

Pension Fund Annual Report & Accounts



2005/2006



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Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QJ	
Investment & Pension Fund Committee (at 31 March 2006)		
Representing Devon County Council	Councillor Anne Fry (Chairman) Councillor Francis Brook Councillor Derek Button Councillor John Clatworthy Councillor David Cox Councillor Geoff Date Councillor Rob Hannaford Councillor Christopher Haywood Councillor Ray Radford Councillor Eileen Wragg	
Representing Devon Unitary & District Councils	Councillor Peter Edwards (Devon Districts Forum) Councillor David Stark (Plymouth) Councillor Michael Fox (Plymouth) Councillor John Nicholls (Torbay)	
Observers		
Representing the Contributors	Roberto Franceschini Mrs Lorraine Parker	
Representing the Beneficiaries	Colin Lomax	
Adviser	Norman Ferguson	
Investment Managers	Devon County Council Investment Team Capital International Ltd State Street Global Advisors (UK) Ltd UBS Global Asset Management (UK) Ltd	
County Council Officers	Phil Norrey John Mills Barry White Rod Turner	Chief Executive Director of Finance, IT & Trading Investment Manager Pensions Manager
Actuary	Hewitt Bacon & Woodrow Limited	

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at the Devon County Council web site at: www.devon.gov.uk/pensions/investments.htm

Requests for information about the accounts or investments should be made in writing to Barry White, Investment Manager, Devon County Council, County Hall, Exeter EX2 4QJ

Report of the Director of Finance, IT & Trading

The stewardship of the Devon Pension Fund is the responsibility of the County Council as administering authority to the Fund, and for the last twenty years a detailed annual report has been produced for the information of all stakeholders. This report provides a review and commentary on the operation of the Fund within the scope of the Local Government Pension Scheme (LGPS), highlighting some of the more important issues that have occurred during the past year.

Fund Governance

In December 2005 Central Government issued new regulations which required administering authorities to publish a Governance Policy Statement setting out the arrangements for the governance of funds. The Devon Pension Fund Governance Policy Statement was approved and published by the Investment & Pension Fund Committee in February 2006. At the same time the Committee published a Communications Policy Statement setting out the way in which the Fund communicates with its stakeholders. Both documents are available to view or download from the Pensions website.

Economic Commentary

Interest rates

During 2005/06 interest rates in the three main global economic zones (the UK, the United States and the Euro zone) continued to reflect the differing parts of the economic cycle into which they fell. The Bank of England cut UK interest rates to 4.5% in August 2005, but subsequently because of concerns over continued strong price growth in the housing market the Bank reversed that move and base rate is now back at 4.75%. In the US the Federal Funds rate continued to increase in 0.25% steps (currently 5.25%), while in the Euro zone rates were increased by 1% to the current level of 3%. Further increases are expected in the second half of 2006/07. Japan saw an unexpected increase in its rate to 0.25%.

Growth

During the first quarter of 2005-06 global economic growth slowed slightly, but with significant differences between regions. In Europe growth was weak, UK and US started to show signs of a slow down and Japan rebounded after a weak 2004. Global inflation remained muted despite rising commodity prices.

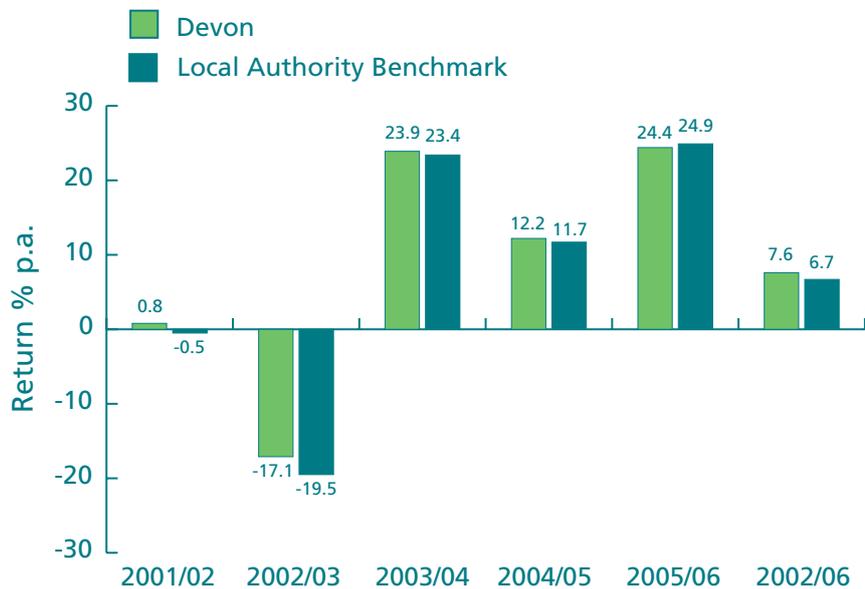
During the second quarter UK growth slowed, whilst global growth picked up slightly to just above the long term trend. Strong figures from the USA were affected by hurricanes along the Gulf of Mexico. Headline inflation showed some increase due to higher commodity prices, but markets still expected inflation to remain at low levels. Against this background of continued economic growth and strong corporate profits, equity markets performed well.

