

Pension Fund Annual Report & Accounts

2006/2007



The photos used in this publication are a selection from the **'Proud of Devon'** photo competition which is hosted by Devon County Council and the Devon Association of Tourist Attractions.

Front cover photo: Gammon Head, Nr East Prawle by Howard Boon

Photo right: Woolacombe Beach by Hanna Janta

Photo on page 5: Bradninch by Pete Hemington

Photo on page 6: Badgers Holt by Dave Richards

Photo on page 7: Baggy Point by Jemima Jewell

Photo on page 9: Haytor, Dartmoor by Jenny Bowden

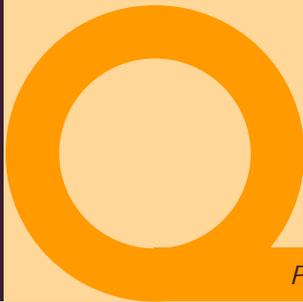
Inside back cover: Beer Boats by Graham Brodie



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Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QJ	
Investment & Pension Fund Committee (at 31 March 2007)		
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 Chris Pattison (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

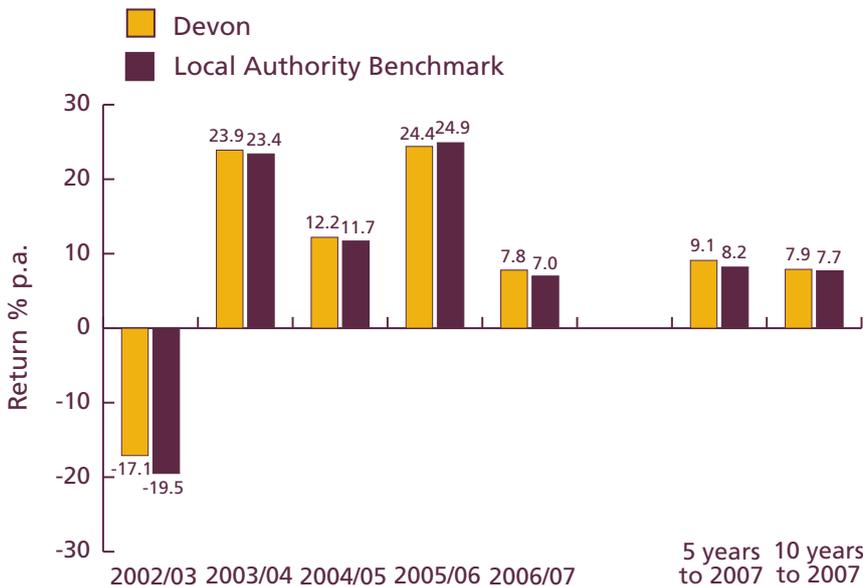


Report of the Director of Finance, IT & Trading

It is pleasing to be able to report another successful year for the Devon Fund. For the fourth consecutive year the performance of the Fund was positive, achieving a return of +7.8%. Equally important however to the Fund's wide range of stakeholders are many other issues such as the new look pension scheme due in 2008, governance, activism, sustainability and the long term viability of local authority pension funds. These issues do not often achieve the higher profile given to investment returns but they are a vital part of the overall governance of your Fund.

Investment Performance

Achieving consistent long term performance is the principal strategy of the Investment & Pension Fund Committee and I am able to report that the Devon Fund achieved this over all periods from 1 year through to 10 years. The long term performance has been steadily improving year on year and we are now ranked 25th against our local authority peers for the 10 years to March 2007.



