overseas bonds and its foreign currency holdings. The Fund has a negative correlation to exchange rates, which means that the Fund will out-perform if Sterling weakens against the US Dollar and vice-versa.

The table below quantifies the level of currency risk that the Fund's overseas investment assets at 31 March 2013 are potentially exposed to. Currency risk on overseas bonds is managed using forward currency contracts and overseas bonds have therefore been excluded from the table. Potential aggregate currency exposure within the Fund at 31 March 2013 is determined using a currency "basket" based on the Fund's currency mix at that date. The weight of each currency multiplied by the change in its exchange rate relative to Sterling is summed to create the aggregate currency change of the basket. This single outcome is then applied to all overseas assets.

	Value at 31.03.2013 £'000	Change %	Value on increase £'000	Value on decrease £'000
Underlying asset type				
Overseas equities	1,052,645	5.38	1,109,328	995,961
Overseas cash	5,268	5.38	5,551	4,984
Overseas investment assets	**1,057,913**	**5.38**	**1,114,879**	**1,000,945**

23. Actuarial Present Value of Promised Retirement Benefits

Below is an extract from the Report of the Actuary, showing the actuarial present value of the Fund's promised retirement benefits, required by the Code. All these benefits are vested.

"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.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31.03.2012	31.03.2013
Rate of return on investments (discount rate)	4.9% p.a.	4.2% p.a.
Rate of pay increases	4.25% p.a.	4.15% p.a.
Rate of increases in pensions in payment (in excess of GMP)	2.5% p.a.	2.4% p.a.

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation ("CMI") with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at
31 March 2012 was estimated as £3,817 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by *c*£502 million. Adding interest over the year increases the liabilities by a further *c*£187 million and allowing for net benefits accrued/paid over the period increases the liabilities by another *c*£14 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £4,520 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013"

24. Participating Employers

The participating employers with active members in the Fund are Derbyshire County Council (which is also the Administering Authority), Derby City Council (Unitary Authority) and 8 District Councils (which are Scheduled Bodies) and a further 70 Scheduled and 49 Admission Bodies. The Unitary and District Councils are listed in the foreword of this Annual Report. Other participating employers are listed on the following page.

The contributions receivable and the benefits payable by the Fund during the year in respect of each type of participating employer were as follows:

	2011-12		**2012-13**	
	Benefits payable	**Contributions receivable**	**Benefits payable**	**Contributions receivable**
	£'000	**£'000**	**£'000**	**£'000**
Derbyshire County Council	60,472	62,385	56,639	59,525
Scheduled Bodies	64,501	71,893	61,074	71,100
Admission Bodies	3,607	4,616	3,557	4,570
	128,580	**138,894**	**121,270**	**135,195**

	Total contribution rate % of pensionable payroll	
	2012-13	2013-14
Scheduled Bodies		
National Probation Service - Derbyshire	10.1 plus £435,700	10.1 plus £435,700
Peak District National Park Authority	16.91	17.08
Chesterfield Crematorium	12.8 plus £15,600	12.8 plus £15,600
The University of Derby	10.7 plus £651,900	10.7 plus £651,900
Chesterfield College	11.9 plus £133,800	11.9 plus £133,800
Derby College	11.2 plus £449,400	11.2 plus £449,400
Derbyshire Police Authority	16.10	16.10
Derbyshire Fire Authority	11.2 plus £173,100	11.2 plus £173,100
Derby Homes Limited	10.9 plus £258,700	10.9 plus £258,700
High Peak Community Housing Ltd	12.2 less £23,700	12.2 less £23,700
Rykneld Homes Ltd	13.5 plus £16,600	13.5 plus £16,600
Landau Forte College	10.3 plus £1,300	10.3 plus £1,300
Chellaston Academy	17.5	19.22
Ecclesbourne Academy	13.7 plus £40,500	13.7 plus £42,500
Kirk Hallam Academy	11.5 plus £39,100	11.5 plus £41,000
John Port Academy	12.2 plus £53,700	12.2 plus £56,200
Brookfield Academy	11.9 plus £55,600	11.9 plus £58,200
Long Eaton Academy	12.1 plus £44,400	12.1 plus £46,500
West Park Academy	13.8 plus £49,500	13.8 plus £51,900
Queen Elizabeth's Grammar School Ashbourne Academy	11.1 plus £59,500	11.1 plus £62,300
Hope Valley College	12.6 plus £33,700	12.6 plus £35,300
Ormiston Enterprise Academy	11.2 plus £26,100	11.2 plus £27,300
Pennine Way Junior School	12.3 plus £7,100	12.3 plus £7,400
Heanor Gate Science College	13.1 plus £48,800	13.1 plus £51,100
Leesbrook School	10.8 plus £56,500	10.8 plus £59,200
Staveley Netherthorpe School	12.2 plus £27,000	12.2 plus £28,300
Redhill Primary School	13.2 plus £6,500	13.2 plus £6,800
St John Houghton School	12.1 plus £25,500	12.1 plus £26,700
Woodlands School	11.3 plus £36,900	11.3 plus £38,600
Shirebrook Academy	11.3 plus £32,100	11.3 plus £33,600
Grampian Primary Academy - from 1 December 2012	11.8 plus £2,600*	11.8 plus £5,400

	Total contribution rate % of pensionable payroll	
	2012-13	2013-14
Saint Benedict Catholic Voluntary Academy - from 1 September 2012	12.2 plus £46,100*	12.2 plus £82,800
St Mary's Catholic High School Academy - from 1 August 2012	14.0 plus £23,200*	14.0 plus £36,500
St John Fisher Catholic Voluntary Academy - from 1 September 2012	12.9 plus £4,800*	12.9 plus £8,700
St George's Catholic Voluntary Academy - from 1 August 2012	11.3 plus £9,900*	11.3 plus £15,600
Wyndham Primary Academy - from 1 September 2012	11.5 plus £5,500*	11.5 plus £9,900
The Bolsover School - from 1 October 2012	12.7 plus £16,100*	12.7 plus £33,700
Landau Forte Academy Moorhead - from 1 September 2012	13.8 plus £6,100*	13.8 plus £11,000
Derby Pride Academy - from 1 September 2012	10.0 plus £1,300*	10.0 plus £2,400
Merrill Academy - from 1 January 2013	10.6 plus £8,300*	10.6 plus £35,000
Town and Parish Councils - Group 1	21.8	21.8
Town and Parish Councils - Group 2	15.2	15.2

* Part year figure

Town and Parish Councils

Group 1	Group 2
Ashbourne Town Council	Alfreton Town Council
Belper Town Council	Burnaston Parish Council
Clay Cross Parish Council	Codnor Parish Council
Dronfield Town Council	Darley Dale Town Council
Eckington Parish Council	Glapwell Parish Council
Killamarsh Town Council	Heanor & Loscoe Town Council
Matlock Town Council	Kilburn Parish Council
New Mills Town Council	Morton Parish Council
Old Bolsover Town Council	North Wingfield Parish Council
Pinxton Parish Council	Shardlow & Great Wilne Parish Council
Shirebrook Town Council	Tibshelf Parish Council
Staveley Town Council	Ticknall Parish Council
Whaley Bridge Town Council	Tupton Parish Council
Whitwell Parish Council	Wingerworth Parish Council
Wirksworth Town Council	

The following Admission Bodies also participate:

	Total contribution rate % of pensionable payroll	
	2012-13	2013-14
Three Valleys Housing Ltd	12.6 plus £119,500	12.6 plus £119,500
Amber Valley Housing Ltd	12.3 plus £46,000	12.3 plus £46,000
Dales Housing Ltd	14.9 plus £120,500	14.9 plus £120,500
Tramway Museum Society	10.9 plus £10,200	10.9 plus £10,200
Derbyshire Coalition for Inclusive Living	15.7 plus £2,300	15.7 plus £2,300
Chesterfield Care Group	14.1 plus £3,800	14.1 plus £3,800
Belper Sports Centre	13.0 plus £17,200	13.0 plus £17,200
Derbyshire Student Residences Ltd	12.7 plus £8,200	12.7 plus £8,200
Commission for Social Care Inspection	21.4	21.4
Cleanaway Ltd (Contract with Chesterfield BC)	15.9 less £5,500	15.9 less £5,500
Cleanaway Ltd (Contract with Amber Valley BC)	15.4 plus £83,200	15.4
Rentokil Initial Management Services Ltd - ceased 31 October 2012	22.0 less £800	-
Norwest Holst Ltd	16.8 less £300	16.8 less £300
Initial Facilities Management Ltd	17.7 plus £2,500	17.7 plus £2,500
Initial Catering Services Ltd	16.5 less £800	16.5 less £800
DC Leisure Management Ltd (contract with Amber Valley BC)	13.6 less £5,900	13.6 less £5,900
Leisure and Community Partnership Ltd (contract with Amber Valley BC)	13.6 less £5,900	13.6 less £5,900
Balfour Beatty Power Networks Ltd	14.2 less £400	14.2 less £400
Macintyre Care Ltd	15.1 less £7,200	15.1 less £7,200
SIV Enterprises Ltd	14.6 plus £3,500	14.6 plus £3,500
Veolia Ltd (contract with High Peak BC)	14.6 less £20,800	14.6 less £20,800
KGB Cleaning & Support Services - ceased 31 January 2013	15.1 less £300	-
APCOA	16.7 less £8,500	16.7 less £8,500
DC Leisure Management Ltd (High Peak BC)	13.0 less £16,300	13.0 less £16,300
Leisure & Community Partnership Ltd (High Peak BC)	13.0 less £16,300	13.0 less £16,300
Clean Slate UK Ltd	15.4 less £400	15.4 less £400
Graysons Restaurants Ltd	15.9 less £1,700	15.9 less £1,700