In Quarter 3 there was strong growth in the USA and Japan but UK growth was relatively weak. Equity markets continued to do well in this benign environment; whilst bond markets also saw modest gains. Returns from UK Government bonds substantially outperformed those from other bond markets.

During the final quarter most regions continued to enjoy stronger rates of growth than in the previous quarter with economic conditions being generally robust. The USA and Asia continue to expand faster than the Euro Zone countries. In many countries corporate earnings growth continued to exceed the growth of the economy as a whole, resulting in a further quarter of strong equity market performance. Bond markets fell back due to a change in expectations particularly an expectation of tighter monetary conditions.

Investment Performance

This strong economic growth during 2005/06 resulted in good overall investment performance with strong returns being achieved by the Fund. During this period the Fund achieved a return of +24.4%, just failing to match the benchmark return of +24.9% (local authority peer group). However it is pleasing to note that the Fund outperformed its benchmark over the last three and five years and equalled it over 10 years.



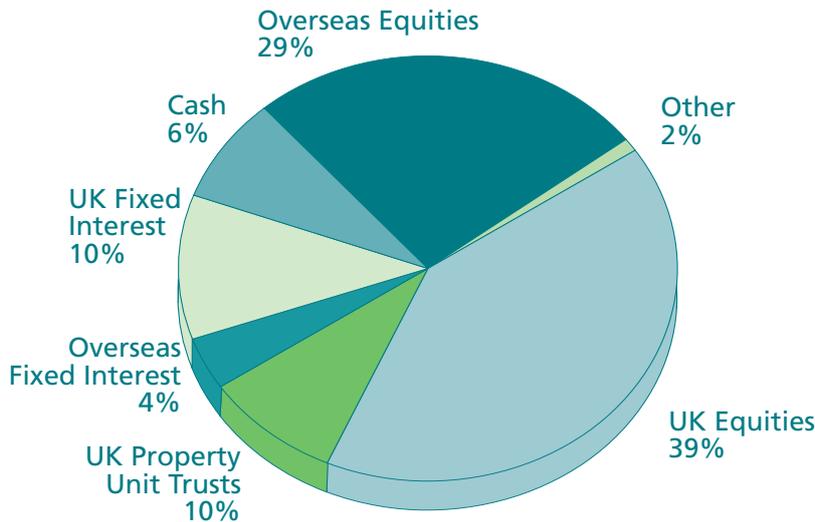
Strong returns continue to be achieved by the Fund

Asset Allocation

The allocation of assets held by the Fund can vary from year to year depending on the investment decisions being taken by the Fund’s external and internal managers. In general terms the split of assets between equities, fixed interest and property does not however change significantly year on year.

The Committee previously commissioned the Fund’s Actuary to perform an asset/liability study and this concluded that the most appropriate target asset allocation for the Fund should be 70% equities (UK, overseas and 50% of property) / 30% fixed interest (bonds, cash and 50% of property). This was

adopted as the long term target for the Fund and the Investment and Pension Fund Committee receives quarterly reports on the Fund's asset allocation. The year end position as at 31 March 2006 is shown in the chart below.



Market Outlook

Market turmoil since the year end has led investors to move from belief in the 'Goldilocks' combination of strong economic growth and low inflation to fearing about a return of the 'wicked stepsisters' of inflationary pressures and a slowdown in growth as the central banks of the major economies repeatedly raise interest rates. A recent survey of major fund managers has shown that many institutional investors are more pessimistic about the outlook for the global economy than at any point in the last ten years.

Even though world markets have recovered from the sharp falls in May and June, fund managers are more nervous about committing to new investments than at any time since the invasion of Iraq in 2003. The oil price was seen as speculatively high at \$70 when I wrote my commentary 12 months ago - however it remains near that level. Commodity prices have receded from the unsustainable levels reached in 2005 - having seen a reduction in demand from China. Forecasters are no longer expecting double digit returns overall.

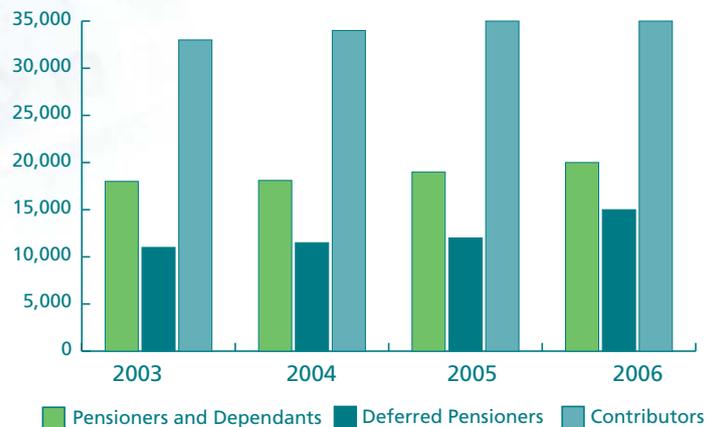
In conclusion, although I have been able to report another year of very strong performance from both world markets and the Devon Fund in particular, I do not expect that to be repeated for the current year.