Positive long term returns continue to be achieved by the fund

Governance

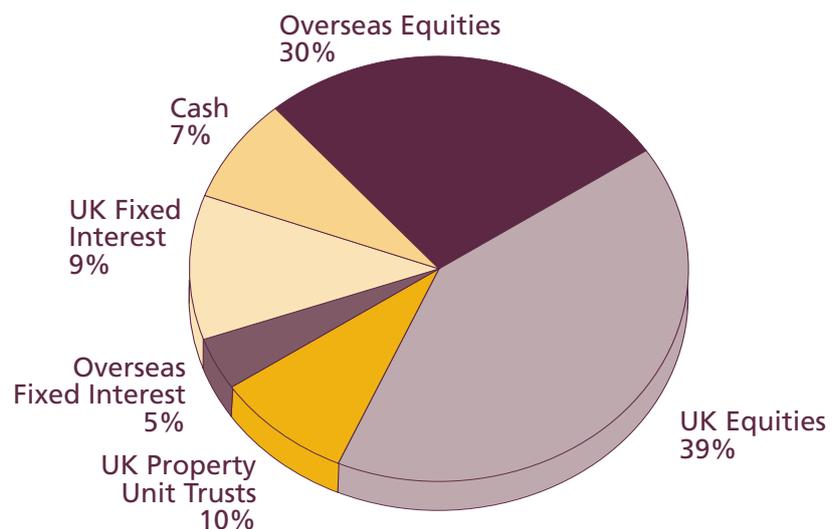
The Investment & Pension Fund Committee keep the governance of the Fund under constant review and during the year reviewed the Fund's Statement of Investment Principles. The main drivers in this policy statement remain in place but a number of updating amendments were agreed at the May 2007 meeting of the Committee. This revised document is available online at www.devon.gov.uk/statement_of_investment_principles.pdf. Other statutory statements published by the Fund are also available online and the details are shown later in this report on page 8.



Since the Fund's reporting year end Government have published legislative changes requiring Administering Authorities to measure their governance arrangements against a set of best practice principles. These guidelines have not yet been issued and the Committee will review its existing governance policy statement in due course and publish a compliance statement by the deadline of 31 March 2008.

Asset Allocation

The Committee's notional asset allocation target for the Fund is 70% equities (UK, overseas and 50% of property) / 30% fixed interest (bonds, cash and 50% of property). At 31 March the actual asset allocation was 74% equities and 26% fixed interest (shown in the chart below). This overweighting in equities reflected the active management decisions being taken at that time by the Fund's external managers.



Activism

It is now widely accepted that it is in all shareholders' interests to promote high standards of corporate governance and corporate social responsibility. The Devon Fund has for many years been actively interested in promoting good corporate governance and in order to assist the Fund we are members of the Local Authority Pension Fund Forum (LAPFF). This association of local authority funds seeks to provide a platform for local authorities to effectively engage and influence as shareholders in UK companies. The aims of the LAPFF closely reflect the areas which the Devon Fund believes responsible shareholders should be addressing. Through LAPFF and also the work done by the Fund's external managers we are seeking to optimise the role of supporting shareholder value through engagement and activism on issues relating to corporate governance, corporate social responsibility and the environment.



Economic Commentary

Interest Rates

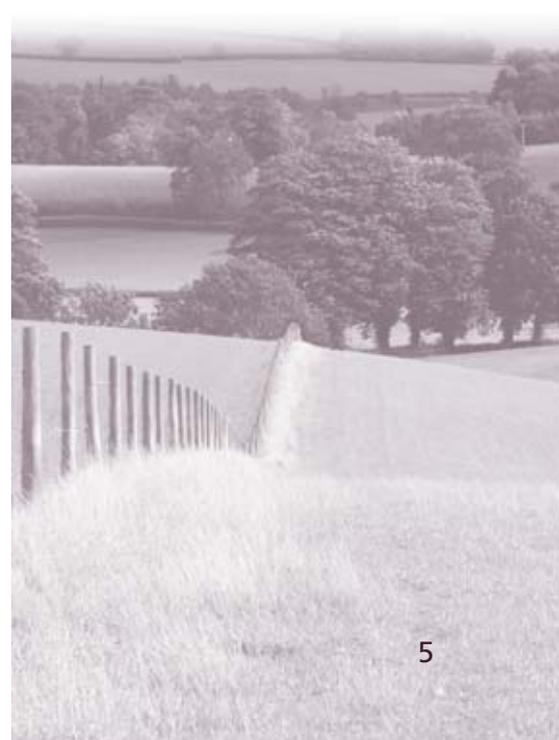
Interest rates in all three major global economic zones continued to increase in the Fund's financial reporting period. The Bank of England, still concerned by the growth of the housing market and inflation exceeding its target of 2%, moved rates upwards in steps of 0.25% finishing at 5.75%. Likewise in the US and Europe the central banks were concerned about the impact of inflationary pressure and continued to increase rates. Currently US rates are 5.25% with the likelihood of a cut in the near term to ease the liquidity crunch caused by the sub-prime mortgage crisis. Euro zone rates however are still being forecast to increase if the liquidity crisis in the markets abates. In 2007/08 it is likely that both the US & the UK will start to ease rates whilst Europe will still be looking to continue its tightening policy as their economic cycle is some way behind the other major economic zones.

