

DERBYSHIRE COUNTY COUNCIL

Pension Fund Annual Report

Year ended 31 March 2015

Pension Fund Annual Report for the Year ended 31 March 2015

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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 2014-15 and over the longer term and these are compared with benchmark index returns and local authority average returns over the same periods. The major development in respect of investments during the year was the decision to switch the European Equity Portfolio, currently managed externally by UBS Global Investment Management, from active to passive management. 2015-16 will see the production of a new Statement of Investment Principles, incorporating a revised Asset Allocation.

In terms of administration 2014-15 has been a particularly dynamic year on a number of fronts. It was the first year since the change of scheme basis from 'Final Salary' to 'Career Average Revaluated Earnings' (CARE), which has challenged not only the pensions administration team, but also the Fund's employing authorities and the pensions and payroll software providers.

The challenge was exacerbated by the switch from 1 December 2015 to a new pensions administration system. This involved the migration of 90,000 records, the development of new processes and a full program of staff training.

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 in the Valuation Report under section G.

Further information relating to the Fund is available on Derbyshire County Council's website at <http://www.derbyshire.gov.uk-working-for-us-pensions->.

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A Management and Financial Performance

1. Investments

Responsibility for the investment of the Pension Fund is delegated to the County Council's Pensions and Investment Committee. The Committee comprises members representing Derby City Council as well as the County Council. Employee representatives attend as non-voting members. During 2014-15, the Committee received advice from the County Council's Director of Finance and 2 independent Investment Advisers:

John Somers (Aviva Investors)
Philip Williams (Independent)

John Somers ceased to be an advisor to the Fund from 31 December 2014 following Aviva's withdrawal from advisory services.

Pensions and Investment Committee Membership 2014-15

As at 31 March 2014

As at 31 March 2015

County Councillors

W Burrows (Chair)
D Collins
R Davison
S Ellis
S Freeborn
M Longden
S Marshall-Clarke (Vice Chair)
D Wilcox

J Frudd
P Dunn
R Davison
S Ellis
S Freeborn
M Longden
S Marshall-Clarke (Chair)
D Wilcox (Vice Chair)

Derby City Council

Councillors

D Roberts
M Titley

B Shanker
M Titley

Employee representatives attend the meetings as non-voting members

P Berrisford (Unison)
N Read (Unison)

P Berrisford (Unison)
N Read (Unison)

Terms of Reference

With regard to the Fund's Investments, the main powers and duties of the Pensions and Pensions and Investment Committee are based on the provisions of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2009, and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 which 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 Statement of Investment Principles, Governance Policy and Communications Statements have been produced by the Pensions and Investment Committee and are available on the Council's website.

Other Duties

- Investment decisions relating to unquoted investments such as direct property, private equity and infrastructure.
- Voting decisions not covered by voting guidelines

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*, Infrastructure and Private Equity.**

(* through pooled investment funds)

By the in-house team comprising:

Peter Handford (Director of Finance)

Richard Appleby (Assistant Director of Finance)

The Investment Section

Investment Management

Steve McManus (Investment Officer)*

Richard Fanshawe (Fund Manager)

Julian Green (Fund Manager)

David Henry (Fund Manager)

Vanessa Jacka (Fund Manager)

Dawn Kinley (Fund Manager)

Neil Smith (Assistant Fund Manager)

Christopher Gooding (Research Analyst)

*Steve McManus left the Fund in December 2014. Dawn Kinley is now the Acting Investment Officer.

Accounts-Treasury Management-Administrative Support

Rajwant Dosanjh/Sarah Wainwright (Pension Fund Accountant)

Jonathan Clarke (Senior Assistant)

Lesley Crowder (Settlements Officer)

Catherine Bedford (Investment Clerk)

Abbie Casey (Investment Clerk)

- (b) **Direct Property**

Keneth Peters & Co (Advisors and Agents)

- (c) **European Equities**

UBS Global Investment Management (in a passive capacity)

- (d) **North American Equities**

Wellington Management International (in a discretionary capacity)

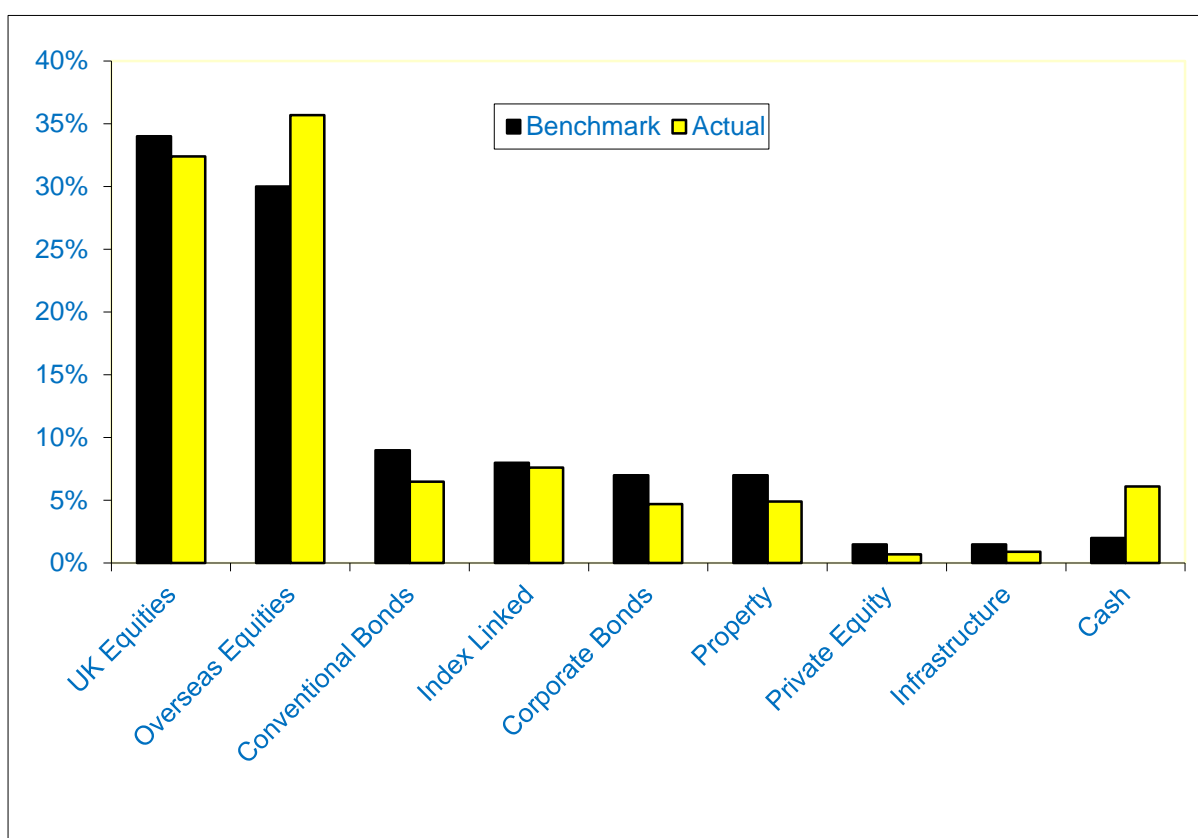
2 Financial Performance

The costs of managing the pension fund in 2014-15 were as follows:

	Cost £000s	Members	Cost per member
Investment Management	4,742	89,868	£52.77
Pensions Administration	1,543	89,868	£17.17
Actuarial-Audit fees	92	89,868	£1.02

Asset Allocation 31 March 2015

The Fund's asset allocation as at 31 March 2015 was as follows:



The Pension Fund added to UK equities, reinvesting the majority of UK equity income received. Equity holdings in Europe, and Japan were also increased on attractive opportunities. However, equity holdings in the US were reduced as the US market became increasingly expensive compared to other markets. The Fund also reduced its exposure to Index Linked Bonds following very strong performance in the asset class, and switched some monies from Private Equity to Infrastructure, in addition to investing new funds in Infrastructure.

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 4.6% pa)

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

Market Background 2014-15

Equity markets continued to perform strongly in 2014-15, although there were notable regional differences. Japan was the strongest performing major developed market with a total return of **27.1%** to UK investors, followed by the US which returned **25.1%**. The US return to UK investors was boosted by the strength of the dollar from the summer onwards, accounting for almost half of the annual US equity return. UK equities returned a more modest **6.6%**, constrained by the heavy resource weighting in the UK market, and worries ahead of the May 2015 General Election. Pacific Asia ex Japan and Emerging equities bounced back from the previous year, returning **12.8%** and **16.3%** respectively.

Bonds performed strongly in the period, after a disappointing 2013-14, with Conventional Bonds returning **13.9%**, Index Linked **18.6%**, and Corporate Bonds **13.6%**. Long dated bonds performed particularly well, with yields hitting historic lows. Spreads between corporate and sovereign bonds tightened slightly after widening over the winter months. Property had another strong year returning **18.3%**, boosted by falling yields and increasing evidence of rental growth.

B Investment Performance

Investment performance is calculated independently by the WM Company on a quarterly basis. Results are considered by the Pensions and 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 2014-15. Also shown are rolling 3, 5 and 10 year results along with inflation figures to give an indication of real returns.

1 April 2014 - 31 March 2015

The Fund's results for 2014-15 are shown below and compared with Benchmark index returns for the same period

	DCC %	Benchmark Index %
UK Equities	5.8	6.6
Overseas Equities		
North America	30.8	25.1
Europe	7.3	7.5
Japan	27.4	27.1
Pacific ex Japan	22.5	12.7
Emerging Markets	7.1	16.3
Fixed Interest		
UK Government Bonds	13.9	13.9
UK Corporate Bonds	12.3	13.6
Index linked	18.3	18.5
Property	16.5	18.3
Total	12.8	12.6

The Fund outperformed its benchmark, returning **12.8%** compared to 12.6% for the benchmark.

Within equities, the Fund outperformed in North America, Japan and Pacific ex Jap and underperformed in the UK, Europe and Emerging Markets.

The Fund was in line with the benchmark in Conventional Bonds and underperformed in Index Linked, Corporate Bonds and Property.

All the asset class returns came in strongly ahead of CPI inflation which was flat in the year to March 2015, and RPI inflation which was 0.9% over the same period.

Longer Term Performance (periods to 31 March 2015)

Performance for the Fund over 3, 5 and 10 years to 31 March 2015 is shown below.

	3 years	5 years	10 years
	% pa	% pa	% pa
Derbyshire	10.9	8.7	8.3
Average Local Authority	11.0	8.7	7.9
Benchmark Returns	10.5	8.7	7.9
Consumer Price Index	1.5	2.4	2.5
Retail Price Index	2.2	3.1	3.0

The Derbyshire Fund has outperformed against its benchmark for the one, three and ten year periods, and performed in line for the five year period. It is important to note that the Fund returns were comfortably ahead of inflation, delivering real returns over all periods.

The Derbyshire Fund has matched the Local Authority Average Fund return over the five year period and outperformed it over the ten period, while fractionally underperforming over three years.

Costs

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

	2012-13	2013-14	2014-15
DCC	£48.44	£61.94	£52.77
Shire County average*	£88.07	£101.80	N/A

[* Source: Department for Communities & Local Government (CLG) statistics on the Local Government Pension Scheme. The figures for 2014-15 were not available as at July 2015.]

Derbyshire Pension Fund's 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 2015 were as follows:

Name of company	Value of Holding £000s
Royal Dutch Shell plc	64,801
HSBC plc	58,538
GlaxoSmithKline plc	48,761
BP plc	47,600
AstraZeneca plc	35,847
British American Tobacco plc	35,757
Vodaone plc	35,264
Prudential plc	30,096
Diageo plc	28,078
Mercantile Investment Trust plc	26,746

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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 organisations. 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 and Investment Committee. The Committee comprises members representing Derby City Council 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.

Pensions and Investment Committee Membership 2014-15

As at 31 March 2014

As at 31 March 2015

County Councillors

W Burrows (Chair)
D Collins
R Davison
S Ellis
S Freeborn
M Longden
S Marshall-Clarke (Vice Chair)
D Wilcox

J Frudd
P Dunn
R Davison
S Ellis
S Freeborn
M Longden
S Marshall-Clarke (Chair)
D Wilcox (Vice Chair)

Derby City Council

Councillors

D Roberts
M Titley

B Shanker
M Titley

The Derbyshire Pension Fund is administered in-house on a day to day basis by the Pensions administration team 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
Nigel Dowey	Pensions Manager

The Local Government Pension Scheme (LGPS) is a statutory scheme with regulations made under the Superannuation Act 1972. The LGPS is a 'Career Average Revaluated Earnings' (CARE) scheme that is contracted out of the Second State Pension, therefore, Scheme members pay lower National Insurance contributions.