	Total contribution rate % of pensionable payroll	
	2012-13	2013-14
Dell Corporation Ltd	12.6 less £2,400	12.6 less £2,400
Superclean Services Wothorpe Ltd	15.7 less £500	15.7 less £500
Apollo Property Services	15.5	15.5
Ian Williams Ltd - ceased 31 March 2012	14.8	14.8
Northgate UK Ltd	14.3	14.3
NIC Services Group Ltd	16.3	16.3
Arvato Government Services (Sefton) Ltd	14.5	14.5
Kier Ltd	13.8	13.8
Mitie Facilities Services Ltd	16.2	16.2
Compass Services Ltd	15.7	15.7
Barnados	14.5	14.5
Active Nation	11.9	11.9
ABM Catering Ltd (Derby Moor School)	17.0	17.0
Cream Catering	17.3	17.3
ABM Catering Ltd (Gayton Primary School)	12.3	12.3
Compass Services Ltd (Derby City)	15.7	15.7
4 Children - from 1 January 2012	11.6	11.6
Cleanslate (UK) Ltd (Pottery) - from 1 April 2012	17.1	17.1
Cleanslate (UK) Ltd (City Schools) - from 1 April 2012	17.0	17.0
Office Care (Boulton Primary) - from 1 April 2012	17.5	17.5
Vinci Construction UK - from 1 May 2012	15.7	15.7
Derby Museums and Arts Trust - from 1 October 2012	14.0	14.0
Elior UK plc - from 10 December 2012	18.8	18.8
Nottingham Community Housing Association (NCHA) - from 1 October 2012	19.4	19.4
Balfour Beatty (Derby BSF) - from 10 September 2012	14.8	14.8

F Auditor's Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBYSHIRE COUNTY COUNCIL

Independent auditor's report to the members of Derbyshire County Council

We have audited the financial statements of Derbyshire County Council for the year ended 31 March 2013 on pages 3 to 105. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 106 to 111 the annual governance statement which accompanies the financial statements] does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under section 11 of the Audit Commission Act 1998; or

- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

Conclusion on Derbyshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Derbyshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Derbyshire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Mr John Cornett
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
1 Waterloo Way
LE1 6LP

26th September 2013

G Actuarial Statement

An actuarial valuation of the Derbyshire County Council Pension Fund has been carried out as at 31 March 2010.

The key conclusions from the valuation are:

- The Fund showed a deficit of £558m at the valuation date based on the assumptions made for calculating its funding target. This measure compares the Fund's assets with the value of the past service benefits at 31 March 2010. It represents a funding level of 81% relative to the Fund's funding target.

- Based on the assumptions made for assessing the cost of future accrual, the Common Contribution Rate (ie the average employer contribution rate in respect of future service only) was 11.9% of Pensionable Pay.

- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to £1,725m.

- If the deficit is recovered through additional employer contributions over a 19 year period then the total employer contribution rate required to meet the deficit emerging from the valuation is 5.8% of Pensionable Pay per annum.

- The required overall average employer contribution rate is 17.7% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Contributions for each separate employer will be levied as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. These contributions will commence from 1 April 2011.

- The recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in Appendix I* to this report. Employee contributions are payable in addition to the employer contributions. These contributions are adequate to meet the funding objective based on the actuarial assumptions detailed in this report. No additional contributions are required from employers to meet scheme expenses since allowance for these are included in the recommended contributions.

- Additional capital contributions will be paid on top of the rates shown in respect of non-ill health early retirements other than where an allowance has been made in the contributions on the schedule in Appendix I*.

- Any further possible adjustments to contributions for employers in the inter-valuation period are noted on the certificate in Appendix H*.

Signature	______________________________
Fund Actuary	Paul Middleman
Date of signing	31 March 2011
Qualification	Fellow of the Institute and Faculty of Actuaries

* Appendices I and H are included in the full actuarial report but not reproduced in this Annual Report.

GOVERNANCE POLICY STATEMENT – INVESTMENTS

This document has been produced in accordance with the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 which require an administering authority to consult on, prepare and publish by 1 April 2006 a stand-alone governance policy statement setting out its policy on the delegation of its pension fund functions to committees and officers together with the frequency of meetings, terms of reference and whether the Committee includes representatives of employing authorities or scheme members and if so whether those representatives have voting rights. The current arrangements are set out below:

1. Delegation of Functions

Current Arrangements

Responsibility for the investment of the Pension Fund is delegated to the County Council's Investment Committee. Investment Committee minutes are reported directly to the Council.

Background Information

In April 2002, the CIPFA Pensions Panel issued guidance on the Principles for Investment Decision Making in the LGPS in response to the Myners Review of Institutional Investment in the United Kingdom. The guidance states that 'Each administering authority should have a designated group of elected members appointed to a committee to whom responsibility for the management and administration of the pension fund has been assigned'.

Under the cabinet structure in local government, management of the pension fund is a non-executive function and this theme should be carried through the reporting procedure. On this basis, the appointment of an Investment Committee which reports directly to the Council is in line with recommended practice.

2. Frequency of Meetings

Current Arrangements

The Investment Committee meets 4 times a year

Background Information

The Investment Committee is required to carry out certain statutory functions on at least a quarterly basis - eg review investments, review transactions, review fund performance. The Committee timetable is designed to fit in with those requirements. Urgent matters are dealt with by the Director of Finance in consultation with the Chair of the Investment Committee as required.

3. Terms of Reference

Current Arrangements

The main powers and duties of the Investment Committee are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 1998, as amended, and are designed to ensure that the Fund is properly and effectively managed.

The main statutory responsibilities are:

- To appoint and review the performance of managers, advisers etc

- To monitor Fund performance

- To determine an investment policy having regard to:

  The advisability of investing in a wide variety of investments

  The suitability of particular investment and types of investments

  The Regulations require that advice should be taken in carrying out these duties.

- To produce and publish the Fund's Statement of Investment Principles which sets out the Fund's policy in respect of:

  The types of investment to be used
  The balance between different types of investment
  Risk
  The expected return on investments
  The realisation of investments
  Social, environmental and ethical considerations
  The exercise of investment rights
  Compliance with Myners' Principles

  Other duties include the following:

- Investment decisions relating to the purchase and sale of direct property investment and unquoted investments such as venture capital

- Company voting decisions not covered by voting guidelines

- Non-routine matters

Members receive appropriate training throughout the year designed to assist them in performing their duties.

Meetings are open to the public to attend other than for exempt items (eg those dealing with contracts) in line with the terms of the Local Government Act 1972.

Background Information

The above terms of reference ensure that the Committee carries out its statutory duties. Its responsibilities for property and unquoted investments are included as those assets are generally less easily realisable than market investments. Responsibility for voting guidelines is included as part of the Committee's responsibility to encourage good standards of corporate governance in its investee companies

4. Structure

Current arrangements

The Committee comprises

7 council members representing Derbyshire County Council
2 council members representing Derby City Council
2 council members representing the Local Government Association (Derbyshire)

all of whom have voting powers

and

in addition 2 Trades Union representatives attend as (non voting) observers

The Director of Finance and 2 independent Investment Advisers report to the Committee.

The County Council members of the Committee reflect the political balance of the County Council.

Background Information

All elected members of the administering authority have voting rights as a matter of course.

- The Local Government (Committee and Political Groups) Regulations 1990 SI No 1553 5(1)(d) states that voting rights will be given to a person appointed to a sub-committee or a committee established under the

Superannuation Act 1972 who is a member of the authority which appointed the Committee.

Elected members representing other local authorities also have voting rights.

- The provisions of Section 13(3) and (4) of the Local Government and Housing Act 1989 allow an administering authority discretion as to whether or not a member of the Investment Committee who is not a member of that authority is treated as a voting or non voting member.

Accordingly the County Council has allowed co-opted members to have voting rights.

5. Operational procedures of the Delegation

Current practice

As part of its duties, the Committee:

Determines investment policy
Issues asset allocation guidelines
Sets performance targets
Monitors performance
Issues voting guidelines

Within this framework day to day management of the Fund's investments is delegated to the Director of Finance. The Director of Finance is responsible for ensuring that policy is carried out either by the Council's Investment Section or by External Managers, as appropriate.