Fund Membership

The numbers at the Fund year end of three main categories of membership were as follows:

Contributors	35,058
Pensioners	19,193
Deferred Pensioners	15,151

As in previous years each category continued to grow in 2005/06. Indeed the Fund has not yet reached maturity, contributors being greater than pensioners and deferred pensioners combined. As a result, when interest earned and dividends paid on investments within the year are added to contributions paid by Employers and Employees, the Fund is receiving more money than it is paying out - and this position is likely to continue for some years to come



Oil continues to be key factor

Ongoing Scheme Matters

A number of significant changes to the LGPS had to be dealt with by the Fund during last year. These included:

The Civil Partnership Act 2004, which became effective on 14 December 2005.

Preparing for the changes imposed on all Pension Schemes by the Finance Act 2004 - the so called pension simplification rules or 'A' day on 6 April 2006.

The Rule of 85 (which allows LGPS scheme members to retire after 60 without reduction to their benefits if the sum of their age and service is at least equal to 85) is being removed from 1 October 2006, with some protection for those members who will be 60 before 31 March 2013.

The Government has also published a consultation document on a 'new look scheme' which it is intended should replace the existing scheme on 1 April 2008. All interested parties are being encouraged to respond. I will report on the progress being made in next year's Fund report.

John Mills

Investment Powers & Statutory Statements

Investment Powers

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require that any pension fund monies not for the time being needed to meet payments, shall be invested. The Regulations define what is meant by investment, and place certain restrictions on Local Authorities.

- Not more than 15% of the fund may be invested in unlisted company securities. These are securities which are not listed on either a recognised U.K. stock exchange, or a foreign stock exchange of international standing.
- Not more than 35% of the fund can be invested in unit trusts managed by a single body.
- Not more than 5% of the fund can be invested in any single partnership.
- Not more than 15% of the fund can be invested in all partnerships.
- With the exception of Government fixed interest stocks, bank deposits and managed insurance funds, no more than 10% of the fund may be invested in a single holding.
- No more than 10% of the fund may be deposited with any one bank (other than the National Savings Bank).
- Loans from the fund to any one body including the Administering Authority, but not including the Government, may not in total exceed 10% of the value of the fund.
- The Fund can enter into stocklending arrangements provided that the total value of the securities to be transferred does not exceed 25% of the total fund value.
- Where an external investment manager is appointed the County Council (through the Investment and Pension Fund Committee) must be satisfied that any monies under his management are not excessive having regard to proper advice, diversification of management and to the value of the Fund's assets. The manager's appointment must be terminable by not more than 1 month's notice. They must comply with any instructions given to them by the Council and must report their actions at least once every three months. In making investments they must have regard to the need for diversification and to the suitability of these investments, and they must be prohibited from making investments that contravene the Regulations.
- At least once every three months the Council must review the investments made by the manager, and from time to time consider the desirability of continuing or terminating the appointment.



Statutory Statements

As required by the Local Government Pension Scheme Regulations a number of Statutory Statements have been prepared and published by Devon County Council (as the Administering Authority). They are as follows:

Statement of Investment Principles

A Statement of Investment Principles (S.I.P) was approved by the Investment & Pension Fund Committee and published in February 2000. The S.I.P has subsequently been revised and updated by the Committee in May 2002 and May 2004. The current S.I.P is available on the County Council's website at www.devon.gov.uk/pension_fund_statement.pdf

Funding Strategy Statement

A Funding Strategy statement was approved by the Investment & Pension Fund Committee and published in March 2004. This statement describes the County Council's strategy for the funding of the Pension Fund (and was prepared having regard to the guidance published by CIPFA in March 2004). Full details are published on the County Council's website at www.devon.gov.uk/strategy_statement090305.pdf

Governance Policy Statement

A Governance Policy Statement was approved by the investment & Pension Fund Committee and published in February 2006. This statement sets out the Administering Authority's policy on Fund governance including the representation and participation of key stakeholders on the Investment & Pension Fund Committee. Full details are published on the County Council's website at www.devon.gov.uk/governance_policy_statement.pdf

Communications Strategy Statement

A Communications Strategy Statement was approved by the Investment & Pension Fund Committee and published in February 2006. This statement describes the Fund's strategy for communicating with its various stakeholders. Full details are published on the County Council's website at www.devon.gov.uk/communications_policy_statement.pdf