Scheme members were required during 2014-15 to pay a contribution between 5.5% and 12.5% 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 has assessed 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 and Investment 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 33.5 full-time equivalent members of staff and the cost of administration, excluding actuarial and audit fees, was £1,543,000 comprising staffing costs, IT, central charges and the cost of providing a pensions payroll for pensioners.

The Pension Section 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	2012-13	2013-14	2014-15
DCC	£14.74	£15.65	£17.17
Shire county average*	£24.90	£23.97	N/A
Metropolitan authorities average*	£19.59	£20.06	N/A

* Not available until October 2015

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 and Investment 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 2014-15, Pensions and Investment Committee considered four cases under stage 2 of the internal dispute resolution procedure.

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, an employer training event

and publications. Work was also completed on the specific Communications Strategy for 2015-16, which has as its key aspirations:

- Targeting messages to employers in a timely fashion, rather than waiting for enough information to fill a newsletter
- Collaboration between Fund and employers to communicate effectively and efficiently with Fund members
- Collaboration with LGS and other Funds
- Using the opportunities afforded by technology; specifically looking to develop self-service functionality for members and employers
- Developing feedback channels
- Monitoring cost-effectiveness
- Developing a 'brand identity' for the Fund

Legislative changes since 2014

The Local Government pensions rules changed fundamentally from 1 April 2014. Changes in the wider 'pensions world' since then have continued to put pressure on the administration function to ensure that all members are fully informed and able to make the best choices they can for themselves.

These changes include:

- Freedom and Choice

This is designed to give people in Defined Contribution (DC) schemes more freedom to choose what they do with the pension pot they build up, by removing the requirement to purchase an annuity. The LGPS is a Defined Benefit (DB) scheme, so the changes are not designed to affect our scheme, where there are already a range of choices built in. However, the way is now open for LGPS members to transfer their benefits, which are 'safeguarded' in the LGPS, to a DC scheme which is subject to the fluctuations of the stock market.

- Lifetime allowance limit

Lifetime allowance is a limit on the total value of a member's pension savings that can be achieved without triggering an excessive benefits tax charge. This includes benefits in the LGPS and benefits in other tax-registered pension arrangements. Whilst the vast majority of scheme members will not be affected, the limit has been falling in recent years and will reach £1m from 6 April 2016. This requires the administration team each year to check and notify increasing numbers of members of their position with regard to the limit, and communicate the options available. This was achieved in timely fashion during 2014-15.

- Annual allowance limit

There is also an annual limit to the amount by which the value of a scheme member's benefits can increase before attracting a further tax charge. This is presently at £40,000 and affects high earners and long serving members who either receive a significant pay increase or make substantial additional contributions (eg AVCs) during the year. Again, the administration team checks for this each year and writes to the members affected.

Web pages

The team has kept the web pages up-to-date throughout with all the information members need, as well as forms and guidance for scheme employing authorities. The Pension Fund web pages are currently hosted on the Derbyshire County Council website at http://www.derbyshire.gov.uk/working_for_us/pensions/.

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D Pensions Administration - Facts and Figures

(a) Membership

	31/03/2013	31/03/2014	31/03/2015
Contributors	33,586	35,408	38,230
Deferred Pensions	23,859	26,559	25,430
Pensioners/Dependants	24,160	24,913	25,608

(b) Retirements from active status:

	31/03/2013	31/03/2014	31/03/2015
Ill Health	34	38	29
Age retirement	427	459	524
Flexible	50	58	56
Redundancy	181	121	108
Efficiency	12	15	51
Employer Consent	11	8	0
Total	715	699	768

(c) Retirements from deferred status

	31/03/2013	31/03/2014	31/03/2015
Ill Health	10	15	5
Age retirement	377	447	450
Employer Consent	7	7	0
Total	394	469	455

(d) Deaths in service

	31/03/2013	31/03/2014	31/03/2015
Deaths in service	27	22	30

(e) Deaths of deferred pensioners

	31/03/2013	31/03/2014	31/03/2015
Deaths of deferred pensioners	26	20	15

(f) Deaths of pensioners/dependants

	31/03/2013	31/03/2014	31/03/2015
Deaths of pensioners & dependants	661	679	655

(g) Transfers-in

	31/03/2013	31/03/2014	31/03/2015
Interfund Transfers (from the Local Government Pension Scheme)	106	93	54
Club Transfer (Public Sector Transfer Club)	18	17	11
Non Club	3	2	0
Personal Pension	1	-	0
Total	128	112	65

(h) Transfers-out

	31/03/2013	31/03/2014	31/03/2015
Interfund Transfers (from the Local Government Pension Scheme)	114	90	33
Club Transfer (Public Sector Transfer Club)	54	50	20
Non Club	17	16	10
Personal Pension	0	1	0
Overseas	5	6	4
Total	190	163	67

(i) Trivials

	31/03/2013	31/03/2014	31/03/2015
From active status	16	32	1
From deferred status	78	94	3
From pension in payment	-	142	9
Total	94	268	13

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

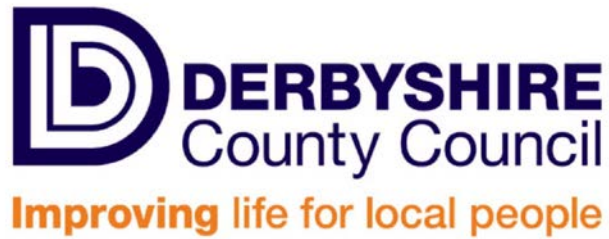
(j) Schedule of Contributions

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.

FUND ACCOUNT AND NET ASSET STATEMENT



Statement of Accounts Pension Fund 2014-15

DIRECTOR OF FINANCE, PETER HANDFORD CPFA

PENSION FUND ACCOUNTS - EXPLANATORY FOREWORD

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 90 other organisations including academies, charities and some private companies providing services to local councils.

The Fund manages the pensions of almost 90,000 individuals, either active contributors, pensioners or deferred pensioners, receiving over £158m in contributions and this year paying out over £187m in pension benefits, after payment of a group transfer out in respect of the Derbyshire Probation Trust which amounted to £46m. The Fund also manages investment assets of £3.6bn over a full range of asset classes, including equities, gilts, other bonds, property and cash.

Members' Statistics

	Actuals		
	31.03.2013	31.03.2014	31.03.2015
Contributors	33,586	35,408	38,230
Pensioners and Dependants	24,160	24,913	25,608
Deferred Pensions	23,859	26,559	26,030

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	2014-15 %	2015-16 %
Derbyshire County	13.5 plus £14,131,000	13.5 plus £14,597,000
Amber Valley Borough	12.0 plus £961,000	12.5 plus £993,000
District of Bolsover	12.9 plus £876,000	12.9 plus £905,000
Chesterfield Borough	13.2 plus £1,811,000	13.2 plus £1,871,000
Derby City	12.5 plus £7,311,000	12.5 plus £7,521,000
Derbyshire Dales	12.6 plus £586,000	12.6 plus £606,000
Erewash Borough	12.1 plus £1,024,000	12.1 plus £1,057,000
High Peak Borough	12.4 plus £1,668,000	12.4 plus £1,723,000
North East Derbyshire	12.7 plus £1,389,000	12.7 plus £1,424,000
South Derbyshire	12.8 plus £616,000	12.8 plus £637,000

The percentage rates determined by the Actuary in the valuation of the Fund at 31 March 2013, for 2014-15 onwards, 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. Amber Valley Borough has elected to pay contributions which will increase over the next three years.

PENSION FUND ACCOUNTS - EXPLANATORY FOREWORD

Members' Contributions

For 2014-15 the contribution rates payable by members into the Fund are determined by the Local Government Pension Scheme 2013 Regulations. The rates are between 5.5% and 12.5% of members' pay, including non-contractual overtime, depending on their pay banding.

Investment Policy

During 2014-15 responsibility for policy matters rested with a Pensions and Investment Committee of eight County Councillors, two Derby City Councillors and two Trades Union representatives attending as non-voting members. The Pensions and Investment Committee received advice from the Director of Finance and from two independent external advisers.

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 Fund has a central benchmark asset allocation which is designed to meet the performance requirements for the level of risk agreed by the Pensions and Investment Committee. The Pensions and Investment Committee has a degree of flexibility around the central benchmark allocation and decides the specific allocations (weights) for each asset class at its quarterly meetings. In the table below, the column showing the benchmark return is what would have been achieved via neutrally weighted index returns, whereas the actual Fund returns are a function of both active asset allocation and active stock selection decisions.

The table below shows the Fund's returns over 1, 3, 5 and 10 years to 31 March 2015, compared to those of its specific benchmark, as well as the impact of inflation on Fund returns.

Periods to 31 March 2015	Return		Inflation		Fund Real Return	
	Derbyshire Fund	Benchmark	CPI	RPI	Versus CPI Inflation	Versus RPI Inflation
	% pa	% pa	%	%	%	%
1 Year	12.8	12.6	0.0	0.9	12.8	11.6
3 Years	10.9	10.5	1.5	2.2	9.3	8.1
5 Years	8.7	8.7	2.4	3.1	6.2	5.4
10 Years	8.3	7.9	2.5	3.0	5.7	4.8

PENSION FUND ACCOUNTS - EXPLANATORY FOREWORD

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

The Fund has outperformed against its benchmark for the one, three and ten year periods and performed at the benchmark level for the five year period. It is important to note that the Fund returns were comfortably ahead of inflation, delivering real returns over all periods.

In the twelve months to March 2015 equity returns to Sterling investors were positive, ranging from 6.6% in the United Kingdom to 27.1% in Japan. A large part of the variance was caused by currency movements but Japan also benefited from a recovery in corporate earnings, a healthier economic outlook and continued monetary easing. Returns from bonds were also positive, with UK gilts returning 13.9%, UK index-linked bonds returning 18.5% and corporate bonds returning 18.6%. Bond returns benefited from renewed concerns about a general slowdown in global growth, geopolitical uncertainties and a lack of inflationary pressure. Property had another strong year, delivering a return of 18.3%, with yields falling in primary and secondary markets but emerging signs of rental growth in prime property.

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 2013 to set the level of employer contributions for the three years commencing 1 April 2014. The Net Assets of the Pension Fund at 31 March 2013 were £3.120bn.

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, which are detailed in the following table.

PENSION FUND ACCOUNTS - EXPLANATORY FOREWORD

	Assumption
Asset Out-Performance*	1.60%
Discount Rate (Pre Retirement)	4.60%
Discount Rate (Post Retirement)	4.60%
CPI Price Inflation	2.50%
Real Earnings Inflation (Over CPI Inflation)	0.80%
Salary Increases**	3.30%
Pension Increases (except pre 88 GMP)	2.50%
Revaluation of deferred pension	2.50%

* Asset Out-Performance assumptions represent the expected out-performance of investment returns relative to gilts.

** An allowance is also made for promotional pay increases.

The actuarial value placed on the assets represented 82.5% of the value of the past service liabilities compared with 81.2% at the 2010 valuation. This deficit is being recovered in accordance with the Funding Strategy Statement, which is available on the Council's website at

[www.derbyshire.gov.uk/working for us/pensions/investments/funding strategy](http://www.derbyshire.gov.uk/working%20for%20us/pensions/investments/funding%20strategy).

A number of factors, both positive and negative, have impacted on the funding level. The overall funding level has improved because the Fund's value has increased more than the increase in the cash value of the deficit. Actual investment returns were approximately 7% greater than the expected three-year return in the actuarial assumptions, decreasing the deficit. Deficit funding contributions from the contributing employers and the overall impact of demographic experience also reduced the deficit. However, these deficit reductions were more than off-set by a decrease in the real discount rate between 2010 and 2013 which resulted in a large increase in the value of the Fund's liabilities.