Economic Outlook

During 2006/07 and into the current year Central Banks have been raising interest rates to slow down growth and commentators predict this policy will have some success through 2007 and 2008. Globalisation is seen by many as helping to keep wage demands moderate in developed countries and this should keep back inflationary pressures, but only Japan and Europe continue to show above trend growth. China and Emerging Markets are also forecast to continue growing strongly.

Market Outlook

Since the Fund's year end, markets have become more volatile. This change in sentiment stems from concerns about the sub-prime mortgage market in the United States, the level of risk adopted by the banks by lending on historically tight terms and the opaque nature of hedge funds. Credit in global markets is scarce at present and may continue to be for the foreseeable future and a reduced appetite for risk by both companies and individuals could well result. The full effect of a global credit crunch will take some time to materialise and the wider effect on the consumer/households might lead to uncertainty overhanging markets. The effect of the US sub-prime crisis could be with us for some time and care will be needed to ensure that no undue risk is taken with the longer term aims of the Fund.





On-going scheme related issues

Work on the new look LGPS scheme due for implementation on 1 April 2008 is being progressed and a summary of the main changes can be found later in this report under Scheme and Benefit information.

The triennial Actuarial Valuation of the Fund for the period ending 31 March 2007 is underway and the scheme actuary, Hewitt Bacon & Woodrow, is currently reviewing the employee and employer contribution data alongside the financial information and will report back to the County Council later in the year. Next year's report will contain the details of the valuation exercise.

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 2007. The current S.I.P is available on the County Council's website at www.devon.gov.uk/statement_of_inv_principles.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 Policy Statement

A Communications Policy 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

2006/2007



Fund Account

	Notes	2006 £000	2007 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable:			
Employers		89,866	99,201
Employers - Additional Capital Contributions	13	965	540
Employees		29,705	32,109
Transfers in from other schemes		18,529	18,339
		139,065	150,189
Benefits payable:			
Pensions		(67,982)	(72,978)
Lump Sums		(13,274)	(20,564)
Death Benefits		(1,066)	(1,885)
Refunds		(232)	(75)
Transfers out to other schemes		(13,113)	(7,059)
Administration expenses	2	(1,020)	(1,201)
		(96,687)	(103,762)
Net Additions from dealings with Fund Members		42,378	46,427
RETURN ON INVESTMENTS			
Investment Income	1	32,662	34,821
Investment Management expenses	2	(1,494)	(1,509)
Change in Market Value of Investments:			
Realised & Unrealised profit / (loss)		351,949	121,714
Net Returns on Investments		383,117	155,026
Net Increase (Decrease) in the Fund during the year		425,495	201,453
ADD			
Opening Net Assets of the Fund at 1 April		1,560,473	1,985,968
Net Assets of the Fund at 31 March		1,985,968	2,187,421
NET ASSET STATEMENT			
		2006 £000	2007 £000
Investments at Market Value	3/5		
Fixed Interest			
U.K. Government Stocks		88,760	107,242
U.K. Government Index Linked Stocks		104,301	94,071
Overseas		80,592	77,630
Other		35,439	38,910
Equities (Listed)			
U.K.		202,125	210,265
Overseas		226,651	244,201
Managed Funds	5	751,282	830,578
U.K. Property Unit Trusts		193,162	217,865
Other Unit Trusts		78,883	90,219
Unlisted Securities		105,727	123,888
Foreign Currency		3	269
		1,866,925	2,035,138
Cash & Short Term Loans		111,448	137,313
Current Assets	14	15,451	21,596
Current Liabilities	14	(7,856)	(6,626)
Net Assets of the Fund at 31 March		1,985,968	2,187,421