From time to time it is necessary for decisions resting with the Committee to be taken as a matter of urgency. These include decisions on the purchase or sale of direct property or venture capital investments, and also corporate governance issues. Such decisions are taken by the Director of Finance in consultation with the Chair of the Investment Committee (or in his absence the Vice Chair) and are reported to the next meeting of the Investment Committee.

Background Information

The above procedures are designed to ensure that the Committee carries out its statutory duties, sets policy and controls asset allocation whilst leaving day to day investment decisions to the Director of Finance and the relevant investment managers.

GOVERNANCE POLICY STATEMENT - PENSIONS

This Statement has been compiled in accordance with the provisions of The Local Government Pension Scheme (Administration) Regulations 2008 and the draft statutory guidance issued on 21 July 2008 and incorporates the changes approved by the Pensions Committee on 26 September 2008.

This document relates to the Pensions Committee in its role as an Administering Authority.

Structure

Delegation of Functions

Responsibility for the Council's statutory function as administering authority (other than investment matters) under the Local Government Pension Scheme Regulations and associated legislation under Sections 7, 12 and 24 of the Superannuation Act 1972 is delegated to the Pensions Committee. The minutes of the Pensions Committee are reported to the Council.

The Pensions Committee also has responsibility for pensions and compensation matters for the County Council in its capacity as an employing authority.

Frequency of Meetings

In view of the personal nature of some of its functions and the requirement for comments on draft legislation, the Pensions Committee meets as and when there are matters to be considered.

Terms of Reference

The duties and responsibilities of the Pensions Committee are within the Local Government Pension Scheme Regulations 1997 and Pensions Acts.

The Committee's terms of reference, insofar as they relate to the administering authority's role, include:

- administration of the LGPS in Derbyshire
- consideration of applications for admission body status
- appointment of actuary and additional voluntary contribution providers
- formulation and review of policies relating to discretions
- the appointment of persons to resolve disputes
- consideration of Stage 2 appeals under the dispute resolution procedures
- the formulation of a Funding Strategy Statement
- obligations on administrators of occupational pensions under the various Pension Acts.

The Pensions Committee also decides on pension and compensation matters in its role as an employing authority. Certain functions have been delegated to the Director of Finance and chief officers, in consultation with the Chair of the Pensions Committee. However, these functions are outside the scope of this document.

Meetings are open to the public except for exempt and confidential items as defined by the Local Government Act 1972.

Representation

Structure

The Committee comprises 7 elected members of the County Council and receives reports from the Head of Corporate Finance, County Secretary and other chief officers as appropriate. The elected members have undertaken training on the role of the Pensions Committee.

Membership of the Committee is extended to include 2 elected members from Derby City Council. 2 trade union representatives (as non-voting members) comprising 1 from Derbyshire County Council and 1 from Derby City Council are to be asked to represent the interests of contributors, pensioners and deferred pensioners.

All members (including those representing Scheme members and pensioners) are permitted to nominate substitutes.

SELECTION AND ROLE OF LAY MEMBERS

VOTING

All elected members of the administering authority have voting rights as a matter of course.

Sections 13(3) and (4) of the Local Government & Housing Act 1989 give discretion for the Pensions Committee to decide as to whether members who are not elected members of Derbyshire County Council should have voting rights. The current policy is that members who are elected representatives of Scheme employers have voting rights. Trade union representatives do not have voting rights.

TRAINING/FACILITY TIME/EXPENSES

An annual training plan and training log are to be introduced.

ACCESS

All Committee members have equal access to committee papers, documents and advice that falls to be considered at meetings

SCOPE

Wider scheme issues are considered by the Council's Pension Committee

PUBLICITY

Policy documents & publications

The following pensions related documents are available to the Fund's stakeholders on the Councils website and in hard copy form on request. *Pensions News* is sent to all Scheme members in paper form.

Governance Policy Statement

Funding Strategy Statement

The Funding Strategy Statement looks at the Pension Fund's liabilities and how these are to be met over the longer term.

Communications Policy Statement

This explains the communications policy with the Fund's various stakeholders.

Pensions Committee meetings

The meetings are open to members of the public other than for exempt reports (eg those dealing with individuals, financial or business affairs of a person or company). Copies of reports and minutes are available on the Council's website.

Pensions News

This is a periodic publication which aims to keep Scheme members in touch with developments in the Local Government Pension Scheme and matters relating to the Pension Fund including the annual accounts

STATEMENT OF INVESTMENT PRINCIPLES

Index

A. General

The Derbyshire Pension Fund's Statement of Investment Principles was originally drawn up in compliance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. It was approved by the then Investment Sub-Committee at its meeting on 20 June 2000 and is revised from time to time to reflect any material changes. This version was approved by the Investment Committee at its meeting on 23 March 2010 and contains revisions to allow compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Derbyshire County Council is the administering authority for the Derbyshire Pension Fund under the terms of the Local Government Pension Scheme (Administration) Regulations 2008.

In carrying out its investment duties, the Council pays due regard to the needs of the Pension Fund's stakeholders, namely all employing authorities and the Fund's beneficiaries. It seeks to carry out its duties in a manner consistent with best practice, and endeavours to deliver best value.

Pension Fund Objective

The Pension Fund's objective is:

"To invest the pension fund with the aim of maximising its returns subject to an agreed level of risk and having taken into account the Fund's liabilities and its projected cash-flows"

The committee's duties and responsibilities**:**

Although administering authorities with responsibilities for LGPS pension funds are able to delegate functions to individual officers of the authority, to sub or joint committees, or to authorised external fund managers, it is the case that policy and final investment decisions and general stewardship of the fund sit with the main investment committee.

Therefore responsibility for the management of the Fund's Investments has been delegated to the Council's Investment Committee, which comprises 7 County Councillors (including members of the opposition parties), 2 Councillors from Derby City Council and 2 Councillors representing the LGA (Derbyshire). Three Trades Union representatives are invited to attend as non-voting members.

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Council's Investment Committee has a wide range of statutory responsibilities, including:-

- To appoint managers, advisers etc

- To monitor performance

- To determine an investment policy having regard to:

  The advisability of investing in a wide variety of investments

  The suitability of particular investment and types of investments

  The Regulations require that advice should be taken in carrying out these duties. Two independent advisers (in addition to the Director of Finance) have been appointed to provide advice in respect of these matters. Upon appointment, the advisers' fees are fixed for the ensuing 3 year period, following which their appointments/fees are reviewed. Any additional services provided are agreed in advance and billed for separately.

- To produce and publish the Fund's Statement of Investment Principles, which sets out the Fund's policy and its compliance with Myners' Principles for Institutional Investment; its Funding Strategy Statement (FSS); Pension Fund Annual Report; Communications Policy Statement and Governance Compliance Statement.

- To ensure that investments comply with the Authority's Statement of Investment Principles (SIP)

- To ensure that investments fall within the prescribed limits

The above are statutory duties in compliance with Local Government Pension Scheme regulations. In addition to these core statutory responsibilities, the Committee in conjunction with the Pensions Committee is also subject to general local government law on the way in which it conducts its affairs; to manage potential areas of conflict; and to exercise its duty of care to those who bear the financial and investment risks of the Scheme. It also bears a responsibility, on behalf of scheme members and beneficiaries, to ensure that the Scheme is managed effectively and efficiently on its behalf. In more general terms, the Committees are responsible for a wide range of important decisions relating to the management and actuarial valuation of LGPS funds under part 4 of the Local Government Pension Scheme (Administration) Regulations 2008.

Non statutory duties include the following:

- Non-routine matters

- Investment decisions relating to direct property investment and unquoted investments such as private equity and infrastructure

- Voting decisions not covered by voting guidelines

- Approving the Pension annual treasury management strategy including its policy on borrowing

Day to day management of investments has been delegated to the Director of Finance and the "in-house" investment section. The section's target performance and time-scales have been set by Committee and the requirement to comply with these is stated in the Investment Section's service level agreement. Some specialist areas are managed by external investment managers. External managers receive fees calculated as a percentage (on a sliding scale) of funds under management, in accordance with market practice. Their contracts specify their targets, timescales and their approach. In house staff are paid employees of the County Council and thus receive their remuneration in accordance with the County Council's pay scales.

The structure adopted allows the Investment Committee (having taken expert advice) to focus on policy, on asset allocation decisions and investment decisions in respect of unquoted investments such as Property and Private Equity, and allows the in house staff and external managers to concentrate on stock selection decisions in line with their areas of expertise.