Statement of Accounts

2005/2006



Fund Account

	Notes	2005 £000	2006 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable:			
Employers		79,984	89,866
Employers - Additional Capital Contributions	13	7,492	965
Employees		28,807	29,705
Transfers in from other schemes		20,338	18,529
		136,621	139,065
Benefits payable:			
Pensions		(63,865)	(67,982)
Lump Sums		(10,746)	(13,274)
Death Benefits		(909)	(1,066)
Refunds		(414)	(232)
Transfers out to other schemes		(10,957)	(13,113)
Administration expenses	2	(1,086)	(1,020)
		(87,977)	(96,687)
Net Additions from dealings with Fund Members		48,644	42,378
RETURN ON INVESTMENTS			
Investment Income	1	28,800	32,662
Investment Management expenses	2	(1,744)	(1,494)
Change in Market Value of Investments:			
Realised & Unrealised profit / (loss)		136,425	351,949
Net Returns on Investments		163,481	383,117
Net Increase (Decrease) in the Fund during the year		212,125	425,495
ADD			
Opening Net Assets of the Fund at 1 April		1,348,348	1,560,473
Net Assets of the Fund at 31 March		1,560,473	1,985,968
NET ASSET STATEMENT			
		2005 £000	2006 £000
Investments at Market Value	3/5		
Fixed Interest			
U.K. Government Stocks		80,362	88,760
U.K. Government Index Linked Stocks		94,988	104,301
Overseas		61,876	80,592
Other		10,326	35,439
Equities (Listed)			
U.K.		169,352	202,125
Overseas		154,483	226,651
Managed Funds	5	578,829	751,282
U.K. Property Unit Trusts		148,101	193,162
Other Unit Trusts		56,515	78,883
Unlisted Securities		75,850	105,727
Foreign Currency		5	3
		1,430,687	1,866,925
Cash & Short Term Loans		121,276	111,448
Current Assets	14	12,873	15,451
Current Liabilities	14	(4,363)	(7,856)
Net Assets of the Fund at 31 March		1,560,473	1,985,968

Notes to the Accounts

Accounting Policies

The Fund Accounts are prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and in accordance with the Statement of Recommended Practice for Pension Funds (SORP) issued by the Pensions Research Accountants Group (PRAG). (The Accounting Standards Board has approved PRAG for the purposes of issuing recognised SORPS for pension schemes).

- Contributions, benefits and investment income are included on an accruals basis.
- Investments are included in the accounts at market value.
- Debtors and creditors are raised for all amounts outstanding at 31 March 2006.
- Transfer values received and paid out have been accounted for on a cash basis.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.
- The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.

1. Investment Income	2004/05 £000	2005/06 £000
Fixed Interest		
U.K. Government Stocks	4,250	4,678
U.K. Index Linked Stocks	2,121	2,340
Overseas	2,516	3,523
Other	659	357
Equities (Listed)		
U.K.	5,422	6,388
Overseas	2,133	2,604
U.K. Property Unit Trusts	6,887	6,908
Other Unit Trusts	4	29
Interest on Cash Deposits	4,802	5,832
Underwriting Commission	6	3
	28,800	32,662
2. Administration Expenses and Related Party Transactions	2004/05 £000	2005/06 £000
Administration Expenses		
Pensions Administration (Note a)	1,030	989
Actuarial Services	56	31
	1,086	1,020
Investment Management Expenses		
Investment Management & Accounting (Note a)	300	355
External Investment Managers & Advisers (Note b)	1,357	974
Custodian	141	197
Stock Lending Income & Commission Recapture	(54)	(32)
	1,744	1,494
	2,830	2,514

Note:

- (a) Devon County Council is the administering authority for the purpose of the Fund, and included within the Investment Management expenses are charges amounting to £0.355m for Investment Management and Accounting and in Administration expenses £0.989m for Pensions Administration expenses. These have been incurred for the internal cost of providing the services.
- (b) The cost of external fund management varies with the value of investments under management and the extent to which performance fees are earned. No performance fees were earned by the external fund Managers in 2005/06.

3. Market Value of Investments

The market values of investments referred to in this report are provided by Euraplan Ltd. The valuation of the Property Unit Trusts, Other Unit Trusts and Unlisted investments are valued at market value by the individual unit trust or specialist investment manager (for the unlisted portfolio).

4. Investment Movements

Sector	Market Value 31.03.05 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.06 £000
Fixed Interest				
U.K. Government Stocks	80,362	7,643	755	88,760
U.K. Index Linked Stocks	94,987	3,635	5,679	104,301
Overseas	61,877	18,472	243	80,592
Other	10,326	25,098	15	35,439
Equities (Listed)				
U.K.	169,352	695	32,078	202,125
Overseas	154,483	8,420	63,748	226,651
Managed Funds	578,829	(22)	172,475	751,282
U.K. Property Unit Trusts	148,101	19,998	25,063	193,162
Other Unit Trusts	56,515	(4,496)	26,864	78,883
Unlisted Securities	75,850	5,000	24,877	105,727
Foreign Currency	5	(154)	152	3
	1,430,687	84,289	351,949	1,866,925
Cash & Short Term Deposits	121,276	(9,828)	0	111,448
Current Assets (Debtors & Prepayments)	12,873	2,578	0	15,451
Current Liabilities (Creditors)	(4,363)	(3,493)	0	(7,856)
	1,560,473	73,546	351,949	1,985,968

5. Analysis of Managed Funds

	UBS £000	SSGA £000
UK	355,207	141,671
Europe		110,428
North America		92,507
Japan		51,469
	355,207	396,075

6. Investment Management Arrangements

The Pension Fund is managed by the in-house Investment Team and three external managers in the following proportions:

	31 March 2005		31 March 2006	
	£000	%	£000	%
DCC Investment Team	595,796	38.4	762,842	38.5
SSGA (Managed Fund)	301,268	19.4	396,075	20.0
UBS (Managed Fund)	277,561	17.9	355,207	18.0
UBS Global Asset Management Ltd	193,950	12.5	238,508	12.1
Capital International Ltd	183,388	11.8	225,741	11.4
	<u>1,551,963</u>	<u>100.0</u>	<u>1,978,373</u>	<u>100.0</u>

7. Taxation

Value Added Tax The Fund is reimbursed by H.M. Customs & Excise, and the accounts are shown exclusive of this tax.