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 2007.
- 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	2005/06 £000	2006/07 £000
Fixed Interest		
U.K. Government Stocks	4,678	5,182
U.K. Index Linked Stocks	2,340	2,270
Overseas	3,523	2,654
Other	357	1,035
Equities (Listed)		
U.K.	6,388	7,048
Overseas	2,604	3,378
U.K. Property Unit Trusts	6,908	7,119
Other Unit Trusts	29	32
Interest on Cash Deposits	5,832	6,097
Underwriting Commission	3	6
	32,662	34,821
	32,662	34,821
2. Administration Expenses and Related Party Transactions	2005/06 £000	2006/07 £000
Administration Expenses		
Pensions Administration (Note a)	989	1,169
Actuarial Services	31	32
	1,020	1,201
Investment Management Expenses		
Investment Management & Accounting (Note a)	355	314
External Investment Managers & Advisers (Note b)	974	1,094
Custodian	197	163
Stock Lending Income & Commission Recapture	(32)	(62)
	1,494	1,509
	2,514	2,710

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 £0.314m for Investment Management and Accounting and in Administration expenses £1.169m 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 2006/07.

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 31.03.06 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.07 £000
Fixed Interest				
U.K. Government Stocks	88,760	23,325	(4,843)	107,242
U.K. Index Linked Stocks	104,301	(10,144)	(86)	94,071
Overseas	80,592	2,993	(5,955)	77,630
Other	35,439	5,501	(2,030)	38,910
Equities (Listed)				
U.K.	202,125	(5,580)	13,720	210,265
Overseas	226,651	10,002	7,548	244,201
Managed Funds	751,282	17,000	62,296	830,578
U.K. Property Unit Trusts	193,162	0	24,703	217,865
Other Unit Trusts	78,883	3,157	8,179	90,219
Unlisted Securities	105,727	0	18,161	123,888
Foreign Currency	3	245	21	269
	1,866,925	46,499	121,714	2,035,138
Short Term Deposits	83,690	36,485	0	120,175
Cash & Bank Deposits	27,758	(10,620)	0	17,138
Current Assets (Debtors & Prepayments)	15,451	6,145	0	21,596
Current Liabilities (Creditors)	(7,856)	1,230	0	(6,626)
	1,985,968	79,739	121,714	2,187,421

5. Analysis of Managed Funds

	UBS £000	SSGA £000
UK	394,643	141,235
Europe		118,599
North		129,487
Japan		46,614
	394,643	435,935



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 2006		31 March 2007	
	£000	%	£000	%
DCC Investment Team	762,842	38.5	849,744	39.1
SSGA (Managed Fund)	396,075	20.0	435,935	20.0
UBS (Managed Fund)	355,207	18.0	394,643	18.2
UBS Global Asset Management Ltd	238,508	12.1	251,081	11.6
Capital International Ltd	225,741	11.4	241,048	11.1
	<u>1,978,373</u>	<u>100.0</u>	<u>2,172,451</u>	<u>100.0</u>

7. Taxation

Value Added Tax

The Fund is reimbursed by H.M. Revenue & Customs, 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 H.M. Revenue & Customs. 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 employees' AVC investments is shown below.

31/03/06	Contributions	Investment Return	Paid Out	31/03/07
£000	£000	£000	£000	£000
4,599	617	844	(735)	5,325

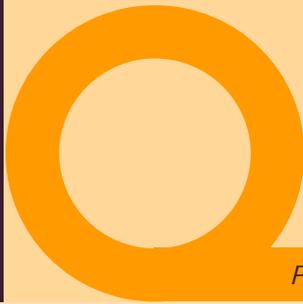
9. Stock Lending

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 2006/07 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 funds 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 2007 the total stock on loan amounted to £46.995m (2.2% of total fund value).