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 ACCOUNTS

FUND ACCOUNTS AND NET ASSET STATEMENT

PENSION FUND ACCOUNT

2013-14 £'000		Note	2014-15 £'000
	Contributions and Benefits		
141,702	Contributions	7,24	150,048
7,367	Transfers In	8	8,310
149,069			158,358
(124,890)	Benefits	9,24	(134,571)
(6,880)	Payments to and on Account of Leavers	10	(51,197)
(1,512)	Administrative Expenses	11	(1,635)
(133,282)			(187,403)
15,787	Net (Withdrawals)/ Additions from Dealings with Members		(29,045)
	Return on Investments		
82,408	Investment Income	12	76,118
(4,307)	Taxes on Income	13	(4,716)
114,723	Profits and Losses on Disposal of Investments and Changes in Value of Investments	15	333,499
(5,381)	Investment Management Expenses	14	(4,742)
187,443	Net Return on Investments		400,159
203,230	Net Increase in the Net Assets Available for Benefits During the Year		371,114
3,120,045	Net Assets of The Fund at 1 April		3,323,275
3,323,275	Net Assets of the Scheme Available to Fund Benefits at the Period End		3,694,389

NET ASSETS STATEMENT

31.03.2014 £'000		Note	31.03.2015 £'000
3,317,489	Investment Assets	15,16	3,685,695
(6,151)	Investment Liabilities	15,16	(6,387)
15,440	Current Assets	18	17,715
(3,503)	Current Liabilities	19	(2,634)
3,323,275	Net Assets of the Scheme Available to Fund Benefits at the Period End		3,694,389

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

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, former NHS employees and new employees working in Public Health, 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 Pensions and 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 present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 23 of these accounts.

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 in the United Kingdom 2014-15 ("the Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK Public Sector and is 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.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

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 2015. 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.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

Property is included at market value as at 31 March 2015, 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 LLP, 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

	2013-14	2014-15
	£'000	£'000
Employers		
Normal	70,325	77,217
Deficit Funding	36,913	36,741
Augmentation	19	-
Members		
Normal	34,445	36,090
	141,702	150,048

Employers' contributions rates payable in 2014-15 were set as part of the 2013 valuation which revealed an overall funding level of 82.5% (2013-14: set as part of the 2010 valuation, overall funding level 81.2%).

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

8. Transfers in

	2013-14	2014-15
	£'000	£'000
Group transfers in from other schemes	2,989	6,259
Individual transfers in from other schemes	4,378	2,051
	7,367	8,310

The East Midlands Police Collaboration Programme has resulted in a number of functions from the police forces of Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire transferring to the Derbyshire Constabulary. During 2014-15 group transfer amounts for transferred LGPS members of the Leicestershire, Lincolnshire and Nottinghamshire forces were finalised and a total of £5.782m was received by the Fund. As part of the agreement between the forces, any deficits that arise in the Fund in relation to these group transfers are to be recovered from the respective forces over a seven year period. Payments to the Fund can only be made by the Derbyshire force as a participating employer. Given this, a legal agreement has been drawn up to allow deficit recovery payments from each of the ceding police forces to be made to the Derbyshire force, which in turn will pay the deficit recovery amounts to the Fund.

The Northamptonshire force group transfer in is in the process of being calculated by the Fund's Actuary, with the transfer anticipated to complete in 2015-16. At this stage, the value of the assets and liabilities transferring to the Fund has not been finalised and the Fund's Actuary has confirmed that it is not appropriate to include these assets in the financial statements at 31 March 2015.

Group transfers in also includes a 2014-15 cash receipt of £0.477m from Staffordshire LGPS in respect of the transfer of employees from Staffordshire Moorlands District Council to Derbyshire County Council who are LGPS members.

2013-14 group transfers in relate to cash received in May 2014 in respect of LGPS benefits of past and present employees of Leek College, following this employer's business combination with Derby University.

9. Benefits

	2013-14	2014-15
	£'000	£'000
Pensions	100,310	104,925
Commutation of pensions and lump sum retirement benefits	21,122	25,990
Lump sum death benefits	3,458	3,656
	124,890	134,571

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

10. Payments to and on account of leavers

	2013-14	2014-15
	£'000	£'000
Refund of contributions	2	140
Group transfers out to other schemes	-	46,437
Individual transfers out to other schemes	6,878	4,620
	6,880	51,197

A major Ministry of Justice reform of the system for the management and rehabilitation of offenders in England and Wales has resulted in services that were delivered by 35 Probation Trusts being delivered instead by 21 Community Rehabilitation Companies and a newly created National Probation Service. Employees transferred from the existing Probation Trusts to these new bodies on 1 June 2014. Under the new arrangements the Greater Manchester Pension Fund (GMPF) will act as the LGPS administering body. Group transfers out relates to the resulting transfer of all members who are past and present employees of the Derbyshire Probation Trust (Trust) to GMPF. During 2014-15, following finalisation of transfer regulations, £46.437m was paid in cash from the Fund to GMPF in respect of the Trust's share of the Fund's assets. All liabilities in relation to the Trust have also transferred to GMPF. This payment has largely contributed to there being a net withdrawal from dealings with members in the Pension Fund Account of £29.045m (2013-14, £15.787m addition).

11. Administrative expenses

	2013-14	2014-15
	£'000	£'000
Administration and processing	1,360	1,543
Actuarial fees	127	63
Audit fee	25	29
	1,512	1,635

Actuarial fees in 2013-14 were higher than average as a result of the triennial actuarial valuation of the Fund at 31 March 2013 and a review of the Fund's actuarial processes, following the appointment of Hymans Robertson LLP as the Fund's Actuary, which took place during that year.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

12. Investment income

	2013-14	2014-15
	£'000	£'000
Income from fixed interest securities	9,080	8,305
Dividends from equities	60,486	54,712
Income from index-linked securities	3,412	3,316
Income from pooled investment vehicles	2,261	2,826
Rents from properties	6,365	6,236
Interest on cash deposits	804	723
	82,408	76,118

Additional information in respect of dividends from equities in 2014-15 is provided in Note 15.

13. Taxes on income

	2013-14	2014-15
	£'000	£'000
Irrecoverable taxation	4,307	4,716

14. Investment management expenses

	2013-14	2014-15
	£'000	£'000
Administration, management and custody	5,299	4,665
Performance measurement services	10	29
Legal and other advisory fees	72	48
	5,381	4,742

Administration, management and custody expenses include £0.815m (2013-14: £1.250m) in respect of the refurbishment of investment properties and £0.680m (2013-14: £0.839m) of direct expenses arising from investment properties.

External investment manager fees relating to European investments included within Administration, management and custody expenses have decreased by £0.481m in 2014-15, following changes to the Fund's European portfolio and its management (Note 15).

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

15. 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	281,754	217,571	(229,710)	24,509	294,124
Equities	1,897,780	506,349	(789,398)	153,807	1,768,538
Index-linked securities	261,640	30,952	(47,062)	45,645	291,175
Pooled investment vehicles	540,099	698,949	(321,175)	117,990	1,035,863
Properties	103,885	-	-	10,040	113,925
Currency hedging contracts	6,959	32,242	(32,399)	(6,802)	-
	3,092,117	1,486,063	(1,419,744)	345,189	3,503,625
Cash deposits & short term loans	207,584				165,984
Other investment balances	17,788				16,086
	3,317,489				3,685,695
Investment liabilities					
Currency hedging contracts	-	403,878	(394,383)	(11,690)	(2,195)
Other investment balances	(6,151)				(4,192)
	(6,151)				(6,387)
	3,311,338				3,679,308

The total of profits and losses on disposal of investments and changes in value of investment assets and investment liabilities has increased the Fund's value by £333.499m during 2014-15. This total includes all increases and decreases in the market value of investments held at any time during the year and profits and losses realised on sales of investments during the year.

Included within the above purchases and sales figures are transaction costs of £0.819m. These comprise stamp duty (£0.419m) and commissions paid to stockbrokers (£0.400m). Costs are also incurred by the Fund through the bid-offer spread on investments within pooled investment vehicles. Such costs are not separately identifiable.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

During 2014-15, following a strategic decision by the Pensions and Investment Committee, the Fund sold its entire direct holding of European equities, which were actively managed by the external manager UBS Global Asset Management (UK) Limited ("UBS"). Units were purchased in the UBS Life Europe Ex-UK Equity Tracker Fund, a pooled investment vehicle, which aims to match the performance of the FTSE All-World Developed Europe Ex-UK Index measured in Sterling. The Fund reflects income in its unit price rather than distributing it. This action has resulted in a decrease in external manager investment fees (Note 14), a reduction in dividends from equities (Note 12) and an increase in equities sales and pooled investment vehicles purchases (Note 15) in 2014-15.

At 31 March 2015 the value of the Fund's investment in the UBS Life Europe Ex-UK Equity Tracker Fund was £338.8m, representing 9.2% of the total value of the Fund's net assets available for benefits (2014, no single investment holding exceeded 5% of the Fund's net assets). This holding is categorised as an in-house investment, which is consistent with the categorisation of existing pooled investment vehicles held as stock selection decisions.

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 was one currency hedging contract, with less than six months to expiry, with a gross contract value of £113.043m (2014, four contracts, all with less than six months to expiry, with a gross contract value of £98.923m).

	31.03.2014	31.03.2015
	£'000	£'000
Fixed interest securities		
UK public sector quoted	256,776	274,039
UK corporate quoted	16,053	-
Overseas public sector quoted	8,925	20,085
	281,754	294,124
Equities		
UK quoted	1,083,691	1,161,964
Overseas quoted	814,089	606,574
	1,897,780	1,768,538
Index-linked securities		
UK public sector quoted	172,216	197,498
Overseas public sector quoted	89,424	93,677
	261,640	291,175

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	31.03.2014	31.03.2015
	£'000	£'000
Pooled Investment Vehicles		
Property – unquoted	56,346	67,557
Other quoted	351,903	760,216
Other unquoted	131,850	208,090
	540,099	1,035,863
Properties		
UK freehold	65,960	72,225
UK leasehold	37,925	41,700
	103,885	113,925
Cash deposits and short term loans		
Sterling cash deposits	25,699	49,707
Money market funds	59,477	30,000
Other Sterling short term loans	115,000	70,000
Foreign currency	7,408	16,277
	207,584	165,984

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'.

	31.03.2014		31.03.2015	
	£'000	%	£'000	%
In-house	2,635,364	79.6	3,233,197	87.9
Wellington Management International Ltd	359,238	10.8	446,111	12.1
UBS Global Asset Management (UK) Ltd	316,736	9.6	-	-
	3,311,338	100	3,679,308	100

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

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 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
Daiwa SBI – Japan Equity Fundamental Active	Luxembourg
Fidelity Eurozone Select Real Estate 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

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

	31.03.2014		31.03.2015	
	£'000	%	£'000	%
UK	2,087,321	63.0	2,234,024	60.7
N America	439,828	13.3	560,353	15.2
Europe	337,049	10.2	340,179	9.3
Asia and other	447,140	13.5	544,752	14.8
	3,311,338	100	3,679,308	100

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:

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	31.03.2014	31.03.2015
	£'000	£'000
Equitable Life Assurance Society		
with profits fund	294	282
unit-linked funds	527	543
building society fund	8	8
Total Equitable Life Assurance Society	829	833
Standard Life		
managed fund	568	649
multi asset managed fund	76	79
protection fund	18	40
ethical fund	82	85
with profits fund	255	267
Total Standard Life	999	1,120
Prudential Assurance Company Ltd		
deposit fund	3,083	3,038
with profits cash accumulation fund	606	1,012
cash fund	23	43
discretionary fund	105	208
fixed interest fund	56	54
global equity fund	48	73
index-linked fund	100	129
international equity fund	25	71
property fund	33	73
retirement protection fund	107	108
socially responsible fund	6	12
UK equity fund	62	67
UK equity (passive) fund	58	100
Total Prudential Assurance	4,312	4,988

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	31.03.2014	31.03.2015
	£'000	£'000
Clerical Medical		
with profits fund	443	405
unit linked fund	38	56
Total Clerical Medical	481	461
Total AVC Investments	6,621	7,402
Death in Service Cover		
Equitable Life	435	413

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.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	Equitable		Standard	Clerical	
	Life	Prudential	Life	Medical	Total
	£'000	£'000	£'000	£'000	£'000
Value at 1.4.2014	829	4,312	999	481	6,621
Income					
Contributions received	6	1,378	41	18	1,443
Interest and bonuses and change in market value	72	159	95	28	354
Transfers in	-	-	1	-	1
Expenditure					
Life assurance premiums	(1)	-	-	-	(1)
Retirement benefits	(73)	(767)	(16)	(66)	(922)
Transfers out and withdrawals	-	(94)	-	-	(94)
Value at 31.3.2015	833	4,988	1,120	461	7,402

18. Current assets

	31.03.2014	31.03.2015
	£'000	£'000
Employers' contributions due	8,817	6,218
Employees' contributions due	1,567	1,659
Group transfer in due	2,989	-
Amounts owed by Derbyshire County Council	297	3,002
Sundry debtors	1,054	1,473
Cash balance	716	5,363
	15,440	17,715

Employers' and employees' contributions due at 31 March 2015 have been received since the year-end, except for Derby City Council shortfall contributions of £0.414m, which are expected to be paid imminently.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

19. Current liabilities

	31.03.2014	31.03.2015
	£'000	£'000
Unpaid benefits	2,072	1,343
Sundry creditors	1,431	1,291
	3,503	2,634

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 2014-15 are charges from the Corporate Finance Division and other Council departments of £1.947m (2013-14, £1.731m) for expenses incurred in administering the Fund.