Income Tax The Pension Fund is an exempt fund, and where permitted U.K. tax on interest and dividends is recovered from the Inland Revenue. The Pension Fund cannot reclaim the 20% tax credit attached to U.K. company dividends which are included net of the tax credit.

Withholding Tax This is payable on income from overseas investments. This tax is recovered wherever local tax law permits.

Other Taxation Issues Consequent upon rulings given in the European Court of Justice, along with a number of other local authority pension funds, the Devon Fund is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund.

8. Additional Voluntary Contributions (AVC) Investments

The Fund has two AVC providers; Equitable Life and Prudential. The value of AVC investments is shown below.

01/04/05	Contributions	Investment Return	Paid Out	31/03/06
£000	£000	£000	£000	£000
4,468	522	259	(650)	4,599

9. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. In 2005/06 the In-House managed funds and both active external managers lent both UK and Overseas stocks.

State Street Bank act as custodian to the In-House fund and to one of the external managers (Capital International) and have been authorised to lend on behalf of both. JP Morgan Worldwide Securities Services act as custodian for the other external manager (UBS Global Asset Management), and have been authorised to lend stocks from this portfolio. Collateral is required against all loans in the form of cash or another approved form of security.

At 31 March 2006 the total stock on loan amounted to £46.177m (2.3% of total fund value).

31 March 2006	
£m	
DCC Investment Team	31.778
Capital International Ltd	1.131
UBS Global Asset Man. Ltd	13.268
	<u>46.177</u>

10. Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Balance Sheet is converted into sterling at the exchange rate prevailing on 31 March as supplied by Euraplan Ltd. Income receipts, and purchases and sales of overseas stocks, are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. The in-house managed fund operates a Euro bank account through which income and other transactions are passed. These transactions are converted to sterling monthly at an average exchange rate.



11. Declareable Shareholdings

Under the Companies Act 1985 (as amended) shareholdings representing 3% or more of any class of share have to be notified to the company concerned. At 31 March 2006 the Fund had the following notifiable holdings.

Company	Value of Holding £000	Percentage of Share Capital %
Genesis Emerging Markets Investment Trust	16,647	4.44
JP Morgan Emerging Markets Investment Trust	14,723	4.77

The Fund has investments in three limited partnerships that invest in quoted U.K. equities. For the purpose of calculating declareable shareholdings, the holdings of all the partners have to be aggregated. From time to time this results in the total holding in a company having to be declared. At 31 March 2006 there were sixteen such holdings.

12. Investment Transactions

During 2005/06 the transactions of the Fund were £686.8 million purchases and £565.4 million sales.

13. Additional Capital Contributions

Employers' additional capital contributions of £0.965m were made to the Fund.

14. Debtors / Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund which will be paid within a few days of the year-end, have been included on a gross basis.

15. Contingent Liability

- (i) A recent change in legislation has given part-time staff the right to buy-back pension entitlement relating to past service. To the extent that eligible staff elect to do this, there will be a strain put on the Pension Fund, as contributions will not have earned the investment income that would normally have been expected over the years. As it is not known what the take-up is likely to be, it is not possible to evaluate the likely cost. Ultimately the relevant employers will have to make good the cost through higher contributions.
- (ii) At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer that 'pension pot' to the PCSPS. The detailed results of these elections have not yet been finalised and agreed but the Devon Fund Actuary estimates that the bulk transfer value should not exceed £3m. The cash transfer will be concluded in 2006/07.
- (iii) On 1 December 2005 staff employed by Torbay in providing social care services were transferred to the Torbay Primary Care Trust. From that date pension contributions for those employees went to the National Health Service Pension Scheme (NHSPS). All affected staff subsequently have 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a defined benefit) or transfer that 'pension pot' to the NHSPS. The detailed results of these elections have not yet been finalised and agreed but the Devon Fund Actuary estimates that the bulk transfer value should not exceed £15m. The cash transfer will be concluded in 2006/07.