B. Types of Investments

The Fund is permitted to invest in the following types of investment:

Equities (UK and Overseas)
- Company Shares
- Managed Funds, unit and investment trusts
- Open ended investment companies
- Contributions to limited partnerships
- Warrants

Private Equity (UK and overseas)

Bonds (UK and overseas)

Index linked securities (UK and overseas)

Property
- Direct
- Indirect (UK and overseas)

Infrastructure Funds

Cash, temporary loans and deposits

Insurance contracts

Stock lending

Sub-Underwriting

Derivatives

Forward sales of currency

No financial instruments are excluded from consideration but the use of derivatives is restricted to hedging activity which (other than in the case of currency hedging) must be authorised in advance by the Investment Committee (or by the Director of Finance in consultation with the Committee Chairman if an urgent decision is required) in each case. Hedge Fund investment is not included in the Fund's Investment Benchmark

C. Balance between different types of Investment

The Fund is invested in accordance with Asset Allocation Guidelines designed to maximise returns within appropriate levels of risk having taken into account the Fund's liabilities and projected cashflows. The current guidelines which came into force on 1 April 2009 were drawn up in 2008 by one of the Fund's independent advisers following an asset/liability study undertaken by Mercers.

Advice on tactical asset allocation is received at each meeting of the Investment Committee from the Director of Finance and the Fund's external advisers.

The guidelines apply in addition to the restrictions contained within the Local Government Pension Scheme Investment Regulations.

D. Risk

The overall risk for any Pension Fund is that its assets will be insufficient to meet its liabilities. Local Authority Funds are assessed on an actuarial basis every 3 years and are required to draw up a Funding Strategy Statement to show how any deficit is to be addressed. Derbyshire's Funding Strategy Statement is published on its website www.derbyshire.gov.uk/pensions.

At a different level, the Derbyshire Fund manages its investment risk by holding bonds, index linked stocks and property and by holding a diversified equity portfolio spread both geographically and across market sectors.

An asset/liability study has been undertaken by the Fund's actuary in conjunction with the Council's officers and one of the Fund's independent advisers. From this a new benchmark has been drawn up designed to meet the Fund's performance requirements for the level of risk agreed by the Investment Committee.

External contracts specify the level of risk to be taken by the managers. The risk associated with the Fund's UK equity portfolio is reported to the Investment Committee each quarter.

E. Expected return on Investments

The Fund is subject to actuarial review every three years. Here the Fund’s actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. In doing this, an assumption of long term investment returns is made and this is currently estimated at 6½% per annum.

Longer term return assumptions for the main asset classes are shown below:

Asset Class	% Return pa
Fixed interest gilts	4.6
Index linked gilts	4.6
Corporate Bonds	5.6
Equities	8.9
Private Equity	11.5
Property	6.6
Infrastructure*	8.0
Cash	4.6

*Assumes a mix of debt and equity type investments

Over shorter time periods returns can be extremely volatile.

Fund performance is calculated independently each quarter, and the results are reported to the Investment Committee and compared with Local Authority averages and the Fund's own performance benchmarks.

Performance targets are set by the Investment Committee from time to time and are based on advice provided by the Director of Finance and the Fund’s independent advisers.

The Fund’s independent advisers provide the Committee with an assessment of performance each year.

Longer term investment returns are reported to Fund members through the publication “Pensions News” and through the Pension Fund’s Annual Report.

F. Realisation of Investments

The Derbyshire Pension Fund is not yet mature and therefore has no present requirement to realise assets in order to meet its liabilities. It does however sell investments from time to time as part of normal investment management activities.

The majority of the Fund’s investments are easily realisable. Investment regulations limit holdings of unquoted companies to 10% of the Fund and Investment Committee guidelines limit investments in direct property to 7%, Private Equity to 3% and Infrastructure to 3%.

G. Social, Environmental and Ethical Considerations

The Investment Committee aims to manage the Pension Fund's assets in such a way as to benefit society as a whole, by supporting companies with a good record in relation to social, environmental and ethical matters.

It seeks to do this in a manner that is in compliance with investment regulations and consistent with its fiduciary duty towards the Fund's stakeholders.

All investment decisions are based primarily on financial considerations. However the Committee believes that companies with a good record in relation to social, environmental and ethical matters should produce superior performance over the longer term.

It has therefore allocated a proportion of the Fund for investment in ethical unit trusts and other funds specialising in environmental matters, thus providing the Fund with an ethical/environmental bias.

These trusts are screened on ethical as well as financial grounds and investment is directed towards companies that meet the following criteria:

a) Products and services that are of long term benefit to the community.
b) Environmental improvements and pollution control.
c) Products and services associated with the enhancement of human health and safety.
d) Conservation of energy and natural resources.
e) Good relations with customers and suppliers.
f) High employee welfare standards.
g) Strong community involvement.
h) Good equal opportunities record.
i) Openness about activities.
j) Support for the local economy.

Investment Regulations require the Fund to hold a broad spread of investments, which is important as a means of controlling risk.

The Fund does not therefore dis-invest from companies that do not meet the above criteria, but may use its position as a shareholder to exert influence, in conjunction with other shareholders through representative bodies where appropriate.

In particular it will support Local Authority Pension Fund Forum (LAPFF) campaigns on social, environmental and ethical matters when these are considered to be in the best interests of the Fund.

H. Exercise of Investment Rights

The Fund makes full use of its voting powers at UK company meetings in accordance with guidelines issued by the Investment Committee and based on the principles of good corporate governance as compiled by the National Association of Pension Funds.

It will also use its position as a shareholder to support LAPFF campaigns on corporate governance issues when these are considered to be in the best interests of the Fund.

Voting in the USA and certain European markets is carried out by the Fund's external investment managers in accordance with governance standards prevailing locally.

I. Stock Lending

The Fund does not currently participate in stock lending.

J. Compliance with guidance issued by the Secretary for State for Communities and Local Government (in relation to Myners' Principles)

Originally 10 Investment Principles were drawn up following the "Review of Institutional Investment in the UK" by Paul Myners (then Chairman of Gartmore Asset Management). Their application to the Local Government Pension Scheme was set out in the publication "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance Note Issue No 5).

The Principles were updated in 2008 and now comprise 6 high level Principles. Under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, Funds are required to state the extent to which they comply with guidance given by CLG in relation to the 6 revised Myners' Principles as set out in CIPFA's publication "Investment decision making and disclosure in the Local Government Pension Scheme – a guide to the application of Myners Principles".

The 6 revised Myners' principles are set out below along with details of the Derbyshire Fund's current compliance:

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Compliance

Training is provided for Investment Committee members in accordance with a programme shown in the Committee's Annual Business Plan

Members' attendance at training sessions is logged

The Fund employs two independent investment advisers.

Advice on tactical asset allocation is received from the Director of Finance and the Fund's external advisers.

The Derbyshire Fund has its own in-house investment staff.

The Council's officers will be required to assist Committee members in assessing their own performance

Members' declarations of interest are made at the commencement of each meeting of the Investment Committee

Principle 2: Clear Objectives

- An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Compliance

The Fund's objective is:

"To invest the pension fund with the aim of maximising its returns subject to an agreed level of risk and having taken into account the Fund's liabilities and its projected cash-flows"

In 2008 an asset/liability study was undertaken to ensure that the Fund's asset allocation model was appropriate to its liability profile and the level of risk that the Investment Committee was prepared to take. This led to the introduction of a revised benchmark on 1 April 2009.

The Fund's targets are:

- To meet the Actuary's long term return requirements.

- To outperform the Fund's benchmark returns by ¼% pa.

Target performance and time-scales have been set by Committee and the requirement for In-house Investment Managers to comply with these is stated in the Investment Section's Service Level Agreement. The managers are required to adopt an active style of management and a flexible approach whilst seeking to contain risks in accordance with agreed parameters.

Contracts for External Managers specify targets, timescales and approach.

The impact on Council Tax payers is taken into account in the Funding Strategy Statement.

The recovery period for past service liabilities is set for each employer. This takes into account the covenant of non-local government employers. In certain cases bonds are required. In line with CLG guidance the recovery period is sufficient to ensure that the employers' contribution rate is not unduly affected by volatile investment returns.

Principle 3: Risk and Liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Compliance

In 2008 an asset/liability study was undertaken to ensure that the Fund's asset allocation model was appropriate in relation to its liability profile and the level of risk that the Investment Committee was prepared to take. This has led to the introduction of a revised benchmark on 1 April 2009.

The Benchmark is consistent with the Fund's Funding Strategy Statement which sets an appropriate recovery rate for each employer, taking into account its financial status.

Principle 4: Performance Assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Compliance

The Fund's performance is measured independently by an external performance measurement company and assessed by its external advisers. The impact of asset allocation and the performance of individual asset classes are measured separately, thus allowing attribution to be made between asset allocation and stock selection. The Fund's managers are responsible for stock selection. No further breakdown of asset allocation is made in respect of advisers, trustees and the Director of Finance as all are involved in the decision making process.

The Council's officers are required to assist Committee members in assessing their performance

Principle 5: Responsible Ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents

- include a statement of their policy on responsible ownership in the statement of investment principles

- report periodically to scheme members on the discharge of such responsibilities.