In addition, interest of £0.001m (2013-14, £0.001m) was paid by the Council to the Fund in 2014-15.

At 31 March 2015 the Council owed the Fund £3.002m (2014: £0.297m).

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 34 and 35 of the Council's Statement of Accounts.

21. Investment commitments

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

The Other Sterling short-term loans commitments are commitments to make short-term investments at the year-end. 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. These commitments will be met using funds received from the maturity of earlier investments and therefore have no impact on the financial position reported. There was one such commitment at 31 March 2015 (2014, none).

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

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	31.03.2014	31.03.2015
	£'000	£'000
Unquoted investments	7,961	5,563
Other Sterling short-term loans	-	2,000
	7,961	7,563

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 Pensions and Investment Committee. 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.

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

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 2014-15 was approved by the Full Council on 5 February 2014.

The Fund's maximum exposure to credit risk in relation to its treasury/cash deposit investments and operating cash in banks, building societies, money market funds and UK local authorities of £171.347m (2014, £208.300m) 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 2015 that this was likely to occur. No breaches of the Fund's counterparty criteria occurred during the reporting period. Under new banking arrangements the main operational bank accounts of the Fund and the Council were transferred from the Co-operative Bank to Lloyds Bank on 6 October 2014. At 31 March 2015 the Fund had £5.363m in its operational account with

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Lloyds Bank. The Fund's Co-operative Bank account was closed on 6 March 2015.

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 3% (2014, 3%) of investment assets at the year end and by selecting large banks as the counterparties. The forward currency contract at the year end was 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 was one currency hedging contract, with less than six months to expiry, with a gross contract value of £113.043m (2014, four contracts, all with less than six months to expiry, with a gross contract value of £98.923m). 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 and US Government securities and certain corporate bond funds. 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%.

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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 liability held at the year-end was a currency hedging contract, with less than six months to expiry, on which the net liability was £2.195m (2014, 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 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

PENSION FUND ACCOUNTS

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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.

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 2015 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.

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	Value at		Value	Value
	31.03.2015	Change	on increase	on decrease
	£'000	%	£'000	£'000
Underlying asset type				
UK Government bonds	274,039	6.23	291,111	256,966
UK corporate bonds	173,636	4.89	182,127	165,145
Overseas bonds	111,567	10.12	122,857	100,276
UK equities	1,191,791	9.85	1,309,183	1,074,400
Overseas equities	1,312,187	9.60	1,438,158	1,186,218
UK index-linked	197,498	7.77	212,844	182,153
Alternatives	59,229	8.19	64,080	54,378
Cash	165,984	0.01	166,001	165,968
Other investment balances	11,894	-	11,894	11,894
Properties (non-financial instruments)	181,483	4.40	189,468	173,497
Total investment assets and liabilities	3,679,308	6.40	3,914,784	3,443,833

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 2015 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 2015 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 unhedged overseas assets.

	Value at		Value	Value
	31.03.2015	Change	on increase	on decrease
	£'000	%	£'000	£'000
Underlying asset type				
Overseas equities	1,312,187	5.67	1,386,583	1,237,792
Overseas cash	16,277	5.67	17,200	15,354
Overseas investment assets	1,328,464	5.67	1,403,783	1,253,146

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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. If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation is carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

"Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £2,930m in respect of employee members, £813m in respect of deferred pensioners and £1,666m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

	31.03.2014	31.03.2015
	£'000	£'000
Present value of Promised Retirement Benefits	4,481,000	5,409,000

It should be noted the above figures are appropriate for the Administering Authority only for the preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £743m.

Financial assumptions

My recommended financial assumptions are summarised below:

	31.03.2014	31.03.2015
Inflation/Pensions Increase Rate	2.80%	2.40%
Salary Increase Rate	3.60%	3.30%
Discount Rate	4.30%	3.20%

PENSION FUND ACCOUNTS

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Longevity assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.0 years	24.2 years
Future Pensioners*	24.1 years	26.6 years

*Future pensioners are assumed to be currently aged 45.

The assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service."

Richard Warden FFA

13 May 2015

For and on behalf of Hymans Robertson LLP

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 82 Scheduled and 47 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:

	2013-14		2014-15	
	Benefits payable	Contributions receivable	Benefits payable	Contributions receivable
	£'000	£'000	£'000	£'000
Derbyshire County Council	59,217	61,719	66,031	66,687
Scheduled Bodies	61,759	75,658	64,415	77,267
Admission Bodies	3,914	4,325	4,125	6,094
	124,890	141,702	134,571	150,048

PENSION FUND ACCOUNTS

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	Total contribution rate % of pensionable payroll	
	2014-15	2015-16
Scheduled Bodies		
Derbyshire Probation Trust - to 1 June 2014	10.1	-
Peak District National Park Authority	13.0 plus £204,000	13.0 plus £210,000
Chesterfield Crematorium	17.8 plus £26,000	17.8 plus £27,000
University of Derby	11.7 plus £677,000	11.7 plus £700,000
Chesterfield College	12.9 plus £144,000	12.9 plus £148,000
Derby College^	11.7 plus £401,000	12.2 plus £414,000
Derbyshire Police Authority	11.9 plus £1,333,000	11.9 plus £1,377,000
Derbyshire Fire & Rescue	12.2 plus £155,000	12.2 plus £160,000
Derby Homes Limited	12.4 plus £264,000	12.4 plus £272,000
Rykneld Homes	15.0 plus £19,000	15.0 plus £19,000
Landau Forte College	11.3 plus £2,000	11.3 plus £2,000
Allenton Primary - from 1 January 2015	22.8 plus £5,901	22.8 plus £24,300
Al-Madinah School	20.0	20.0
Bishop Lonsdale Church of England Primary School - from 1 June 2014	20.8 plus £1,503	20.8 plus £2,100
Brookfield Academy	13.4 plus £67,000	13.4 plus £69,000
Chellaston Academy	13.4 plus £49,000	13.4 plus £50,000
City of Derby Academy	14.4 plus £40,000	14.4 plus £40,000
Derby Pride Academy	11.5 plus £4,000	11.5 plus £5,000
Dovedale Primary School (Willows Academy Trust) - from 1 November 2014	19.6 plus £750	19.6 plus £1,800
Ecclesbourne Academy	15.2 plus £39,000	15.2 plus £40,000
English Martyrs	14.2 plus £9,000	14.2 plus £9,000
Grampian Primary Academy	13.3 plus £5,000	13.3 plus £6,000
Heanor Gate Science College	14.6 plus £56,000	14.6 plus £57,000
Hope Valley College	14.1 plus £42,000	14.1 plus £43,000
Immaculate Conception Academy Trust - from 1 December 2014	19.6 plus £1,200	19.6 plus £3,900
John Port Academy	13.7 plus £59,000	13.7 plus £61,000
Kirk Hallam Academy	13.0 plus £50,000	13.0 plus £52,000
Landau Forte Moorhead Academy	15.3 plus £14,000	15.3 plus £14,000

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

	Total contribution rate % of pensionable payroll	
	2014-15	2015-16
Leesbrook School	12.3 plus £74,000	12.3 plus £76,000
Merrill Academy	12.1 plus £40,000	12.1 plus £41,000
Newbold Church of England Primary School - from 1 July 2014	16.1 plus £7,250	16.1 plus £9,000
Newbold Community School - from 1 January 2015	24.7 plus £10,200	24.7 plus £42,108
Pennine Way Junior Academy	13.8 plus £11,000	13.8 plus £12,000
Queen Elizabeth's Grammar School Ashbourne Academy	12.6 plus £69,000	12.6 plus £71,000
Redhill Primary School	14.7 plus £8,000	14.7 plus £9,000
Sawley Infant School (Willows Academy Trust) - from 1 November 2014	17.7 plus £3,315	17.7 plus £8,304
Sawley Junior School (Willows Academy Trust) - from 1 November 2014	19.2 plus £1,000	19.2 plus £2,604
Shardlow Primary School (Willows Academy Trust) - from 1 November 2014	21.1 plus £690	21.1 plus £1,704
Shirebrook Academy	13.9 plus £51,000	13.9 plus £52,000
St Benedict Voluntary Catholic Academy	13.7 plus £96,000	13.7 plus £99,000
St George's Voluntary Catholic Academy	12.8 plus £18,000	12.8 plus £18,000
St John Fisher Catholic Voluntary Academy	14.4 plus £9,000	14.4 plus £10,000
St John Houghton Catholic Voluntary Academy	13.6 plus £30,000	13.6 plus £31,000
St Joseph's Catholic Primary School Voluntary Academy - from 1 October 2014	16.6 plus £702	16.6 plus £1,500
St Mary's Catholic High School Academy Trust	15.5 plus £43,000	15.5 plus £44,000
Staveley Netherthorpe School	13.7 plus £32,000	13.7 plus £34,000
The Bolsover Academy	14.2 plus £34,000	14.2 plus £35,000
The Long Eaton Academy	13.6 plus £54,000	13.6 plus £55,000
The Ormiston Ilkeston Enterprise Academy	13.3 plus £73,000	13.3 plus £75,000
The Ripley Academy - from 1 September 2014	22.2 plus £10,500	22.2 plus £18,708
Turnditch Primary - from 1 March 2015	26.1 plus £120	26.1 plus £1,404
West Park Academy	15.3 plus £55,000	15.3 plus £57,000
William Gilbert Primary - from 1 March 2015	25.2 plus £1,400	25.2 plus £17,604
Woodlands School	12.8 plus £47,000	12.8 plus £49,000
Wyndham Primary Academy (Boulton Primary School)	13.0 plus £10,000	13.0 plus £10,000
Town and Parish Councils - Group 1	22.8	22.8
Town and Parish Councils - Group 2	16.2	16.2

^ Stepped rate

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

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	North Wingfield Parish Council
Old Bolsover Town Council	Shardlow & Great Wilne Parish Council
Pinxton Parish Council	Tibshelf Parish Council
Shirebrook Town Council	Ticknall Parish Council
Staveley Town Council	Tupton Parish Council
Whaley Bridge Town Council	Wingerworth Parish Council
Whitwell Parish Council	
Wirksworth Town Council	

PENSION FUND ACCOUNTS

NOTES TO THE PENSION FUND ACCOUNTS

The following Admission Bodies also participate:

	Total contribution rate % of pensionable payroll	
	2014-15	2015-16
4 Children	15.5	15.5
ABM Catering Ltd (Derby Moor School)	26.9	26.9
ABM Catering Ltd (Gayton Primary School)	14.4	14.4
Dales Housing Ltd	16.4 plus £105,000	16.4 plus £108,000
Active Nation	19.9 plus £2,000	19.9 plus £2,000
APCOA Parking Services (UK) Ltd - to 18 February 2015	3.3	3.3
Apollo Property Services Group Ltd - to 31 December 2014	26.2 plus £9,000	26.2 plus £9,000
Arvato Government Services Ltd (Derbyshire Dales)	15.0	15.0
Arvato Government Services (Sefton) Ltd	23.9 plus £15,000	23.9 plus £16,000
Aspens Services Ltd	23.1	23.1
Balfour Beatty Power Networks Ltd	24.4	24.4
Balfour Beatty (Derby BSF)	18.4	18.4
Barnados	19.4 plus £1,000	19.4 plus £1,000
Belper Leisure Centre Ltd	22.8 plus £19,000	22.8 plus £20,000
Brookwood	19.6	19.6
Bulloughs - to 17 August 2014	18.4	18.4
Chesterfield Care Group	19.3 plus £3,000	19.3 plus £3,000
Churchill Contractor Services	18.1	18.1
Clean Slate (UK) Ltd (Ashgate) - to August 2014	12.3	12.3
Clean Slate (UK) Ltd (City Schools)	22.8	22.8
Clean Slate (UK) Ltd (Pottery)	23.4	23.4
Compass Contract Services (UK) Ltd	10.3	10.3
Compass Services Ltd (DCC)	20.4	20.4
Cream Catering	22.2	22.2
Dell Corporation Ltd	13.9	13.9
Derby County Community Trust	16.4	16.4

PENSION FUND ACCOUNTS

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	Total contribution rate % of pensionable payroll	
	2014-15	2015-16
Derby Museums & Arts Trust	20.9	20.9
Derbyshire Coalition for Inclusive Living (DCIL)	26.7 plus £14,000	26.7 plus £15,000
Derbyshire Student Residences Ltd	21.6 plus £2,000	21.6 plus £2,000
Elior UK plc	27.0	27.0
Elite Cleaning and Environmental Services	26.9	26.9
EMH Homes	14.1 plus £131,000	14.1 plus £135,000
European Electronique Ltd	13.4	13.4
Futures Homescape Ltd	13.8 plus £54,000	13.8 plus £55,000
Initial Catering Services Ltd	22.8	22.8
Initial Facilities Management Ltd	26.2	26.2
Kier Ltd	22.9 plus £3,000	22.9 plus £3,000
Leisure Amber Valley BC	18.2	18.2
Leisure High Peak BC	13.1	13.1
Macintyre Care Ltd	2.0	2.0
Mitie Facilities Services Ltd	24.9	24.9
NIC Services Group Ltd (Derby College)	17.6	17.6
Northgate Information Solutions UK Ltd (South Derbys DC)	23.5	23.5
Nottingham Community Housing Association - to June 2014	20.9	20.9
SIV Enterprises Ltd	4.6	4.6
Superclean Services Wothorpe Ltd (Fire)	11.2	11.2
Tramway Museum Society	24.0 plus £14,000	24.0 plus £14,000
Veolia (Amber Valley Refuse)	24.7	24.7
Veolia (Chesterfield Refuse)	26.5	26.5
Veolia Ltd (contract with High Peak BC)	0.0	0.0
Vinci Construction UK	19.2	19.2
Vinci UK Ltd (Norwest Holst Ltd)	28.7	28.7

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1 Executive summary

We have carried out an actuarial valuation of the Derbyshire County Council Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

	31 March 2010	31 March 2013
Past Service Position	(£m)	(£m)
Past Service Liabilities	2,967	3,784
Market Value of Assets	2,409	3,121
Surplus - (Deficit)	(558)	(663)
Funding Level	81.2%	82.5%

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

	31 March 2010	31 March 2013
Contribution Rates	(% of pay)	(% of pay)
Employer future service rate (incl. expenses)	11.9%	20.5%
Past Service Adjustment (19 year spread)	5.8%	7.4%
Total employer contribution rate (incl. expenses)	17.7%	27.9%
Employee contribution rate	6.4%	6.0%
Expenses	0.2%	0.2%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

Purpose

We have carried out an actuarial valuation of the Derbyshire County Council Pension Fund, as at 31 March 2013.

- This valuation report complies with all of the relevant Regulations and professional standards, as set out in **section 7**.
- The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2013, and changes being implemented from April 2014, details of which are provided in **Appendix B**.
- The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. This data is summarised in **Appendix D**.
- As part of the valuation, assumptions must be made which are discussed in **section 3** as well as in **Appendix E**. Details of our valuation approach is covered in **Appendix C**.
- The valuation results are then covered in **section 4**.
- We look at some of the risks the Fund faces in **section 5** and consider any post valuation events in **Appendix F**.
- The valuation is just one aspect of the operation of the Fund, and related issues are covered in **section 6**.
- In **Appendix G** we then set out the individual employer contribution requirements from 1 April 2014.

Component reports

This document is an “aggregate” report, i.e. it is the culmination of various “component” reports and discussions, in particular:

- The data report (mentioned in **section 7**);
- The Discussion Document (dated 22 November 2013) which outlined the actuarial assumptions and whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 17 September 2013;
- The stabilisation modelling carried out for certain employers, as detailed in our report dated 4 November 2013 and discussed on a telephone conference call with the Administering Authority on 5 December 2013; and

- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

	31 March 2010		31 March 2013	
Financial Assumptions	Nominal	Real	Nominal	Real
Pre Retirement Discount Rate	7.0%*	4.0%	4.6%	2.1%
Post Retirement Discount Rate	5.5%*	2.5%	4.6%	2.1%
Salary Increases**	4.75%	1.75%	3.3%	0.8%
Price inflation-Pension Increases	3.0%	-	2.5%	-

**For the purpose of future service rates, 6.75% p.a. was used.*

***Excluding promotional increases.*

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

We are satisfied that an AOA of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a. as at 31 March 2013.

Price inflation-pension increases

We expect the average long term difference between RPI and CPI to be 0.8% p.a.

The assumption for RPI has been derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds.

Salary increases

The long term assumption for salary increases is RPI (or CPI plus 0.8% p.a.).

The salary increase assumption has been set on the premise that it reflects the short term pay constraints currently being experienced and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2013 valuation - baseline	19.9	22.6	19.8	22.1
2013 valuation - improvements	24.1	26.6	22.0	24.2

Further details of the mortality assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2013.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends

and patterns that are present in the membership of local authority funds and tailor our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in **Appendix E**. Further commentary on these was included in the Discussion Document.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 10% lower than the figures shown here.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main 'past service' objective is to hold sufficient assets in the Fund to meet the assessed cost of members' past service benefits and the main 'future service' objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2013. The 31 March 2010 results are also shown for reference.

The results are presented in the form of a "funding level", this is the ratio of the market value of assets to the assessed cost of members' past service benefits ("liabilities").

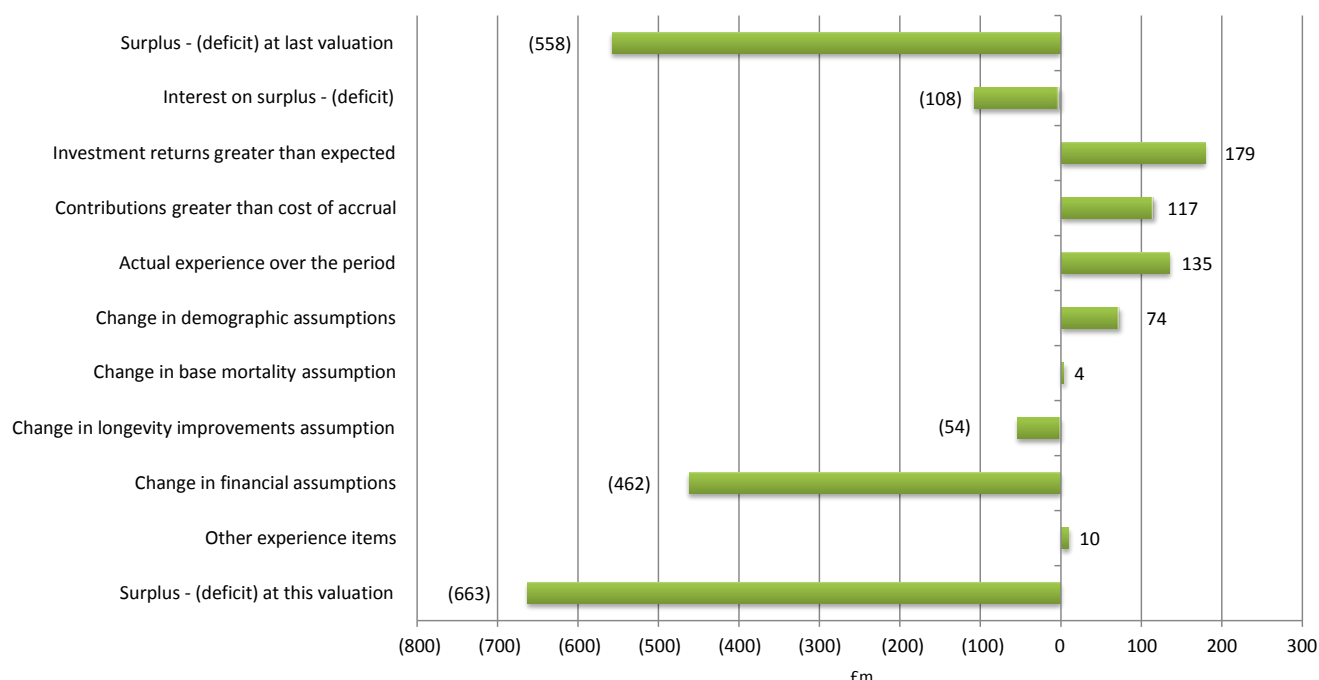
A funding level of 100% would correspond to the funding objective being met at the valuation date.

Valuation Date	31 March 2010	31 March 2013
Past Service Position	(£m)	(£m)
Past Service Liabilities		
Employees	1,516	1,681
Deferred Pensioners	345	557
Pensioners	1,106	1,546
Total Liabilities	2,967	3,784
Market Value of Assets	2,409	3,121
Surplus - (Deficit)	(558)	(663)
Funding Level	81.2%	82.5%

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members' benefits of £663m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to deteriorate between 31 March 2010 and 31 March 2013:



Further comments on the items in this chart:

- There is an interest cost of £108m. This is broadly three years of compound interest at 6.1% p.a. (an average of the discount rates used at the 2010 valuation) applied to the previous valuation deficit of £558m.
- Investment returns being higher than expected since 2010 lead to a gain of £179m. This is broadly the difference between the actual and expected three-year return (roughly 7%) applied to the whole fund assets from the previous valuation of £2,409m, with a further allowance made for cashflows during the period.
- Contributions paid being greater than the cost of benefits accrued has led to a gain of £117m.
- The overall impact of demographic experience has been a profit of £135m. This includes the impact of observed salary increases, pension increases, withdrawals, early retirements and ill health retirements.
- The impact of the change in demographic assumptions has been a profit arising of around £74m.
- The change in mortality assumptions (baseline and improvements) has given rise to a loss of £50m. This is mainly due to the change in assumed longevity improvements.

- The change in financial conditions between the previous valuation has led to a loss of £462m. This is due to a decrease in the real discount rate between 2010 and 2013. This has been partially offset by the reduction to the long term salary growth assumption at this valuation.
- Other experience items, such as changes in the membership data, have served to decrease the deficit at this valuation by around £10m.
- Note that the benefit changes that come into effect as at 1 April 2014 do not change the funding position as all past service benefits to 31 March 2014 are protected.

Future service

We have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2013 (the 'future service contribution rate'). Again, we have used the assumptions set out in the previous section of this report and the method set out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2013 and shows the 31 March 2010 for comparison.