Statistical Summary

Financial Summary

	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000	2005/06 £000
Contributions and Benefits					
Contributions received	84,408	89,366	98,452	108,791	119,571
Employers Additional Capital Contributions	30,351	1,500	2,219	7,492	965
Transfers from Other Schemes	15,358	13,981	15,010	20,338	18,529
	<u>130,117</u>	<u>104,847</u>	<u>115,681</u>	<u>136,621</u>	<u>139,065</u>
Benefits Paid	(66,802)	(68,907)	(70,641)	(75,934)	(82,554)
Transfers to Other Schemes	(6,379)	(8,658)	(7,745)	(10,957)	(13,113)
Administration Expenses	(911)	(957)	(1,074)	(1,086)	(1,020)
	<u>(74,092)</u>	<u>(78,522)</u>	<u>(79,460)</u>	<u>(87,977)</u>	<u>(96,687)</u>
Net Additions (withdrawals) from dealings with Fund Members	<u>56,025</u>	<u>26,325</u>	<u>36,221</u>	<u>48,644</u>	<u>42,378</u>
Returns on Investments					
Investment Income	39,189	37,459	37,640	28,800	32,662
Investment Management Expenses	(1,500)	(1,212)	(1,876)	(1,744)	(1,494)
Increase / (decrease) in Market Value of Investments during the Year	(29,294)	(251,186)	218,077	136,425	351,949
Net Returns on Investments	<u>8,395</u>	<u>(214,939)</u>	<u>253,841</u>	<u>163,481</u>	<u>383,117</u>
Net Assets of the Fund at 31 March	<u>1,246,900</u>	<u>1,058,286</u>	<u>1,348,348</u>	<u>1,560,473</u>	<u>1,985,968</u>

Membership Summary

	31.03.02	31.03.03	31.03.04	31.03.05	31.03.06
Contributors	31,151	32,472	34,054	34,751	35,058
Pensioners and Dependents	17,441	17,938	18,335	18,483	19,193
Deferred Pensioners	9,932	10,940	11,827	13,144	15,151

Audit Opinion

In accordance with guidance from the Audit Commission the audit of the Pension Fund Accounts is covered by the opinion issued on the County Council's accounts.

When published, the County Council's Annual Report & Accounts can be seen on the authority's website (www.devon.gov.uk) or hard copies can be obtained by writing to: The Director of Finance, IT & Trading, Devon County Council, County Hall, Exeter, EX2 4QJ.

The Fund's Largest Equity Shareholdings

United Kingdom Equities

Company	Sector	31 March 2006 £000	% of Total Investments
Vodafone	Telecommunications	17,089	0.86
Royal Bank of Scotland	Banks	13,248	0.67
HBOS	Banks	12,374	0.63
BP	Oil & Gas	10,877	0.55
Royal Dutch Shell	Oil & Gas	10,157	0.51
Astrazeneca	Pharmaceuticals	10,029	0.51
Barclays	Banks	5,915	0.30
GlaxoSmithkline	Pharmaceuticals	5,365	0.27
HSBC	Banks	5,312	0.27
Diageo	Beverages	4,520	0.23
		94,886	4.80
Plus other investments including UK Managed Funds		604,117	30.54
		699,003	35.34

Overseas Equities

Company	Sector	Country		
Nestle	Food Producers	Switzerland	2,376	0.12
Banco Santander	Banks	Spain	2,253	0.11
ABN-Amro	Banks	Netherlands	2,171	0.11
Carnival Corporation	Travel & Leisure	United States	2,092	0.11
Sanofi Aventis	Pharmaceuticals	France	1,773	0.09
Aegon	Life Insurance	Netherlands	1,665	0.08
Allergan	Pharmaceuticals	United States	1,578	0.08
Federal Home Loan Group	Other Financial	United States	1,512	0.08
Forest Laboratories	Pharmaceuticals	United States	1,500	0.08
Fannie Mae	Other Financial	United States	1,485	0.08
			18,405	0.94
Plus other investments including Overseas Managed Funds			462,650	23.39
			481,055	24.33

U.K. Property Unit Trusts

Lionbrook Property Unit Trust		21,274	1.08
UBS Triton Property Fund		20,441	1.03
Threadneedle Property Unit Trust		19,463	0.98
Schroder Exempt Property Unit Trust		18,717	0.95
Hermes Property Unit Trust		18,312	0.93
Morley Pooled Fund		17,826	0.90
Falcon Property Unit Trust		16,611	0.84
Rockspring Hanover Property Unit Trust		16,592	0.84
Merrill Lynch Property Fund		13,588	0.69
Royal London Exempt Property Fund		10,444	0.53
RREEF UK Core Property Fund		10,369	0.52
UBS SERF Property Fund		6,515	0.33
Schroder Indirect Real Estate Fund		3,010	0.15
		193,162	9.76

Other Large Holdings

Fund	Included in		
Hermes UK Focus Fund	Unlisted Securities	42,346	2.14
Hermes European Focus Fund	Unlisted Securities	25,106	1.27
Hermes UK Small Companies Focus	Unlisted Securities	14,788	0.75
F&C Stewardship Fund**	Other Unit Trusts	14,474	0.73

Actuarial Position

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Devon County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997, was completed as at 31st March 2004.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2005/06 were based on the actuarial valuation carried out as at 31st March 2004.
2. The valuation as at 31st March 2004 showed that the financial position of the Fund had deteriorated since the previous valuation with the market value of the Fund's assets of £1,363.2m, after application of a smoothing adjustment, covering 61% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2005 was as set out below:
 - 240% of members' contributions to meet the liabilities arising in respect of service after the valuation date.

Plus

- 160% of members' contributions to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years.

Less

- 90% of members' contributions in respect of higher assumed investment income over the short term.