	31 March 2007
	£000
DCC Investment Team	25,980
Capital International Ltd	7,343
UBS Global Asset Man. Ltd	13,672
	<u>46,995</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

As required by the Disclosure Transparency Rules (which replaced the Companies Act 1985 regulations) shareholdings representing 3% or more of any class of share have to be notified to the company concerned and the Financial Services Authority (FSA). At 31 March 2007 the Fund had the following declarable holdings:

Company	Value of Holding £000	Percentage of Share Capital %
JP Morgan Emerging Markets Investment Trust	19,367	4.63
Genesis Emerging Markets Investment Trust	15,347	3.95

12. Investment Transactions

During 2006/07 the transactions of the Fund were £789.6 million purchases and £639.8 million sales.

13. Additional Capital Contributions

Employers' additional capital contributions of £0.540m 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 Liabilities

- (i) 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 deferred benefit) or transfer the '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 should be concluded in 2007/08.
- (ii) On 1 April 2007 staff employed by Devon County Council in providing property design and maintenance were transferred to NPS (SW) Ltd. From that date pension contributions for those employees went to the Norfolk County Council Pension Fund. All affected staff subsequently have 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 Norfolk Fund. 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 should be concluded in 2007/08.

16. Contingent Asset

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 still to be finalised and agreed between the Devon Fund Actuary and the Government Actuary's Department (Actuary to the PCSPS). The latest estimate from the Actuary shows that a capital sum of £1.4m will be payable to the Devon Fund by the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs any capital payments due to local authority pension funds would be repaid in ten annual instalments. The first such instalment when finalised should be received by the Fund in 2007/08.



Statistical Summary

Financial Summary

	2002/03 £000	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000
Contributions and Benefits					
Contributions received	89,366	98,452	108,791	119,571	131,310
Employers Additional Capital Contributions	1,500	2,219	7,492	965	540
Transfers from Other Schemes	13,981	15,010	20,338	18,529	18,339
	<u>104,847</u>	<u>115,681</u>	<u>136,621</u>	<u>139,065</u>	<u>150,189</u>
Benefits Paid	(68,907)	(70,641)	(75,934)	(82,554)	(95,502)
Transfers to Other Schemes	(8,658)	(7,745)	(10,957)	(13,113)	(7,059)
Administration Expenses	(957)	(1,074)	(1,086)	(1,020)	(1,201)
	<u>(78,522)</u>	<u>(79,460)</u>	<u>(87,977)</u>	<u>(96,687)</u>	<u>(103,762)</u>
Net Additions (withdrawals) from dealings with Fund Members	<u>26,325</u>	<u>36,221</u>	<u>48,644</u>	<u>42,378</u>	<u>46,427</u>
Returns on Investments					
Investment Income	37,459	37,640	28,800	32,662	34,821
Investment Management Expenses	(1,212)	(1,876)	(1,744)	(1,494)	(1,509)
Increase / (decrease) in Market Value of Investments during the Year	(251,186)	218,077	136,425	351,949	121,714
Net Returns on Investments	<u>(214,939)</u>	<u>253,841</u>	<u>163,481</u>	<u>383,117</u>	<u>155,026</u>
Net Assets of the Fund at 31 March	<u>1,058,286</u>	<u>1,348,348</u>	<u>1,560,473</u>	<u>1,985,968</u>	<u>2,187,421</u>

Membership Summary

	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07
Contributors	32,472	34,054	34,751	35,058	36,563
Pensioners and Dependants	17,938	18,335	18,483	19,193	20,274
Deferred Pensioners	10,940	11,827	13,144	15,151	16,946