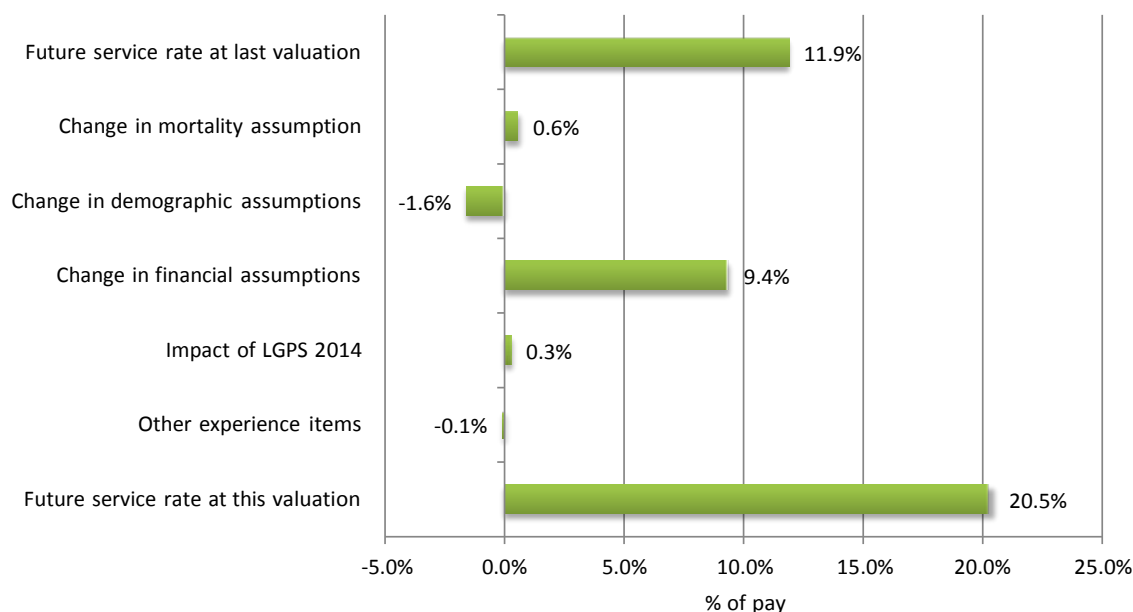
Valuation Date	31 March 2010	31 March 2013
Future service rate	% of pay	% of pay
Employer future service rate (excl. expenses)	11.7%	20.3%
Expenses	0.2%	0.2%
Total employer future service rate (incl. expenses)	11.9%	20.5%
Employee contribution rate	6.4%	6.0%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2013 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The average future service rate for Fund employers is 20.5% of pay. This rate is calculated as at 31 March 2013 and therefore forms part of the total contribution rate payable by employers from 1 April 2014. Note this rate makes an allowance for changes to the benefit structure that take effect from 1 April 2014. In practice, a future service rate for each employer has been calculated which is based on their particular circumstances and membership profile.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2010 and 31 March 2013:



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2010 and 2013 are broadly similar to those discussed for the past service position.

In addition to this, the impact of the LGPS 2014 scheme has resulted in an increase in contribution rate of 0.3% of payroll.

Total common contribution rate payable

The total (or “common”) contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 19 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

The common contribution rate based on the funding position as at 31 March 2013 is detailed below along with the results for 31 March 2010:

Valuation Date	31 March 2010	31 March 2013
Total contribution rate	% of pay	% of pay
Future service rate (incl. expenses)	11.9%	20.5%
Past Service Adjustment (19 year spread)	5.8%	7.4%
Total employer contribution rate	17.7%	27.9%

This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates. The actual employer contributions payable from 1 April 2014 are given in **Appendix G**, and these have been devised in line with the Funding Strategy Statement: see **section 6**.

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2013.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled or mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice. Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

Assumption	Change	Impact	
		Deficit (£m)	Future service rate (% of pay)
Discount rate	Increases by 0.5%	Falls by £343m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £121m	No change
Price inflation - pension increases	Increases by 0.5%	Rises by £253m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £114m	Rises by 1%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the biggest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex.

Investment risk

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.6% p.a.

The table below shows how the funding level (top), deficit (middle, in £m) and total contribution rate (bottom, as % of pay) would vary if investment conditions at 31 March 2013 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield	-0.10%	81% (700) 27.2%	86% (521) 25.1%	91% (343) 23.1%
	-0.30%	78% (841) 30.0%	82% (663) 27.9%	87% (485) 26.0%
	-0.50%	75% (989) 32.8%	79% (811) 30.9%	84% (632) 28.9%
		5912	6412	6912
FTSE 100 Price Index				

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc.) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2013 are affected by adopting different longevity assumptions.

Longevity assumption	Impact	
	Deficit (£m)	Future service rate
2010 valuation	(558)	11.9%
2013 valuation (with improvements)	(663)	20.5%
2013 valuation (further improvements)	(818)	21.8%
1 year extra	(937)	22.6%

The shaded box contains the results for this valuation.

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E**.

The “further improvements” are a more cautious set of improvements that, in the short term, assume the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as “non-peaked”.

The “1 year extra” figures relative to a further year of life expectancies beyond those assumed in “further improvements”.

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

Factor	Impact	
	Funding level	Future service rate
Greater level of ill health retirement	Decreases	Marginal
Reduced level of withdrawals	Decreases	No impact
Rise in average age of employee members	Marginal effect	Increases
Lower take up of 50:50 option	No impact	Increases

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early - ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.

We would be pleased to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions and Investment Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the register of Fund employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2016. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and-or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill- health retirements that exceed those allowed for

within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 38 of the Administration Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to Derbyshire County Council in its capacity as Administering Authority to the Derbyshire County Council Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report dated March 2014.

Actuarial Standards

The following Technical Actuarial Standards¹ are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.



Richard Warden

Fellow of the Institute and Faculty of Actuaries
Actuaries



Geoff Nathan

Fellow of the Institute and Faculty of

31 March 2014

¹ Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this 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 Pensions and Investment Committee. Pensions and 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 a Pensions and Investment Committee which reports directly to the Council is in line with recommended practice.

2. Frequency of Meetings**Current Arrangements**

The Pensions and Investment Committee meets 8 times a year to consider investment matters.

Background Information

The Pensions and 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 Pensions and Investment Committee as required.

3. Terms of Reference

3.1 Pensions and Investments Committee

The Council meeting will establish a Pensions and Investment Committee.

3.2 Composition

The Pensions and Investments Committee will be comprised of eight Councillors representing Derbyshire County Council and two Councillors representing Derby City Council.

Two trade union representatives will attend as non-voting observers.

The County Council's Director of Finance and two independent investment advisers report to the Committee.

3.3 Role and Functions

The Pensions and Investments Committee will be responsible for discharging the Council's statutory function as an employing authority and as the administering authority for the Derbyshire Pension Fund under the Superannuation Act 1972, the Local Government Pension Scheme Regulations and associated pensions legislation.

In discharging these statutory functions the Committee's responsibilities will include:-

- i. Considering applications for admission body status to the Derbyshire Pension Scheme
- ii. Management of the resolution of pension disputes in accordance with the Internal Dispute Resolutions Procedure, including the appointment of nominated persons.
- iii. Formulating and reviewing policies under the discretionary payments legislation
- iv. Appointing and reviewing the performance of the Pension Fund's actuary, additional voluntary contributions providers, external fund managers and independent investment advisers

- v. Formulation of the Fund's investment strategy in line with the Statement of Investment Principles, Funding Strategy Statement and Risk Strategy. Approval of a Treasury Management Policy
- vi. Ensuring effective communications with Pension Scheme members and pensioners
- vii. Approving and monitoring performance targets for the Pension Fund Regulations require the Committee to take advice in determining the Fund's investment policy and making investment decisions.

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

4. Structure

Current arrangements

The Committee comprises

8 council members representing Derbyshire County Council
 2 council members representing Derby City Council
 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 Pensions and 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 Pensions and Investment Committee (or in his absence the Vice Chair) and are reported to the next meeting of the Pensions and 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 and Investment Committee on 26 September 2008.

This document relates to the Pensions and Investment 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 and Investment Committee. The minutes of the Pensions and Investment Committee are reported to the Council.

The Pensions and Investment 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 and Investment Committee meets a minimum of 8 times per year.

Terms of Reference

The duties and responsibilities of the Pensions and Investment 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 and Investment 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 and Investment 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 8 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 and Investment 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 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 and Investment 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 Pensions and Investment Committee

PUBLICITY

Policy documents & publications

The following pensions related documents are available to the Fund's stakeholders on the Council's 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 and Investment 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

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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 Pensions and 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. Following an Asset-Liability Study to be completed in 2015, the SIP will be updated.

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 in respect of Investments:

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 Pensions and Investment Committee.

Therefore responsibility for the management of the Fund's Investments has been delegated to the Council's Pensions and Investment Committee, which comprises 8 County Councillors (politically balanced), and 2 Councillors from Derby City Council. 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 Pensions and 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 and Investment 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 Pensions and 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 Pensions and 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 Pensions and 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 Pensions and 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 Pensions and 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 Pensions and Investment Committee and compared with Local Authority averages and the Fund's own performance benchmarks.

Performance targets are set by the Pensions and 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 Pensions 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 Pensions and 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 Pensions and 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 though it has approval to do so.

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 Pensions and 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 Pensions and 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 Pensions and 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 Pensions and Investment Committee was prepared to take. This 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 Pensions and 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 Pensions and 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.

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Derbyshire County Council Pension Fund

Funding Strategy
Statement

March 2014

Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Derbyshire County Council Pension Fund (“the Fund”), which is administered by Derbyshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the Derbyshire County Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Derbyshire County Council Pension Fund, in effect the LGPS for the Derbyshire County Council area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report; actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'-dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent

- funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Richard Appleby Assistant Director of Finance in the first instance at e-mail address richard.appleby@derbyshire.gov.uk

2 Basic Funding Issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated

for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to

join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and-or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will risk assess each employer using a knowledge base which is regularly monitored and updated. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Police, Fire, Parish and Town Councils, Colleges and Universities	Academies, Housing Associations	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	19 years	19 years	19 years	12 years	12 years	The lower of 12 years and the outstanding contract term.
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the lower of 12 years and the outstanding contract term.
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n-a	n-a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority; and
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of the modelling carried out for the 2013 valuation exercise (see [Section 4](#)), stabilisation criteria and limits were set taking into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors. The criteria and limits will be reviewed at the 31 March 2016 valuation.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 12 years.

Note (d) (Deficit Recovery Payments)

The deficit recovery payments for each employer covering the three year period until the next valuation are set in monetary terms.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and-or moving to monetary levels of deficit recovery contributions), and-or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy's past service liabilities will be calculated using market conditions on the day prior to conversion;
- d) The new academy will receive a proportionate transfer of the ceding Council's deficit as calculated on the day prior to academy conversion. The deficit is apportioned using the past service liability of the transferring and the active past service liability of the ceding Council; and
- e) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be periodically reassessed.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting-outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (i).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract

term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Strain costs must be paid in full in the year in which the strain is incurred.

3.7 Ill health early retirement costs

The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the ill health allowance at the previous valuation, the employers future contribution rate may be adjusted to take account of this additional cost. Employers can choose to insure against certain ill health costs to negate any potential increase in their future employer rate brought about by ill health costs.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3, Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa,

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS 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 framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in April for comment;
- b) Comments were requested within 10 days;
- c) Following the end of the consultation period the FSS was updated where required and then published in May.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website,

http://www.derbyshire.gov.uk-working_for_us-pensions-investments-funding_strategy-default.asp

- A link will be sent to each participating employer in the Fund via an employer Newsletter;
- A full copy included in the annual report and accounts of the Fund;

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions and Investment Committee] and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at :

http://www.derbyshire.gov.uk-working_for_us-pensions-investments-annual_report-default.asp

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS-SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and 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 its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission-scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security-guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn</p>

Risk	Summary of Control Mechanisms
	affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <u>Note (b) to 3.3</u>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <u>Note (f) to 3.3</u>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies'</p>

Risk	Summary of Control Mechanisms
	memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <u>Notes (h)</u> and <u>(j)</u> to <u>3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f)</u> to <u>3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a)</u> to <u>3.3</u>).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued/referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix E](#)), but where it is considered appropriate to do so the Administering Authority reserves

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency - Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see [D5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit-surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return - discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds and following discussions with the Administering Authority, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed 0.95% above RPI per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum, as per the 2010 valuation.

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the release of the CMI projections model (“the CMI model”). This is a change in approach from the 2010 valuation where the rate of future longevity improvements was assumed to be in line with medium cohort projections with a minimum level of improvement of 1% per annum. Our recommended assumption for the future rate of longevity improvements is as follows:

- The current rate of improvements has reached a peak;
- Long term rate of 1.25% p.a. (or around 1 year per decade); and
- Longevity improvements for the over 90s will decline.

This is a higher allowance for future improvements than was made in 2010.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions-basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see <u>2.5</u>).
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair-recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed

cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.

Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation .
Funding level	The ratio of assets value to liabilities value: for further details (see <u>2.2</u>).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee - guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of

employer such as an Academy.