These figures are based on the Regulations that applied at the time of signing the valuation report, and in particular allowed for changes to the Fund benefits effective from 1 April 2005.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. For many employers where the valuation indicated a significant increase in contributions from 1 April 2005, the Administering Authority has agreed with employers that the increase can be stepped over a period of three years (or exceptionally 6 years).

If our assumptions are borne out in practice, the rate of contribution for each Employer would be expected to continue stepping up to the end of the relevant stepping period. The rate would subsequently increase, due to cessation of assumed short term additional investment returns (see 7 below), and continue at the resultant level for the balance of the recovery period before reverting to the relevant long term rate. In practice, each rate will be reviewed at the next valuation due as at 31 March 2007 and further assumptions may be made at the time concerning short term investment returns.



5. The rates of contributions payable by each participating Employer over the period 1 April 2005 to 31 March 2008 are set out in a certificate dated 6 July 2005, as subsequently amended for certain employers.
6. The contribution rates certified in our valuation as at 31 March 2004 were based on the benefit structure of the Fund as indicated by Regulations as at the date of signing our certificate. New Regulations (the 2005 Regulations), backdated to 1 April 2005, have since been issued which increased the theoretical cost of Fund benefits relative to those on which the certificate was based. No adjustment has been made to contribution rates in respect of that change as it was indicated by the Government that further changes would occur which would offset these additional costs. Further Regulations have recently been issued, effective at 6 April 2006 and 1 October 2006 which will, in theory, reduce the cost of Fund benefits to below that on which our certificate was based and will also recoup the additional costs arising from the 2005 Regulations. However, discussions are still ongoing between Government, Employer and Union representatives about improvements to benefits for existing members and there may be further changes to the Regulations. The impact of all of these changes will be taken into account at the next Fund valuation.
7. The vast majority of contribution rates were calculated using the projected unit actuarial method, and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

The main actuarial assumptions were as follows:

Discount rate for periods

In service	6.2% per annum
Left service	5.2% per annum

Rate of general pay increases 4.4% per annum

Rate of increases to pensions in payment
(in excess of GMPs) 2.9% per annum

Return over the three years following
the valuation on

equities/property	7.7% per annum
other assets	5.2% per annum
Valuation of assets	smoothed market value.

8. The next full actuarial valuation of the Fund will be carried out as at 31st March 2007.
9. This statement has been prepared by the Actuary to the Fund, Hewitt Bacon & Woodrow Limited, for inclusion in the accounts of the Devon County Council Pension Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2004. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Bacon & Woodrow does not accept any responsibility or liability to any party other than our client, Devon County Council, in respect of this statement.

Hewitt Bacon & Woodrow Limited
July 2006

Employing Bodies

There are currently 83 employers who have active members in the Fund.

Scheduled Bodies

Principal Councils

Devon County Council
East Devon District Council
Exeter City Council
Mid Devon District Council
North Devon District Council
Plymouth City Council
South Hams District Council
Teignbridge District Council
Torbay Council
Torrige District Council
West Devon Borough Council

Other Major Service Providers

Dartmoor National Park Authority
Devon & Cornwall Police Authority
Devon & Cornwall Probation Service
Devon Fire & Rescue Authority
Devon Sea Fisheries Committee

Other Scheduled Bodies (deemed)

Plymouth CityBus

Town & Parish Councils

Ashburton Town Council
Barnstaple Town Council
Bideford Town Council
Bovey Tracey Town Council
Braunton Parish Council
Buckland Monachorum Parish Council
Combe Martin Parish Council
Crediton Town Council
Cullompton Town Council
Dartmouth Town Council
Dawlish Town Council
Exmouth Town Council
Fremington Parish Council

Ilfracombe Town Council
Ivybridge Town Council
Kingsbridge Town Council
Kingsteignton Parish Council
Lynton & Lynmouth Town Council
Newton Abbot Town Council
Okehampton Town Council
Sidmouth Town Council
South Brent Town Council
South Molton Town Council
Tavistock Town Council
Totnes Town Council
Ugborough Parish Council
Woodbury Parish Council

Further/Higher Education Corporations

Bierton College Of Agriculture
East Devon College
Exeter College
North Devon College
Plymouth College of Art & Design
Plymouth College of Further Education
South Devon College of Arts & Technology
University of Plymouth

Foundation Schools

Colyton Grammar School
Devonport High School for Boys
Knowles Hill School
Paignton Hayes Road Primary School
St.Boniface R.C. Boys College
Teign School
Torquay Boys Grammar School
Uffculme School

Admitted Bodies

Call 24 Hour Ltd
Carillion JM Ltd
Dame Hannah Rogers School
Leisure East Devon Ltd
NCP Ltd
North Devon Crematorium Committee
North Devon Homes Ltd.
Open College Network - SW region
PLUSS
Plymouth Citizen's Advice Bureau
Plymouth Keyham Community Partnership
Plymouth Millfield Economic Development Trust
Plymouth Shopmobility
Plymouth Swarthmore Adult Education Centre
Plymouth Wolseley Development Trust
Riviera Housing Trust
Royal School for the Deaf, Exeter
South West Tourism
Teign Housing Ltd
Tor Homes Ltd
Torbay Coast & Countryside Trust
Torquay Museum Trust
Valuation Tribunal Service - Devon
West Devon Homes Ltd.