Compliance

The Fund has reviewed its corporate governance guidelines and considers that these are consistent with the Institutional Shareholders' Committee Statement of Principles. In particular, the Fund exercises its voting powers, and participates in LAPFF campaigns in respect of corporate governance issues. Voting activity is undertaken in a number of overseas markets where votes are cast by the Fund's external managers in accordance with local practice.

The Fund's Statement of Investment Principles contains sections describing the Fund's stance on Socially Responsible Investment. Voting activity is reported to each meeting of the Investment Committee. Reports are available on the Council's website.

Principle 6: Transparency and Reporting

Administering authorities should:

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives

- provide regular communication to scheme members in the form they consider most appropriate.

Compliance

The following are published on the Council's website:

- Non-exempt Investment Committee reports and minutes (including Fund performance details)
- Statement of Investment Principles
- Annual Business Plan
- Annual Report
- Pension Fund Communications Statement
- Investment Governance Policy/Compliance Statement
- Funding Strategy Statement

Pensions News, which is sent to all members, contains key information from the SIP and the annual report and advertises their availability.

An Annual General Meeting is held following the publication of the Pension Fund's Annual Report.

Derbyshire County Council Pension Fund Funding Strategy Statement (FSS)- 2010 Valuation

This Statement has been prepared by Derbyshire County Council (the Administering Authority) to set out the funding strategy for the Derbyshire County Council Pension Fund (the Fund) in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. The Council has sought advice from its actuary, Mercer Limited over the content.

The Statement has been revised as part of the valuation of the Fund as at 31 March 2010.

1 Introduction

The Local Government Pension Scheme (Administration) Regulation 2008 (as amended) ("The Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to :-
  - the guidance issued by CIPFA for this purpose;
  - and the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles (SIP).

Benefits payable under the Local Government Pension Scheme (LGPS) are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The LGPS is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), “the BMC Regulations”). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2 Purpose of the FSS in policy terms

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and

- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3 Aims and purpose of the Pension Fund

The aims of the fund are to:

- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

- manage employers' liabilities effectively

- ensure that sufficient resources are available to meet all liabilities as they fall due, and

- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4 Responsibilities of the key parties

A **The Administering Authority** is required to:

- Maintain a Pension Fund and administer the LGPS.

  - Responsibility for management of the Pension Fund's investments is delegated to the Investment Committee. This includes the review of the management arrangements and the investment portfolio, investment activity and the maintenance of the SIP. The Committee comprises 7 County Councillors, 2 Derby City Councillors and 2 councillors representing the Local Government Association (Derbyshire). There are 3 trade union representatives (as non-voting members) representing the interests of contributors, pensioners and deferred members.

    The day-to-day management of investments is delegated to the Director of Finance and the "in-house" investment team with the exception of certain specialist areas that are managed by external investment managers. The Committee meets quarterly and is advised by Aviva Investors and Philip Williams whose advice mainly relates to asset allocation although they can be called upon to advise on other investment issues. Further information on investment matters can be found in the Council's SIP which is available on the Council's website at www.derbyshire.gov.uk.

- The Pensions Committee comprises 7 County Councillors, 2 Derby City Councillors and a trade union representative (as a non-voting member) representing the interests of contributors, pensioners and deferred members.

- The Committee meets as required to consider matters relating to the administration of the LGPS in Derbyshire (including the formulation and review of the FSS), the formulation and review of policies under the discretionary payments legislation and the obligations on administrators of occupational pensions under the various Pension Acts. The LGPS is administered by the Pensions Section within the Finance Division of the Corporate Resources Department.

B The Administering Authority should:

- collect employer and employee contributions

- invest surplus monies in accordance with the Regulations

- ensure that cash is available to meet liabilities as and when they fall due

- manage the valuation process in consultation with the actuary

- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and

- monitor all aspects of the Fund's performance and funding and maintain the FSS & SIP.

Each Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the BMC Regulations)

- pay all contributions, including their own as determined by the actuary, promptly by the due date

- exercise discretions within the regulatory framework

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and

– notify the Administering Authority promptly of all changes to membership, actual or proposed, which may affect future funding.

The Fund actuary should:

– prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS

– prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and

– advise on the preparation of the FSS

5 Solvency issues and target funding levels

The funding objective

To meet the requirements of the Administration Regulations, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 2.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

Approach to setting Employers' contribution rates

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. For example, where an employer has an increase in its pensionable payroll over and above the amount assumed by the actuary, the resultant increase in pension liabilities will be borne by that employer.

The exceptions to this are parish and town councils where there is shared experience within the group including pensionable pay, retirements, death in service and pensioner liabilities. However, where there are premature retirements at parish and town councils the strain on the pension fund, due to benefits being paid earlier and for longer, must be paid in full by the employer at the time of the retirement. The parish and town councils are currently split into different groups according to when they were admitted to the Fund, as this is considered appropriate in view of the periods over which surplus and deficit has arisen.

Subject to the above, each employer's liabilities are identified separately within the Scheme and each employer's asset share is individually determined. However, the investment returns are apportioned by value across all employers. This means that each employer effectively has allocated to it a share of each class of investment within the Fund and benefits from the investment performance of the whole Fund.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles

- relevant guidance issued by the CIPFA Pensions Panel

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

The normal cost of the Scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 2.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as an indexed or level monetary lump sum over the three years commencing 1 April 2011.

Employers will be required to pay a rate of contribution comprising the future service cost plus the monetary lump sum as described above in respect of the past service deficit. At this valuation the Administering Authority, whilst recognising the pressure on public sector finances, is reducing the proposed maximum recovery period from 22 years to 19 years for certain employers. This assists with meeting the regulatory requirement of maintaining as nearly constant a rate (of employers' contributions) as possible.

However, when considering whether to apply the 19 years recovery period the Council, as administering authority, would have regard to an organisation's capability to meet its commitment to the Fund in the longer term, the likelihood of there being a successor body and any guarantee arrangements in place.

In current circumstances, as a general rule, the Council does not believe it appropriate for contribution reductions to apply where substantial deficits exist. As a result, all employers in deficit will be required to adopt a deficit recovery period in line with their maximum deficit recovery period detailed below (or shorter) before any reduction in overall contributions will be allowed.

The final decision on the deficit recovery period will be Derbyshire County Council's as Administering Authority and may be restricted to ensure no material reduction in contributions in real terms.

The Council, as administering authority, may agree with an employer to collect the total of the future service contribution rate and the deficit recovery amount expressed as a percentage of pensionable payroll. The amount paid by the employer in the year must be at least equal to the amount certified in the Schedule to the Rates and Adjustment Certificate appended to the Actuarial Valuation Report as at 31 March 2010.

<u>Employers for whom a maximum 19 year deficit recovery period may be appropriate:</u>

Scheduled bodies:

a. local authority or equivalent
b. a body, other than an admission body, for which the Fund has a guarantee of liabilities from a local authority or central government
c. Colleges and universities
d. Parish and town councils

In view of the significant pressures on Derby City Council's budget, the administering authority may, in conjunction with the actuary, agree to the City Council continuing with a deficit recovery period of 22 years. The position will be reviewed following the 2013 valuation with a view to reducing the deficit recovery period to the same as that for other local authorities in the Fund.

<u>Employers for whom the deficit recovery period should not exceed the average future working lifetime of 12 years</u>

Admission bodies:

a. for which the Fund has a guarantee of liabilities from a local authority
b. that are assured of funding from a local authority or central government and have a reasonable expectation of being in existence for the foreseeable future
c. where the admission agreement arose from the outsourcing of services to the private sector and the Scheme employer agrees to the basis of recovery. Any deficit on normal cessation of the agreement would fall to be met by the admission body or, in some situations by a bond.

However, in accordance with the Regulations, any residual deficit would be a charge on the Scheme employer responsible for the transfer of the service and Scheme members.

<u>Employers for whom the deficit recovery period should be restricted to a fixed term contract not exceeding the average future working lifetime of 12 years.</u>

Employers in this category are those with a limited period of participation in the Fund due to there being a fixed contract term that is less than the average future working lifetime of 12 years. In this situation, unless otherwise agreed by the outsourcing authority/body, the period of recovery should be restricted to the length of the outstanding period of the contract.

Where an employer's participation in the Fund is closed to new employees, the deficit recovery period will normally be limited to the actuarially assessed future working lifetime of the active membership of that employer if less than the period indicated above.

The Director of Finance may agree, in conjunction with the actuary, to a phased increase in contribution rates (referred to as "stepping") over the three year period to the next valuation. As a general rule, this facility would only be available to those employers with a sound financing basis, therefore, constituting a low risk to the Pension Fund.

6 Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show that for the whole fund the liabilities to be 81% covered by the current assets, with the funding deficit of 19% being covered by future deficit contributions. Each Scheme employer in the Fund will have its own level of funding.