The Fund's Largest Equity Shareholdings

United Kingdom Equities

Company	Sector	31 March 2007 £000	% of Total Investments
Royal Dutch Shell	Oil & Gas	14,038	0.65
Vodafone	Telecommunications	12,106	0.56
Royal Bank of Scotland	Banks	11,444	0.53
HBOS	Banks	11,318	0.52
BP	Oil & Gas	10,970	0.50
Astrazeneca	Pharmaceuticals	9,627	0.44
GlaxoSmithkline	Pharmaceuticals	7,110	0.33
HSBC	Banks	6,232	0.29
Barclays	Banks	5,972	0.27
Prudential	Insurance	4,366	0.20
		<hr/>	
		93,183	4.29
Plus other investments including UK Managed Funds		<hr/>	
		652,960	30.06
		<hr/>	
		746,143	34.35

Overseas Equities

Company	Sector	Country		
Sanofi Aventis	Pharmaceuticals	France	3,011	0.14
Total	Oil & Gas	France	2,859	0.13
Nestle	Food Producers	Switzerland	2,532	0.12
Forest Laboratories	Pharmaceuticals	United States	2,001	0.09
Roche	Pharmaceuticals	Switzerland	1,987	0.09
Novartis	Pharmaceuticals	Switzerland	1,872	0.09
ABN-Amro	Banks	Netherlands	1,789	0.08
KPN	Telecommunications	Netherlands	1,783	0.08
Allianz	Insurance	Germany	1,740	0.08
Applied Materials	Pharmaceuticals	United States	1,663	0.08
			<hr/>	
			21,237	0.98
Plus other investments including Overseas Managed Funds			<hr/>	
			517,664	23.83
			<hr/>	
			538,901	24.81

U.K. Property Unit Trusts

ING Lionbrook Property Unit Trust		24,029	1.11
UBS Triton Property Fund		22,567	1.04
Schroder Exempt Property Unit Trust		21,510	0.99
Threadneedle Property Unit Trust		21,392	0.98
Hermes Property Unit Trust		20,925	0.96
Morley Pooled Property Fund		20,179	0.93
Rockspring Hanover Property Unit Trust		18,624	0.86
Falcon Property Unit Trust		17,964	0.83
Blackrock Property Fund		15,807	0.73
Royal London Exempt Property Fund		11,428	0.53
RREEF UK Core Property Fund		11,425	0.53
UBS SERF Property Fund		8,330	0.38
Schroder Indirect Real Estate Fund		3,685	0.17
		<hr/>	
		217,865	10.03

Other Large Holdings

Fund	Included in		
Hermes UK Focus Fund	Unlisted Securities	52,291	2.41
Hermes European Focus Fund	Unlisted Securities	28,141	1.30
Hermes UK Small Companies Focus	Unlisted Securities	17,001	0.78
F&C Stewardship Fund**	Other Unit Trusts	17,403	0.80



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 31 March 2004.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2006/07 were based on the actuarial valuation carried out as at 31 March 2004.
2. The valuation as at 31 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.

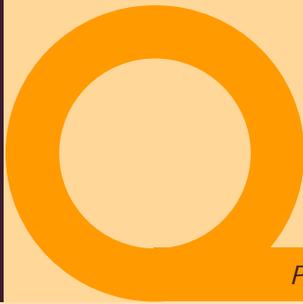
Less

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

These figures are based on the Regulations in force 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 not exceeding 3 years (or exceptionally 6 years).

If the 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 relevant recovery period before reverting to the relevant long term rate. In practice, contribution rates will be reviewed at the next valuation which is being carried out as at 31 March 2007, and consideration is being given to making further assumptions 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. However new Regulations, backdated to 1 April 2005, were subsequently issued which increased the theoretical cost of Fund benefits relative to those on which the certificate was based. No adjustment was 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 since been issued which brought in various changes including

- allowing commutation of pension for additional lump sum,
- extending the retention of the Rule of 85 age provisions to 31 March 2008, and the transitional protections, but only for existing members at 30 September 2006.

More recently the Government issued regulations setting out a new benefit structure to be introduced from 1 April 2008.

The impact of all of these changes will be taken into account at the Fund valuation as at 31 March 2007.

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	2.9% per annum
Short term return on	
equities/property	7.7% per annum
other assets	5.2% per annum
Valuation of assets	smoothed market value.