Liabilities

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Past service adjustment

The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see [3.4](#)).

Profile

The profile of an employer's membership or liability

reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Solvency

In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Theoretical contribution rate

The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013),

but can be approximately updated at other times.
The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

APPENDIX 5

2014/2015 ACCOUNTS		Employee Contributions					Employer Contributions				NOTES
EMPLOYER	EMPLOYER NAME	Basic Ees 172310	50 50 172310	Arrears 172311	Add'n 172312	Total Employees	Deficit Payment 172314	Employer Conts 172315	Employer APC 172315	Total Employers	
00001	Derbyshire County Council	15,816,814.91	2,610.70	6,152.90	137,975.98	15,963,554.49	-	50,203,757.39		50,203,757.39	ADMINISTERING
00020	National Probation Service	96,235.91		123.27	1,014.80	97,373.98	-	150,782.48		150,782.48	AUTHORITY SCHEDULED
00040	Peak District National Park	323,966.04		41.80	16,592.14	340,599.98	204,000.00	669,956.57		873,956.57	BODY SCHEDULED
00123	Derby Homes Ltd	617,123.56	459.81			617,583.37	264,000.00	1,412,258.44		1,676,258.44	BODY SCHEDULED
00126	Ryknelnd Homes	366,363.79		35.35	981.12	367,380.26	18,996.00	843,812.39		862,808.39	BODY SCHEDULED
00130	Amber Valley B C	353,008.07		117.86	2,459.04	355,584.97	960,996.00	657,503.70		1,618,499.70	UNITARY & DISTRICT LOCAL AUTHORITIES
00131	The District of Bolsover	564,134.94		103.84	2,549.97	566,788.75	876,000.00	1,136,791.10		2,012,791.10	UNITARY & DISTRICT LOCAL AUTHORITIES
00132	Chesterfield B C	1,073,219.95		980.19	1,970.91	1,076,171.05	1,811,004.00	2,212,718.46		4,023,722.46	UNITARY & DISTRICT LOCAL AUTHORITIES
00133	Derby City Council	6,416,979.67	10,783.14	-	249.52	6,428,012.33	-	19,351,478.79		19,351,478.79	UNITARY & DISTRICT LOCAL AUTHORITIES
00134	Erewash B C	475,878.63	235.24		6,010.09	482,123.96	1,023,996.00	899,562.59		1,923,558.59	UNITARY & DISTRICT LOCAL AUTHORITIES
00135	High Peak BC	392,639.18			1,929.07	394,568.25	1,668,000.00	770,906.00		2,438,906.00	UNITARY & DISTRICT LOCAL AUTHORITIES
00136	North East Derbyshire DC	516,794.58		298.27	9,083.63	526,176.48	1,389,000.00	1,023,535.53		2,412,535.53	UNITARY & DISTRICT LOCAL AUTHORITIES
00137	South Derbyshire DC	378,545.61				378,545.61	615,996.00	738,763.27		1,354,759.27	UNITARY & DISTRICT LOCAL AUTHORITIES
00138	Derbyshire Dales D C	330,336.77	520.20			330,856.97	585,996.00	640,045.86		1,226,041.86	UNITARY & DISTRICT LOCAL AUTHORITIES
00139	Chesterfield Crematorium	9,564.72				9,564.72	26,004.00	27,030.37		53,034.37	SCHEDULED BODY
00144	Shirebrook Town Council	9,822.99				9,822.99	-	37,489.59		37,489.59	SCHEDULED BODY
00145	New Mills Town Council	4,354.57				4,354.57		16,350.15		16,350.15	SCHEDULED BODY
00147	Clay Cross Parish Council	1,197.30				1,197.30		4,235.62		4,235.62	SCHEDULED BODY
00148	Eckington Parish Council	1,960.69				1,960.69		7,707.49		7,707.49	SCHEDULED BODY
00150	Pinxton Parish Council	4,324.23				4,324.23		17,304.95		17,304.95	SCHEDULED BODY
00151	Wirksworth Town Council	2,812.28				2,812.28		11,420.98		11,420.98	SCHEDULED BODY
00152	Old Bolsover Town Council	7,020.66				7,020.66		27,086.00		27,086.00	SCHEDULED BODY
00155	Glapwell Parish Council	596.16				596.16		1,756.08		1,756.08	SCHEDULED BODY
00157	Belper Town Council	4,708.17				4,708.17		18,084.72		18,084.72	SCHEDULED BODY
00160	Killamarsh Parish Council	8,192.03				8,192.03		30,903.76		30,903.76	SCHEDULED BODY
00161	Burnaston Parish Council	212.00				212.00		592.07		592.07	SCHEDULED BODY

Transfer to GMPF
from 01/06/2014

00165	North Wingfield PC	2,290.82				2,290.82		5,934.76	5,934.76	SCHEDULED BODY
00169	University of Derby	1,671,971.43	999.64	164.79	4,471.03	1,677,606.89	677,004.00	2,949,512.76	3,626,516.76	SCHEDULED BODY
00171	Ashbourne Town Council	2,999.07				2,999.07		11,345.05	11,345.05	SCHEDULED BODY
00172	Dronfield Town Council	9,336.12				9,336.12		35,959.00	35,959.00	SCHEDULED BODY
00173	Whitwell Parish Council	5,022.40				5,022.40		18,956.05	18,956.05	SCHEDULED BODY
00174	Tupton Parish Council	882.86				882.86		2,465.78	2,465.78	SCHEDULED BODY
00175	Staveley Town Council	8,483.32				8,483.32		29,708.92	29,708.92	SCHEDULED BODY
00178	Matlock Town Council	7,308.98				7,308.98		28,465.59	28,465.59	SCHEDULED BODY
00179	Whaley Bridge Town Council	1,420.71				1,420.71		4,983.38	4,983.38	SCHEDULED BODY
00186	Alfreton Town Council	2,747.68				2,747.68		7,706.93	7,706.93	SCHEDULED BODY
00187	Wingerworth Parish Council	3,831.97				3,831.97		9,995.55	9,995.55	SCHEDULED BODY
00188	Heanor + Loscoe TC	1,721.64				1,721.64		4,290.86	4,290.86	SCHEDULED BODY
00189	Darley Dale Town Council	868.53				868.53		2,402.00	2,402.00	SCHEDULED BODY
00192	Chesterfield College	396,189.39			461.52	396,650.91	144,000.00	791,522.93	935,522.93	SCHEDULED BODY
00198	Derby College	680,456.07	765.15		2,132.40	683,353.62	401,004.00	1,232,142.64	1,633,146.64	SCHEDULED BODY
00234	Tibshelf Parish Council	2,217.46				2,217.46		6,531.60	6,531.60	SCHEDULED BODY
00235	Kilburn Parish Council	735.57				735.57		2,136.63	2,136.63	SCHEDULED BODY
00236	Codnor Parish Council	606.87				606.87		1,787.73	1,787.73	SCHEDULED BODY
00237	Shardlow & Great Wilne Parish Council	441.12				441.12		1,298.29	1,298.29	SCHEDULED BODY
00238	Ticknall Parish Council	163.27				163.27		480.75	480.75	SCHEDULED BODY
00335	Chellaston Academy	51,830.09				51,830.09	48,996.00	115,521.26	164,517.26	SCHEDULED BODY
00336	Ecclesbourne Academy	44,446.30				44,446.30	39,000.00	112,636.65	151,636.65	SCHEDULED BODY
00337	Kirk Hallam Academy	71,575.28				71,575.28	50,004.00	153,178.57	203,182.57	SCHEDULED BODY
00338	John Port Academy	67,569.43				67,569.43	59,004.00	157,366.55	216,370.55	SCHEDULED BODY
00340	Brookfield Academy	72,252.69			2,667.96	74,920.65	66,996.00	161,744.16	228,740.16	SCHEDULED BODY
00341	Long Eaton Academy	59,557.46				59,557.46	54,000.00	134,890.02	188,890.02	SCHEDULED BODY
00342	West Park School (Academy)	61,912.22				61,912.22	54,996.00	150,941.01	205,937.01	SCHEDULED BODY
00343	Queen Elizabeths Grammar School (Academy) (QUEGS)	61,140.71			1,740.96	62,881.67	69,000.00	127,517.90	196,517.90	SCHEDULED BODY
00345	Hope Valley College (Academy)	45,191.49				45,191.49	38,500.00	109,743.81	148,243.81	SCHEDULED BODY

00347	Pennine Way Junior School (Academy)	10,673.07		10,673.07	11,004.00	25,865.06	36,869.06	SCHEDULED BODY	
00348	Heanor Gate Science College (Academy)	68,605.21		68,605.21	56,004.00	167,727.27	223,731.27	SCHEDULED BODY	
00349	Lees Brook Community School (Academy)	78,049.91		78,049.91	74,004.00	154,039.91	228,043.91	SCHEDULED BODY	
00350	Netherthorpe School (Academy)	41,137.08		41,137.08	32,004.00	95,554.15	127,558.15	SCHEDULED BODY	
00351	Redhill Primary School (Academy)	9,775.79		9,775.79	8,004.00	25,917.48	33,921.48	SCHEDULED BODY	
00352	St John Houghton School (Academy)	31,682.87	2,241.45	33,924.32	30,000.00	71,301.11	101,301.11	SCHEDULED BODY	
00353	Woodlands School (Academy)	44,056.88		44,056.88	47,004.00	93,280.49	140,284.49	SCHEDULED BODY	
00354	Grampian Primary School (Academy)	7,432.04		7,432.04	5,004.00	16,786.52	21,790.52	SCHEDULED BODY	
00360	St Benedict Voluntary Catholic Academy	89,113.07		89,113.07	96,000.00	204,779.01	300,779.01	SCHEDULED BODY	
00361	St Mary's Catholic Academy	53,195.30		53,195.30	43,080.00	142,047.04	185,127.04	SCHEDULED BODY	
00362	St John Fisher Catholic Academy	9,702.62		9,702.62	9,000.00	24,195.44	33,195.44	SCHEDULED BODY	
00363	St George's Voluntary Academy	15,984.14		15,984.14	18,000.00	34,648.23	52,648.23	SCHEDULED BODY	
00364	Wyndham Primary Academy	18,293.35		18,293.35	9,996.00	41,530.69	51,526.69	SCHEDULED BODY	
00365	The Bolsover School Academy	37,904.43		37,904.43	33,996.00	87,849.30	121,845.30	SCHEDULED BODY	
00366	Landau Forte Moorhead Academy	20,401.96		20,401.96	14,004.00	54,344.76	68,348.76	SCHEDULED BODY	
00367	Derby Pride Academy	7,508.61		7,508.61	3,996.00	14,302.66	18,298.66	SCHEDULED BODY	
00368	Merrill Academy	32,771.08		32,771.08	39,996.00	66,544.12	106,540.12	SCHEDULED BODY	
00369	City of Derby Academy	48,006.91	473.90	48,480.81	39,996.00	110,800.43	150,796.43	SCHEDULED BODY	
00370	Ormiston Ilkeston Enterprise Academy	61,553.92		61,553.92	72,996.00	134,328.04	207,324.04	SCHEDULED BODY	
00371	English Martyrs Academy	12,300.27		12,300.27	9,000.00	30,731.63	39,731.63	SCHEDULED BODY	
00372	Newbold CofE School	6,195.79		6,195.79	1,503.00	18,061.26	19,564.26	SCHEDULED BODY	New Academy from 01/07/2014
00373	Bishop Lonsdale Cof E Primary School	13,438.70		13,438.70	7,250.00	48,375.30	55,625.30	SCHEDULED BODY	New Academy from 01/06/2014
00375	The Ripley Academy	21,579.73	35.41	21,615.14	10,500.00	79,826.35	90,469.28	SCHEDULED BODY	New Academy from 01/09/2014
00376	St Josephs Catholic Primary Academy	3,087.73		3,087.73	702.00	9,160.50	9,862.50	SCHEDULED BODY	New Academy from 01/10/2014
00377	Dovedale Primary School	2,812.79		2,812.79	750.00	9,867.76	10,617.76	SCHEDULED BODY	New Academy from 01/11/2014
00378	Sawley Infant School	7,838.03		7,838.03	3,315.00	24,069.87	27,384.87	SCHEDULED BODY	New Academy from 01/11/2014
00379	Sawley Junior School	3,427.59		3,427.59	1,000.00	11,506.95	12,506.95	SCHEDULED BODY	New Academy from 01/11/2014