In assessing the value of the Scheme's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP. The asset allocation benchmark (see Appendix 1), re-affirmed by the Investment Committee at its meeting on 22 March 2010, is designed to support the Actuary's assumptions that amount to a composite rate of return for the whole Fund of 6.1% per annum (ie fixed interest gilts yield of 4.5% + out-performance assumption of 1.6%) over the long term within reasonable risk parameters. However, the actual return achieved will depend on investment market performance, asset allocation and stock selection.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Scheme's assets in line with the least risk portfolio would minimise fluctuations in the Scheme's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2010 valuation would have been significantly higher and the declared funding level would be correspondingly reduced. Such an approach would require a significantly higher level of employers' contributions to achieve solvency over the periods stated in Section 5.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current asset allocation benchmark, as set out in the SIP, is given at Appendix 1.

The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance of 1.6% pa in the long term. The Administering Authority and its advisers believe that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP. The actuary considers this approach to be reasonable having regard to the overall level of solvency and the past performance of investment markets.

7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme 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 Scheme's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset performance between successive valuations could diverge significantly from the overall 6.1% per annum currently required to keep pace with liabilities in the long term.

A summary of the primary risks to the Scheme's funding is set out below:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated

Demographic

- Longevity horizon continues to expand
- Increase in early retirements. This risk of a deterioration in funding has been reduced by the requirement for employers to pay the cost of early retirements (arising from benefits being paid earlier and for longer) at the time of retirement or, in the case of certain local authorities and with the County Council's approval, not longer than 5 years.

– Due to exceptional budgetary pressures, Derby City Council may amortize the cost of premature retirements (ie costs arising from the early payment of Scheme benefits) arising during the valuation period over a period longer than 5 years. The length of the period and the amounts to be at the discretion of the administering authority in conjunction with the actuary.

Regulatory

– Changes to Regulations, eg in relation to the Hutton review of Public Sector pensions

– Changes to national pension requirements and/or Inland Revenue rules.

Governance

– Administering Authority unaware of structural changes in employer's membership (eg large fall in employee numbers, large number of retirements)

– Administering Authority not advised of an employer closing to new entrants

– An employer ceasing to exist with insufficient funding or adequacy of a bond.

8 Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with employers in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

– if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy

– if there have been significant changes to the Scheme membership, or LGPS benefits

– if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy

- if there have been any significant special contributions paid into the Scheme.

Recommended Asset Allocation Table

Asset Category	Benchmark Proportion	Permitted Range	Benchmark Index
Total Equities	64.0%	+/-6%	
UK Equities	34.0%	+/-5%	FTSE All-Share
Overseas Equities	30.0%	+/-5%	
US	9.0%	+/-4%	FTSE World North America
Europe	9.0%	+/-4%	FTSE World Europe Ex-UK
Japan	5.0%	+/-2%	FTSE World Japan
Pacific ex-Japan	4.0%	+/-2%	FTSE World Pacific Basin ex-Japan
Emerging Markets	3.0%	+/-2%	FTSE World Emerging Markets
Bonds	24.0%	+/-7%	
Fixed Income Government Bonds	9.0%	+/-4%	Global Government Bonds Hedged to Sterling
Real Return Government Bonds	8.0%	+/-3%	Global Real Return Bonds Hedged to Sterling
Non-Government Bonds	7.0%	+/-3%	Global Investment Grade Bonds Hedged to Sterling
Cash	2.0%	0-8%*	Sterling 7 Day LIBID
Infrastructure	1.5%	+/-1.5%	Sterling LIBOR
Private Equity	1.5%	+/-1.5%	FTSE All-Share
Total Property	7.0%	+/-4%	
Segregated UK Property	5.0%	+/-2%	IPD All Properties
Indirect property	2.0%	+/-2%	IPD All Properties

* The maximum permitted exposure to cash has been increased from 6% to 8% on a temporary basis pending the Fund reaching neutral allocations to private equity and infrastructure.

Actuarial Valuation as at 31 March 2010

Method and Assumptions used in calculating the funding target and recovery plan

Method

The actuarial method to be used in the calculation of the funding target and recovery plan is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (The Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% pa for the period pre-retirement and 1% pa post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (ie active and deferred pensioner) liabilities than for the "post-retirement" (ie pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.6% pa has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs. This gives a discount rate of 6.1% pa for individual employers.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, less 0.8% per annum to allow for the change in linkage from RPI to CPI for benefits (as announced in the Chancellor's budget of 22 June 2010) and an adjustment to allow, at least in part, for the supply/demand distortions in the Government bond markets ("the inflation risk premium or IRP").

Salary increases

The assumption for real salary increases will be determined by an allowance of 1.5% pa over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the inflation assumption above (eg Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are the SAPS S1 series of tables as follows:

	Table	Adjustments
Males Normal Health Pensioners	S1PMA CMI_2009_M[1%]	102%
Females Normal Health Pensioners	S1PFA CMI_2009_F[1%]	95%
Male Dependents	S1PMA CMI_2009_M[1%]	122%
Female Dependents	S1PDA CMI_2009_F[1%]	106%
Male Future Dependents	S1PMA CMI_2009_M[1%]	107%
Female Future Dependents	S1PDA CMI_2009_F[1%]	105%

Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 pa of pension given up.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target and recovery plan except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions In relation to future service (ie the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (ie return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation (CPI) of

3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% pa.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund financial assumptions used for calculating funding target, recovery plan and cost of future accrual (the "normal cost") for the 2010 actuarial valuation

Long term gilt yields	
Fixed Interest	4.5% p.a.
Index Linked	0.7% p.a.
Adjustment for CPI and IRP	0.8% p.a.
Implied CPI price inflation	3.0% p.a.
Past Service Funding Target and Recovery Plan financial assumptions	
Investment return pre-retirement	7.0% p.a.
Investment return post-retirement	5.5% p.a.
Salary Increases	4.5% p.a.
Pension Increases	3.0% p.a.
Future service accrual financial assumptions	
Investment Return	6.75% p.a.
CPI price inflation	3.0% p.a.
Salary Increases	4.5% p.a.
Pension Increases	3.0% p.a.