8. The next actuarial valuation of the Fund as at 31 March 2007 is currently underway.
9. This statement has been prepared by the Actuary to the Fund, Hewitt Bacon & Woodrow Limited, for inclusion in the accounts of 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 Limited does not accept any responsibility or liability to any party other than our client, the Devon County Council, in respect of this statement.

Hewitt Bacon & Woodrow Limited
June 2007



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
 Torrington District Council
 West Devon Borough Council

Other Major Service Providers

Dartmoor National Park Authority
 Devon & Cornwall Police Authority
 National Probation Service - Devon & Cornwall
 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
 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

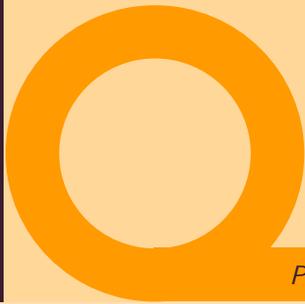
Bicton College Of Agriculture
 City College Plymouth
 East Devon College
 Exeter College
 North Devon College
 Plymouth College of Art & Design
 South Devon College
 University of Plymouth

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
 Exeter Royal Academy for Deaf Education
 Leisure East Devon Ltd
 NCP Ltd
 North Devon Crematorium Committee
 North Devon Homes Ltd.
 Open College Network - SW region
 PLUSS
 Plymouth Citizens Advice Bureau
 Plymouth Keyham Community Partnership
 Plymouth Millfield Economic Development Trust
 Plymouth Shopmobility
 Plymouth Wolseley Development Trust
 Riviera Housing Trust
 South West Tourism
 Teign Housing Ltd
 Tone Leisure (South Hams) 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 and 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 contributions rates are variable and are determined by the Fund Actuary (Hewitt Bacon & Woodrow). A full 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
- 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 service 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



Changes made affecting benefits during 2006/07

The Finance Act 2004 that came into effect on 6th April 2006 saw the largest changes to pensions legislation for a number of years. Changes to the LGPS that were made in line with the new pensions simplification rules included:

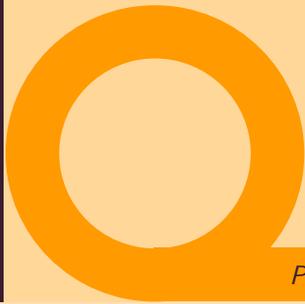
- Employee can join and remain in the scheme until their 75th birthday
- Option to increase your retirement lump sum by converting some of your pension at a rate of £12 cash for every £1 of pension surrendered, up to a maximum of 25% of the value of your pension rights
- The option to surrender part of your pension in exchange for increased spouse/civil partner's benefits was removed
- The option to surrender part of your lump sum in exchange for an increased pension has been removed
- The facility to waive contribution for member 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 was 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 2016 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 2016 and 31 March 2020, and retire before the scheme's normal retirement age. Only benefits accrued after 1 April 2008 will be reduced.



New Look LGPS from 1 April 2008

The Government is implementing a 'new look' pension scheme for Local Government with effect from 1 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

A large consultation exercise was undertaken during 2006/07 to determine the design of the new look scheme. Following this consultation, the benefit design currently proposed is as follows:

- A guaranteed pension calculated as $1/60 \times \text{final salary} \times \text{service}$
- No tax free retirement lump sum as standard though the option to take a tax free lump sum by converting some pension at a rate of £12 cash for every £1 of pension remains, up to a maximum of 25% of the value of the pension rights
- Two tier ill health pension, targeted at those most in need
- Death in Service lump sum of 3 x salary
- Survivor benefits have been extended to include cohabiting partners
- Employee contribution rate based on a system of full time equivalent salary bands
- Members can buy extra pension benefits in specific amounts from £250 up to £5000 a year. Alternatively members can continue to pay additional voluntary contributions

This is a brief summary of the main benefits being proposed for the new look scheme. Benefits accrued in the scheme prior to 31/03/2008 will not be affected. At time of writing, the benefit regulations, administration regulations and transitional regulations regarding the new scheme are still in draft form.

All employers, member and interested parties are asked to look at the Pensions website, which will be kept up to date 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



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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