Scheme and Benefit Information

Devon County Council administers the Pension Fund for its own employees and some 120 other organisations including Unitary, District, Town & Parish Councils, Education establishments and other admitted bodies.

The Local Government Pension Scheme (LGPS) is a statutory, funded final salary pension scheme with its benefits defined and set in law. The LGPS is contracted out of the State Second Pension Scheme (S2P) and must, in general, provide benefits at least as good as most members would have received had they remained in S2P.

Contributions

Employees pay 6% of their total pensionable pay into the fund.

Employer contribution rates are variable and are determined by the fund Actuary (Hewitt Bacon & Woodrow). A full actuarial valuation is carried out every 3 years in order to establish the value of the assets and liabilities of the fund and determine individual employer contribution rates. The valuation for the 3 years ending 31 March 2004 was implemented with effect from 1 April 2005.

Benefits

The LGPS provides significant retirement and death benefits to its members which currently include the following:

- A tax free lump sum upon retirement calculated using the formula $\frac{3}{80} \times \text{final salary} \times \text{service}$. Options are available to increase the lump sum, see changes under the Pensions Simplification section
- A guaranteed pension calculated as $\frac{1}{80} \times \text{final salary} \times \text{service}$
- Ability to increase benefits by paying additional voluntary contributions
- An ill health pension payable from any age
- Immediate unreduced pension on redundancy after the age of 50
- Death in Service lump sum of 2 X salary
- Widow's/widower's/civil partner's pension payable for life
- Children's pension
- Benefits rise in line with inflation.

An example pension and lump sum calculation for a member with 30 years and 204 days total membership and a final salary of £16,200.

The annual pension is $\frac{1}{80} \times £16,200 \times 30 \frac{204}{365} = £6,188.18$

The tax free lump sum is $\frac{3}{80} \times £16,200 \times 30 \frac{204}{365} = £18,564.53$

This is a very brief outline of the benefits from the pension scheme. A comprehensive online version of the 'Employee guide to the LGPS' can be found on our website at www.devon.gov.uk/pensions.htm

Changes made affecting benefits during 2005/06

Changes to the scheme were made with effect from 14 December 2005 to comply with the Civil Partnership Act 2004. Upon death of a member, a registered civil partner will receive the same benefits as a married spouse.

Pensions Simplification

As a result of the Finance Act 2004, a number of changes to the pension scheme came into effect in April 2006. These include;

- Employees can join and remain in the scheme until their 75th birthday
- Option to increase your lump sum by converting some of your pension at a rate of £12 cash for every £1 of pension surrendered, up to a maximum of 25% of the value of your pension rights
- The option to surrender part of your pension in exchange for an increased spouse/civil partner's benefits has been removed
- The option to surrender part of your lump sum in exchange for an increased pension has been removed
- The facility to waive contributions for members with 40 years membership has been removed
- The 15% maximum contribution limit has been removed. Contributions above the standard 6%, will be used to purchase additional years service or invested in an Additional Voluntary Contribution policy
- The maximum number of added years that can be purchased is limited to 6 2/3rds
- Flexible retirement option for those aged between 50 and 65. With employers consent, you can reduce your hours or grade and elect to receive your benefits early. Your benefits will be reduced for early payment though these can be waived at the discretion of the employer.

Removal of the rule of 85

The rule of 85 which allows members to retire after 60 without reduction to their benefits if their age and service is at least equal to 85 is being removed from 1 October 2006.

There are protections in place for active members as at 30 September 2006.

- For active members at this date, the rule of 85 will remain until 31 March 2008
- For existing members who will be aged 60 and would satisfy the rule of 85 by 31 March 2013 will receive full protection
- A sliding scale of reduction factors will be used (as opposed to full reduction factors) for existing members who will be aged 60, would have met the rule of 85 between 1 April 2006 and 31 March 2008, and retire before the scheme's normal retirement age. Only benefits built up after 1 April 2006 will be reduced.



Proposed changes to the LGPS

The Government is proposing to implement a 'new look' pension scheme for Local Government with effect from April 2008. The government's policy for the LGPS is that the scheme should be:

- Affordable
- Fair to taxpayers
- Attractive to existing and future scheme members, and to employers
- Valued as an integral part of the overall remuneration package
- Provide a defined benefit, index linked income

At the time of writing, details of the new scheme are not known. All employers, members and interested parties are asked to look at the Pensions website, which will be kept updated with current news on this and other aspects of the pension scheme.

Devon Pension Services
Estuary House
Peninsula Park
Rydon Lane
Exeter
EX2 7XB

Email: pensions@devon.gov.uk
www.devon.gov.uk/pensions.htm

Glossary

Actuary

An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities

Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

Market Value

The price at which an investment can be sold at a given date.

Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

Portfolio

A collective term for all the investments held in a fund, market or sector.

Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Solvency Test

An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

The W.M. Company

An independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating every quarter the average returns for the median of all the funds and an average return weighted to reflect the size of the constituent funds (the weighted average).

Transfers to/from Other Schemes

These are sums paid to, or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

Unrealised Increase / (Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.





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