APPENDIX 5

2012/2013 ACCOUNTS		EMPLOYEE CONTS				EMPLOYERS CONTS		
EMPLOYER	**EMPLOYER NAME**	**BASIC**	**ARREARS**	**ADDITIONAL**	**TOTAL EES CONTS**	**EMPLOYER CONTS**	**LUMP SUM**	**TOTAL ERS CONTS**
00001 *	Derbyshire County Council	14,718,042.62	8,394.45	121,013.75	14,847,450.82	43,896,556.62	-	43,896,556.62
00020	National Probation Service	516,182.50	790.57	7,104.60	524,077.67	798,260.09	435,708.00	1,233,968.09
00040	Peak District National Park	317,031.89	60.82	13,986.17	331,078.88	834,019.65	-	834,019.65
00123	Derby Homes Ltd	571,713.15	-	-	571,713.15	965,450.34	258,708.00	1,224,158.34
00125	High Peak Comm Housing Ltd	136,492.17	-	1,860.60	138,352.77	260,628.01	- 23,700.00	236,928.01
00126	Rykneld Homes	282,258.54	81.57	2,684.89	285,025.00	587,769.95	16,608.00	604,377.95
00130	Amber Valley B C	356,867.84	277.04	1,647.60	358,792.48	637,733.01	960,192.00	1,597,925.01
00131	The District of Bolsover	559,464.96	1,231.43	937.56	561,633.95	1,032,524.67	1,041,804.00	2,074,328.67
00132	Chesterfield B C	989,352.27	50.28	2,032.23	991,434.78	1,888,900.87	1,768,800.00	3,657,700.87
00133 **	Derby City Council	5,941,077.78	52.25	44,513.35	5,985,643.38	17,693,200.58	-	17,693,200.58
00134	Erewash B C	482,690.60	-	897.54	483,588.14	1,875,407.13	-	1,875,407.13
00135	High Peak BC	261,729.80	193.59	-	261,923.39	470,400.46	1,260,000.00	1,730,400.46
00136	North East Derbyshire DC	528,170.96	134.86	5,473.46	533,779.28	960,309.29	1,370,904.00	2,331,213.29
00137	South Derbyshire DC	357,430.27	-	-	357,430.27	1,250,443.53	-	1,250,443.53
00138	Derbyshire Dales D C	343,401.62	-	-	343,401.62	627,466.64	567,900.00	1,195,366.64
00139	Chesterfield Crematorium	5,871.18	-	-	5,871.18	12,131.91	15,600.00	27,731.91
00142	Morton Parish Council	613.56	-	-	613.56	1,434.84	-	1,434.84
00144	Shirebrook Town Council	9,206.85	-	-	9,206.85	33,801.72	-	33,801.72
00145	New Mills Town Council	7,697.58	-	-	7,697.58	26,476.01	-	26,476.01
00147	Clay Cross Parish Council	1,212.37	-	-	1,212.37	4,066.05	-	4,066.05
00148	Eckington Parish Council	1,204.68	-	-	1,204.68	3,861.84	-	3,861.84
00150	Pinxton Parish Council	4,188.84	-	-	4,188.84	15,300.96	-	15,300.96
00151	Wirksworth Town Council	1,603.83	-	-	1,603.83	5,888.94	-	5,888.94
00152	Old Bolsover Town Council	6,951.07	-	-	6,951.07	22,751.76	-	22,751.76
00155	Glapwell Parish Council	705.68	8.00	-	713.68	1,650.08	-	1,650.08
00157	Belper Town Council	4,389.27	-	-	4,389.27	15,457.94	-	15,457.94
00160	Killamarsh Parish Council	5,900.29	-	-	5,900.29	20,859.59	-	20,859.59
00161	Burnaston Parish Council	213.48	-	-	213.48	549.96	-	549.96
00165	North Wingfield PC	1,586.76	-	-	1,586.76	3,710.52	-	3,710.52
00169	University of Derby	1,289,428.41	- 20.71	5,484.07	1,294,891.77	2,131,310.22	651,900.00	2,783,210.22
00169	University of Derby -Leek College	29,200.13	-	-	29,200.13	67,636.47	-	67,636.47
00171	Ashbourne Town Council	2,860.75	-	-	2,860.75	10,170.23	-	10,170.23
00172	Dronfield Town Council	7,859.50	-	-	7,859.50	28,557.41	-	28,557.41
00173	Whitwell Parish Council	3,956.58	-	-	3,956.58	14,214.02	-	14,214.02
00174	Tupton Parish Council	719.90	71.99	-	791.89	2,075.48	-	2,075.48
00175	Staveley Town Council	8,102.50	-	-	8,102.50	28,022.17	-	28,022.17
00178	Matlock Town Council	7,354.38	-	-	7,354.38	26,218.52	-	26,218.52
00179	Whaley Bridge Town Council	1,338.84	-	-	1,338.84	4,490.16	-	4,490.16
00186	Alfreton Town Council	3,038.28	-	-	3,038.28	7,429.08	-	7,429.08
00187	Wingerworth Parish Council	3,021.33	-	-	3,021.33	6,972.54	-	6,972.54
00188	Heanor + Loscoe TC	1,732.20	-	-	1,732.20	3,871.92	-	3,871.92
00189	Darley Dale Town Council	975.96	-	-	975.96	2,282.16	-	2,282.16
00192	Chesterfield College	336,158.29	-	-	336,158.29	629,652.23	133,800.00	763,452.23
00198	Derby College	626,714.84	-	1,540.80	628,255.64	1,106,479.73	449,400.00	1,555,879.73
00234	Tibshelf Parish Council	1,462.32	-	-	1,462.32	3,804.00	-	3,804.00
00235	Kilburn Parish Council	687.00	-	-	687.00	1,898.40	-	1,898.40
00236	Codnor Parish Council	538.35	-	-	538.35	1,488.00	-	1,488.00
00237	Shardlow & Great Wilne Parish Council	320.72	-	-	320.72	829.91	-	829.91
00238	Ticknall Parish Council	136.27	-	-	136.27	351.07	-	351.07
00335	Chellaston Academy	41,653.99	-	-	41,653.99	121,348.74	-	121,348.74
00336	Ecclesbourne Academy	40,266.64	-	-	40,266.64	91,500.83	40,500.00	132,000.83
00337	Kirk Hallam Academy	47,380.67	-	-	47,380.67	89,539.47	39,096.00	128,635.47

00338	John Port Academy	60,087.70	-	26.24	60,113.94	122,586.88	53,700.00	176,286.88
00340	Brookfield Academy	64,579.45	-	2,611.80	67,191.25	127,103.97	55,596.00	182,699.97
00341	Long Eaton Academy	51,899.72	103.24	-	52,002.96	104,943.99	44,400.00	149,343.99
00342	West Park School (Academy)	52,167.19	-	-	52,167.19	118,116.46	49,500.00	167,616.46
00343	Queen Elizabeths Grammar School (Academy) (QUEG	62,409.18	-	2,163.15	64,572.33	114,082.25	59,496.00	173,578.25
00344	Ormiston Ilkeston Academy	32,984.37	-	-	32,984.37	69,240.17	32,304.00	101,544.17
00345	Hope Valley College (Academy)	39,479.39	-	-	39,479.39	84,258.73	33,696.00	117,954.73
00346	Ormiston Enterprise Academy	32,396.60	-	-	32,396.60	59,693.53	26,100.00	85,793.53
00347	Pennine Way Junior School (Academy)	8,020.60	-	-	8,020.60	17,343.60	7,104.00	24,447.60
00348	Heanor Gate Science College (Academy)	54,348.85	-	-	54,348.85	117,890.29	48,804.00	166,694.29
00349	Lees Brook Community School (Academy)	64,814.45	-	-	64,814.45	116,844.15	56,496.00	173,340.15
00350	Netherthorpe School (Academy)	30,470.51	-	-	30,470.51	62,977.24	27,000.00	89,977.24
00351	Redhill Primary School (Academy)	7,694.48	-	-	7,694.48	17,442.61	6,504.00	23,946.61
00352	St John Houghton School (Academy)	28,169.19	-	2,016.84	30,186.03	53,945.60	25,500.00	79,445.60
00353	Woodlands School (Academy)	39,167.49	-	-	39,167.49	107,274.54	-	107,274.54
00354	Grampian Primary School (Academy)	5082.09	-	-	5,082.09	13745.78	1,299.00	15,044.78
00360	St Benedict Voluntary Catholic Academy	53021.24	-	-	53,021.24	107615.06	46,102.00	153,717.06
00361	St Mary's Catholic Academy	29260.14	-	-	29,260.14	69781.8	23,342.00	93,123.80
00362	St John Fisher Catholic Academy	5,502.06	-	-	5,502.06	11,995.98	4,802.00	16,797.98
00363	St George's Voluntary Academy	9,730.64	-	-	9,730.64	18,658.87	8,666.00	27,324.87
00364	Wyndham Primary Academy	5,149.86	-	-	5,149.86	9,852.81	5,495.00	15,347.81
00365	The Bolsover School Academy	16,879.47	-	-	16,879.47	51,202.73	13,415.00	64,617.73
00366	Landau Forte Moorhead Academy	7,755.12	-	-	7,755.12	17,780.93	6,097.00	23,877.93
00367	Derby Pride Academy	2,571.98	-	-	2,571.98	4,186.98	1,302.00	5,488.98
00368	Merrill Academy	9,787.73	-	-	9,787.73	16,919.69	8,301.00	25,220.69
00401	Derbyshire Police Authority	2,013,752.38	-	5,287.40	2,019,039.78	5,021,103.03	-	5,021,103.03
00403	Derbys Fire & Rescue Service	269,620.56	-	-	269,620.56	459,763.63	173,100.00	632,863.63
00422	Landau Forte College	77,169.73	-	-	77,169.73	126,706.85	1,299.96	128,006.81
00439	Shirebrook Academy	33,558.04	-	1,739.00	35,297.04	61,759.04	32,100.00	93,859.04
00120	Amber Valley Housing Ltd	302,401.03	-	3,657.96	306,058.99	571,788.12	46,008.00	617,796.12
00124	Three Valleys Housing Ltd	168,899.38	-	-	168,899.38	333,218.97	119,508.00	452,726.97
00128	Dales Housing Ltd	108,834.65	-	-	108,834.65	247,228.24	110,462.00	357,690.24
00170	Tramway Museum Society	5,100.76	-	-	5,100.76	9,046.17	10,200.00	19,246.17
00176	D.C.I.L	2,749.32	-	-	2,749.32	6,640.90	2,299.92	8,940.82
00184	Chesterfield Care Group	9,769.37	-	-	9,769.37	21,335.58	3,799.92	25,135.50
00185	Belper Sports Centre	18,061.32	736.80	-	18,798.12	38,249.78	17,199.96	55,449.74
00404	Derbys Student Residences Ltd	41,073.96	-	-	41,073.96	84,851.38	8,199.96	93,051.34
00405	CQC	1,927.48	-	-	1,927.48	6,065.94	-	6,065.94
00410	RIMS	529.13	-	-	529.13	2,007.11	- 466.62	1,540.49
00414	Cleanaway Ltd (C'field Refuse)	17,613.60	-	-	17,613.60	47,523.77	- 5,499.96	42,023.81
00416	VINCI PLC	1,822.08	-	-	1,822.08	5,204.65	- 300.00	4,904.65
00417	Cleanaway Ltd (AV Refuse)	24,953.14	-	-	24,953.14	60,725.31	83,208.00	143,933.31
00418	Initial Facilities Services	2,570.93	-	-	2,570.93	5,273.60	2,499.96	7,773.56
00419	Initial Catering Services	4,367.05	-	-	4,367.05	12,989.92	- 799.92	12,190.00
00420	DC Leisure Management Ltd (AV)	34,461.75	-	-	34,461.75	77,018.34	- 5,904.00	71,114.34
00421	L + C Partnership Ltd (AV)	Conts with DC Leisure Management Ltd (AV)			-			-
00423	Vale Contract Services				-			-
00424	Balfour Beatty	9,223.38	-	-	9,223.38	19,814.37	-	19,814.37
00425	Macintyre Care	29,391.40	-	-	29,391.40	68,482.02	- 7,200.00	61,282.02
00426	SIV Enterprises Ltd	5,693.18	-	-	5,693.18	13,713.72	3,499.92	17,213.64
00427	Veloia Ltd (HP Refuse)	35,449.56	-	-	35,449.56	84,062.86	- 62,399.88	21,662.98
00428	HP - DC Leisure Management	30,237.69	-	-	30,237.69	64,928.83	- 16,296.00	48,632.83
00429	HP - Leisure & Community Partnership	Conts with HP - DC Leisure Management			-			-
00430	KGB Clean & Support Services Ltd	441.03	-	-	441.03	1,210.80	- 250.00	960.80