00380	Shardlow Primary School	1,891.87		1,891.87	690.00	7,029.00	7,719.00	SCHEDULED BODY	New Academy from 01/11/2014
00381	Immaculate Conception Academy Trust	3,229.33		3,229.33	1,225.00	10,762.59	11,987.59	SCHEDULED BODY	New Academy from 01/12/2014
00382	Allenton Primary School	5,648.57		5,648.57	-	18,595.86	18,595.86	SCHEDULED BODY	New Academy from 01/01/2015*
00383	Outward Academy Newbold	11,642.38		11,642.38	-	39,590.54	39,590.54	SCHEDULED BODY	New Academy from 01/01/2015*
00384	Turnditch Primary	CONTRIBUTIONS WITH 001 - SEE NOTE BELOW *					-	SCHEDULED BODY	New Academy from 01/03/2015*
00385	William Gilbert Primary	CONTRIBUTIONS WITH 001 - SEE NOTE BELOW *					-	SCHEDULED BODY	New Academy from 01/03/2015*
00401	Derbyshire Police Authority	2,191,894.35	4,031.75	2,195,926.10	1,332,996.00	4,031,639.48	5,364,635.48	SCHEDULED BODY	
00403	Derbys Fire & Rescue Service	311,787.12		311,787.12	155,004.00	568,708.30	723,712.30	SCHEDULED BODY	
00422	Landau Forte College	95,154.32		95,154.32	2,004.00	168,232.83	170,236.83	SCHEDULED BODY	
00439	Shirebrook Academy	47,635.56		47,635.56	51,000.00	107,022.83	158,022.83	SCHEDULED BODY	
00120	Amber Valley Housing Ltd	317,291.57	2,545.52	319,837.09	54,000.00	622,478.94	676,478.94	ADMITTED BODY	
00124	Three Valleys Housing Ltd	145,945.63		145,945.63	131,004.00	318,955.63	449,959.63	ADMITTED BODY	
00128	Dales Housing Ltd	105,892.63	167.82	106,060.45	105,000.00	243,023.66	348,023.66	ADMITTED BODY	
00170	Tramway Museum Society	2,837.77		2,837.77	14,004.00	10,998.72	25,002.72	ADMITTED BODY	
00176	D.C.I.L	1,635.33		1,635.33	14,004.00	6,717.36	20,721.36	ADMITTED BODY	
00184	Chesterfield Care Group	8,599.53		8,599.53	3,000.00	25,924.60	28,924.60	ADMITTED BODY	
00185	Belper Sports Centre	17,575.33	736.80	18,312.13	18,996.00	63,657.22	82,653.22	ADMITTED BODY	
00404	Derbys Student Residences Ltd	50,179.74	198.42	50,378.16	2,004.00	180,079.42	182,083.42	ADMITTED BODY	
00414	Cleanaway Ltd (C'field Refuse)	22,127.06		22,127.06		95,635.04	95,635.04	ADMITTED BODY	
00416	VINCI PLC	1,805.10		1,805.10		8,931.96	8,931.96	ADMITTED BODY	
00417	Cleanaway Ltd (AV Refuse)	23,005.91		23,005.91		90,756.90	90,756.90	ADMITTED BODY	
00418	Initial Facilities Services	1,663.30		1,663.30		7,713.57	7,713.57	ADMITTED BODY	
00419	Initial Catering Services	5,033.56		5,033.56		20,685.35	20,685.35	ADMITTED BODY	
00420	DC Leisure Management Ltd (AV)	33,768.48		33,768.48		94,802.77	94,802.77	ADMITTED BODY	
00421	L + C Partnership Ltd (AV)	CONTRIBUTIONS WITH 420						ADMITTED BODY	
00424	Balfour Beatty	10,546.30		10,546.30		35,665.19	35,665.19	ADMITTED BODY	
00425	Macintyre Care	25,141.99		25,141.99		8,644.78	8,644.78	ADMITTED BODY	
00426	SIV Enterprises Ltd	5,626.21		5,626.21		4,166.86	4,166.86	ADMITTED BODY	
00427	Veloia Ltd (HP Refuse)	33,944.13		33,944.13		-	-	ADMITTED BODY	
00428	HP - DC Leisure Management	28,523.48		28,523.48		57,897.69	57,897.69	ADMITTED BODY	
00429	HP - Leisure & Community Partnership	CONTRIBUTIONS WITH 428						ADMITTED BODY	
00431	APCOA	3,202.74	152.51	3,355.25		1,821.66	1,821.66	ADMITTED BODY	Terminated 18/02/14
00433	Grayson's Restaurants now Brookwood	3,848.84		3,848.84		13,559.82	13,559.82	ADMITTED BODY	
00434	DELL Corporation Ltd	3,140.82		3,140.82		7,437.00	7,437.00	ADMITTED BODY	
00435	Superclean - Fire Cleaners	997.22		997.22		2,030.61	2,030.61	ADMITTED BODY	
00436	Apollo Property Services Group	32,929.34		32,929.34	6,750.00	133,821.67	140,571.67	ADMITTED BODY	Terminated 31/12/14
00438	Northgate UK Ltd	51,856.47		51,856.47		188,357.13	188,357.13	ADMITTED BODY	

* Paying Derby City rate until emp rates have been calculated

00440	NIC Services Group Ltd	228.64			228.64		731.44	731.44	ADMITTED BODY	
00441	Arvato	105,212.35	10.11		105,222.46	15,000.00	415,813.17	430,813.17	ADMITTED BODY	
00442	Kier	42,142.82			42,142.82	3,000.00	147,717.45	150,717.45	ADMITTED BODY	
00443	Mitie	9,899.15			9,899.15		42,541.21	42,541.21	ADMITTED BODY	
00444	Compass	1,479.23			1,479.23		5,507.26	5,507.26	ADMITTED BODY	
00445	Barnados	5,621.34			5,621.34	996.00	17,342.50	18,338.50	ADMITTED BODY	
00446	Active Nation	4,972.09			4,972.09	2,004.00	16,668.35	18,672.35	ADMITTED BODY	
00447	ABM Catering Ltd (Derby Moor School)	3,532.24			3,532.24		16,756.91	16,756.91	ADMITTED BODY	
00449	Cream Catering ****	804.44			804.44		3,026.91	3,026.91	ADMITTED BODY	
00450	ABM Catering Ltd (Gayton Primary School)	216.93			216.93		567.94	567.94	ADMITTED BODY	
00451	Compass Ltd (City)	10,360.31			10,360.31		19,077.50	19,077.50	ADMITTED BODY	
00452	4 Children	6,624.86			6,624.86		17,951.88	17,951.88	ADMITTED BODY	
00453	Cleanslate (UK) Ltd (Pottery)	799.55			799.55		3,401.46	3,401.46	ADMITTED BODY	
00454	Cleanslate (UK) Ltd (City Schools)	913.86			913.86		3,788.20	3,788.20	ADMITTED BODY	
00456	Vinci Construction	653.83			653.83		2,243.27	2,243.27	ADMITTED BODY	
00457	Derby Museums and Arts Trust	31,879.57			31,879.57		108,899.06	108,899.06	ADMITTED BODY	
00458	Elior UK plc	463.02			463.02		2,272.98	2,272.98	ADMITTED BODY	
00459	Nottinham Community Housing Association (NCHA)	392.94			392.94		1,442.25	1,442.25	ADMITTED BODY	Both employees left June 2014
00460	Balfour Beatty (Derby BSF)	2,636.72	146.34		2,783.06		9,188.25	9,188.25	ADMITTED BODY	
00461	European Electronique	2,744.95			2,744.95		5,886.34	5,886.34	ADMITTED BODY	
00462	Churchill Contractor Services	259.44			259.44		853.77	853.77	ADMITTED BODY	
00463	Bulloughs Cleaning Services	991.89			991.89		3,201.16	3,201.16	ADMITTED BODY	Terminated 17/08/14 only member left August 2014
00464	Clean Slate (Ashgate)	131.45			131.45		293.95	293.95	ADMITTED BODY	
00466	Arvato (DDDC)	25,790.59			25,790.59		63,899.33	63,899.33	ADMITTED BODY	
00467	Derby County Community Trust	5,983.68			5,983.68		14,802.24	14,802.24	ADMITTED BODY	
00468	Aspens	2,865.69			2,865.69		11,794.16	11,794.16	ADMITTED BODY	New Admitted Body from 15/02/2014
00469	Elite	-			-		-	-	ADMITTED BODY	New Admitted Body from 01/01/2014 BUT not set up until 01/10/2014 - No conts received. I am unable to provide an amount as I believe that there were 2 employees who transferred to Elite from Cleanslate UK and at least 1 of these employees has now left
TOTALS		35,742,110.79	16,572.30	8,492.17	202,357.85	35,969,533.11	13,737,281.00	97,211,456.73	142.93	110,948,880.66
Less adjustments for DCC contributions							-	1,213,552.55	-	1,213,552.55
							13,737,281.00	95,997,904.18	142.93	109,735,328.11
							The DCC figures above include all the employer contributions paid by DCC/DCC schools BUT the ledger show the contributions that should have been paid. We overpaid employer conts by £1,213,553.55 TOTAL TAKEN FROM CR1 FORMS			

COMMUNICATIONS POLICY

A Statement of Policy on Communications - Investments

At its meeting on 19 May 2014 the Pensions and Investment Committee approved the following Communications Policy Statement for Investments for the year 2014-15. [The policy was reviewed and updated in April 2015.]

This document has been produced in accordance with the Local Government Pension Scheme Regulations 2013 (Regulation 61). These require authorities that administer the Local Government Pension Scheme (LGPS) to prepare, maintain and publish a Statement of Policy concerning communications with members, representatives of members, prospective members and scheme employers.

It is the Pensions and Pensions and 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 Pensions and Investment Committee in carrying out its duties and how it complies with best practice (Myners' Principles).

Pension Fund's Business Plan

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

Pension Fund's 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.

The Annual Report also includes administration activity relating to the number of cases dealt with in the last three financial years.

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. Pensions and Investment Committee meetings

Pensions and Investment Committee meetings are held 8 times per annum. The Committee comprises members representing the County Council and Derby City Council. 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.

B Statement of Policy on Communications - Pensions

At its meeting on 19 May 2014 the Pensions and Investment Committee approved the following Communications Policy Statement for Pensions.

This document has been produced in accordance with the Local Government Pension Scheme Regulations 2013 (Regulation 61). These require authorities that administer the Local Government Pension Scheme (LGPS) to prepare, maintain and publish a Statement of Policy concerning communications with members, representatives of members, prospective members and scheme employers.

The Statement must set out the policy with regard to:

- the provision of information and publicity about the Scheme to members, representatives of members and scheme employers.
- the format, frequency and method of distributing such information or publicity
- the promotion of the Scheme to prospective members and their employers.

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.

Communication with Scheme Members

- The County Council provides details of the Local Government Pension Scheme (LGPS) on appointment by:
 - The letter of appointment
 - The Membership Information form
- This information is also provided by other Scheme employers within Derbyshire's Pension Fund.
- A statutory notification of admission to the LGPS is issued by the Administering Authority to all new members within 12 weeks of receiving notification from their employer.
- An annual benefit statement is provided to all active scheme members.
- The Council promotes its public website as the principal means of communicating with those who have an interest in the LGPS, including councillor members, pensioner and deferred members. Details of the scheme, access to calculating an estimate of pension entitlement and the Council's policies are all available. The website also provides links to other related sites.
- In the case of those who do not have access to the internet or, where paper copies are required, the Councils contact centre, Call Derbyshire and its Pension Section provide booklets and factsheets on request.
- In addition to showing changes on the website, any significant scheme changes are also sent to all scheme members in paper copy via the post.
- Deferred pensioner members receive an annual benefit statement together with details of any changes insofar as they affect them.

Communication with Representatives of Members

Information on the LGPS is available on the Councils website to representatives of LGPS members to assist with enquiries from trade unions, Independent Financial Advisors and Solicitors.

Communication with Prospective Members

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

Communication with Scheme Employers

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. In addition information is available to employers on dedicated "employer pages" of the Council's

pensions website, along with the provision of training events as required.

Others

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

July 2015