00431	APCOA	2,889.66	2.47	-	2,892.13	8,230.08	- 8,496.00	- 265.92
00432	Cleanslate (UK) Ltd	751.69	-	-	751.69	2,104.39	- 399.96	1,704.43
00433	Grayson's Restaurants	4,030.33	-	-	4,030.33	11,152.18	- 1,692.00	9,460.18
00434	DELL Corporation Ltd	3,057.98	-	-	3,057.98	6,572.88	- 2,400.00	4,172.88
00435	Superclean - Fire Cleaners	1,046.50	-	-	1,046.50	2,964.10	- 492.00	2,472.10
00436	Apollo Property Services Group	47,409.58	3,153.20	-	50,562.78	120,573.26	-	120,573.26
00437	Ian Williams Ltd				-		231,600.00	231,600.00
00438	Northgate UK Ltd	71,200.42	-	-	71,200.42	161,037.35	-	161,037.35
00440	NIC Services Group Ltd	485.68	-	-	485.68	1,439.31	-	1,439.31
00441	Arvato	116,626.48	-	-	116,626.48	270,594.88	-	270,594.88
00442	Kier	41,984.06	-	-	41,984.06	89,232.78	-	89,232.78
00443	Mitie	13,594.06	699.29	- 259.98	14,033.37	38,011.90	-	38,011.90
00444	Compass	1,641.73	-	-	1,641.73	4,681.62	-	4,681.62
00445	Barnados	7,828.36	-	-	7,828.36	17,311.99	-	17,311.99
00446	Active Nation	7,796.51	-	-	7,796.51	15,604.64	-	15,604.64
00447	ABM Catering Ltd (Derby Moor School)	2,806.94	-	-	2,806.94	8,509.90	-	8,509.90
00449	Cream Catering	1,625.75	-	-	1,625.75	4,767.00	-	4,767.00
00450	ABM Catering Ltd (Gayton Primary School)	213.12	-	-	213.12	476.52	-	476.52
00451	Compass Ltd (City)	14,433.36	-	-	14,433.36	37,095.60	-	37,095.60
00452	4 Children	16,475.92	-	-	16,475.92	36,137.13	-	36,137.13
00453	Cleanslate (UK) Ltd (Pottery)	749.05	-	-	749.05	2,328.69	-	2,328.69
00454	Cleanslate (UK) Ltd (City Schools)	3,400.30	-	-	3,400.30	10,509.91	-	10,509.91
00455	Office Care (Boulton Primary)	1,158.88	-	-	1,158.88	3,576.89	-	3,576.89
00456	Vinci Construction	**NOTHING PAID IN 2012/13 - WILL ALL BE COLLECTED IN 2013/14**						-
00457	Derby Museums and Arts Trust	20,566.00	-	-	20,566.00	47,478.88	-	47,478.88
00458	Elior UK plc	152.04	-	-	152.04	519.76	-	519.76
00459	Nottinham Community Housing Association	847.80	-	-	847.80	2,787.72	-	2,787.72
00460	Balfour Beatty (Derby BSF)	1,457.05	-	-	1,457.05	4,776.58	-	4,776.58
TOTALS		**33,275,490.91**	**16,021.14**	**226,419.03**	**33,517,931.08**	**88,301,829.23**	**10,364,630.26**	**98,666,459.49**

APPENDIX 6

COMMUNICATION STRATEGY

A Statement of Policy on Communications – Investments

At its meeting on 23 February 2006 the Investment Committee approved the following Communications Policy Statement for investments.

This document has been published under the terms of the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 which require an administering authority to prepare and publish a stand-alone statement setting out its policy on communications to employees, scheme members and employing authorities as well as its policy on the provision of information, the format and frequency of communications and the promotion of the scheme, also by 1 April 2006.

It is the Investment Committee's policy to provide the Fund's stakeholders with as much information as possible.

This is achieved by the following means:

1. Policy documents

The following investment related documents are available to the Fund's stakeholders on the Councils website www.derbyshire.gov.uk and in hard copy form (on request):

Statement of Investment Principles

The Statement of Investment Principles describes the broad principles adopted by the Council's Investment Committee in carrying out its duties and how it complies with best practice (Myners' Principles).

Investment Committee Annual Business Plan

The Investment Committee's Annual Business Plan includes details of the Committee's structure, its powers and duties, its objectives and targets, its delegation arrangements and its work schedule for the current financial year.

Investment Committee Annual Report

The Committee's Annual Report provides background information relating to investment markets in the previous year, extracts from the Fund's accounts and its performance details over the longer term.

Funding Strategy Statement

The Funding Strategy Statement looks at the Pension Fund's liabilities and how these are to be met over the longer term.

2. Investment Committee meetings

Investment Committee meetings are held quarterly. The Committee comprises members representing the County Council, Derby City Council and the Local Government Association (Derbyshire). Trades Union representatives attend as observers. The meetings are open to members of the public other than for exempt reports (eg those dealing with contractual arrangements). Copies of reports and minutes are available on request and are published on the Council's website.

3. Pensions News

This is a periodic publication which aims to keep employers, employees and pensioners up to date with pension matters in general and issues relating to the Derbyshire Fund in particular. The publication is also used inform stakeholders of the availability of the Fund's various policy documents.

B Statement of Policy on Communications - Pensions

At its meeting on 23 February 2006 the Pensions Committee approved the following Communications Policy Statement for pensions.

This document has been produced in accordance with the Local Government Pension Scheme (Amendment) (No 2) Regulations 2005. These require authorities that administer the Local Government Pension Scheme (LGPS) to prepare, maintain and publish a Statement of Policy concerning communications with members and employing authorities (including non-Scheme employers) including:

1. Scheme members
2. representatives of members
3. prospective members
4. employing authorities.

The Statement must set out the policy with regard to:

5. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities
6. the format, frequency and method of distributing such information or publicity
7. the promotion of the Scheme to prospective members and their employing authorities.

In fulfilling its role under the legislation the Council endeavours to ensure that its communications:

- are timely and wanted, read and understood and have clarity brevity and impact
- enable the employee and employer obtain full value from the Local Government Pension Scheme.

Communications with Scheme members

The County Council provides details of the Local Government Pension Scheme (LGPS) on appointment by:

- the letter of appointment
- a leaflet giving the basic provisions of the scheme

This information is also provided to other Scheme employers within Derbyshire's Pension Fund.

An employee's guide plus a statutory notification of admission to the LGPS is issued by the administering authority to all members within 12 weeks of joining.

A benefit statement is provided annually to all Scheme members.

The Council promotes its public website as its principal means of communicating with those who have an interest in the LGPS. There is comprehensive information covering such topics as:

- about the Scheme
- provision of factsheets and estimates of benefits
- pension statements
- policy statements
- What's new
- Links to the national members' website and other related sites.

In the case of those who do not have access to the internet or, where paper copies are required, the Council's contact centre, Call Derbyshire and its Pensions Section provide booklets and factsheets on request.

Active members receive a copy of the publication, Derbyshire Pensions News each year. This covers changes to the Scheme, information on investments and the accounts, topical matters on the LGPS and how to obtain further information.

Retired members each receive a copy of Derbyshire Pensioners News each year dealing with the annual increase in pensions, pay days and topical issues.

Deferred members receive an annual benefit statement together with details of any changes to the Scheme insofar as they affect them.

Prospective members have access to the website and can request a copy of the Scheme guide and factsheets.

Scheme employers are informed of changes to the Scheme, policies and procedures by an Employer's Newsletter. These are issued as and when required in both electronic and paper format.

Non-scheme employers are made aware of the provisions of the LGPS by the Council's website.

Representatives of members - All general information on the LGPS is available to trade unions via the website and changes in the Council's policies are communicated in writing to the recognised trade unions.