

Pension Fund Annual Report & Accounts

2007/2008

A blue-tinted photograph of a village street. In the foreground, there are lush, flowering bushes. A paved road leads uphill towards several traditional houses. On the left, there is a stone building with a tiled roof. The houses have white walls and some have thatched roofs. The background shows a hazy landscape under a cloudy sky.

The photos used on pages 5, 6 and 25 of 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.

Photo on page 5: Westward Ho! by Wendy Hilling

Photo on page 6: Avon Dam - South Brent by Andy Fox

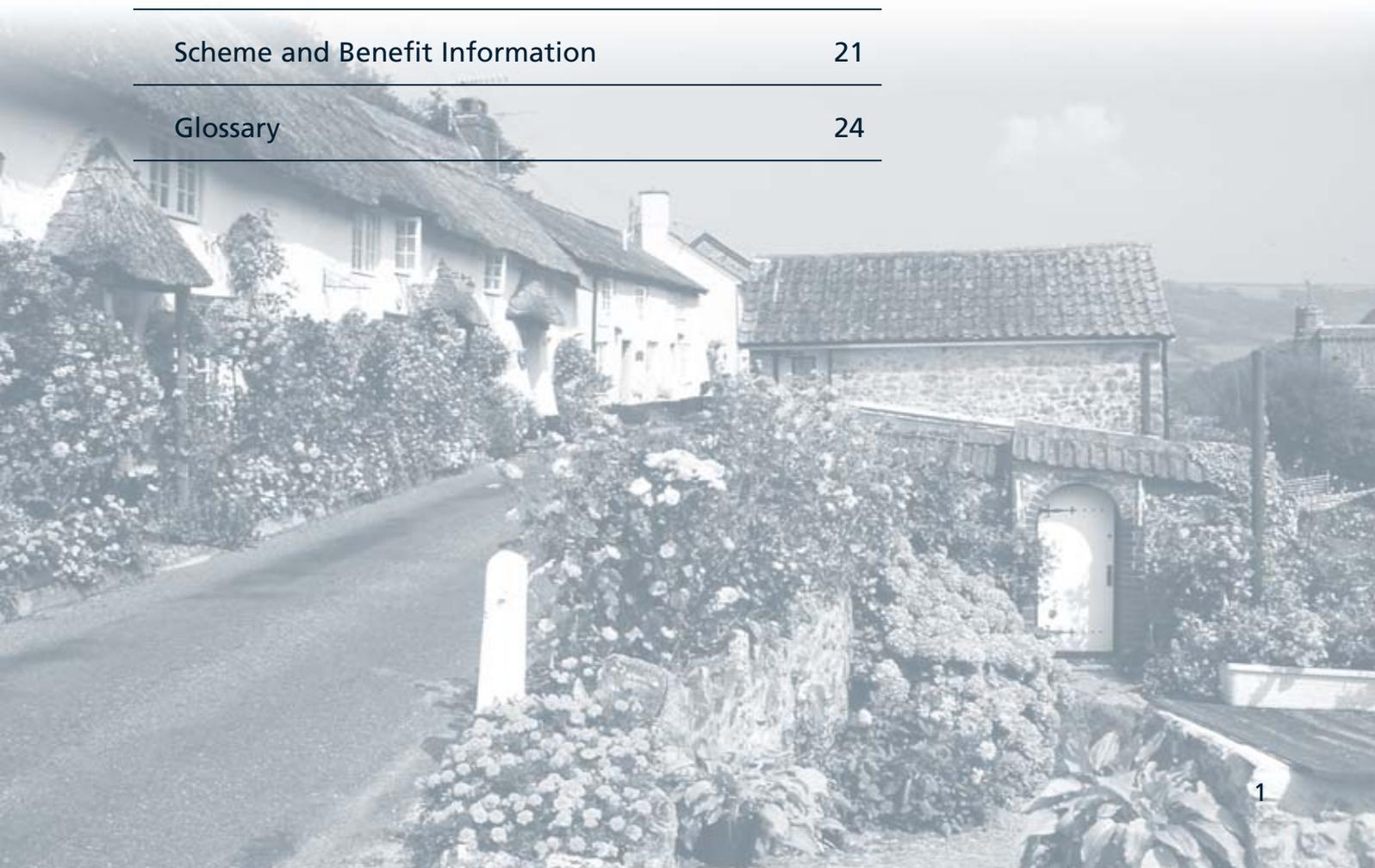
Photo on page 25: Lundy Island by Richard Salter

Front cover: Beer Headland from Seaton Cliff



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Management Structure

Administering Authority	Devon County Council County Hall Exeter EX2 4QJ
Investment and Pension Fund Committee (at 31 March 2008)	
Representing Devon County Council	Councillor Eileen Wragg (Chairman) Councillor Francis Brook Councillor Derek Button Councillor John Clatworthy Councillor David Cox Councillor Roy Connelly Councillor Geoff Date Councillor Christopher Haywood Councillor Ray Radford Councillor Des Shadrick
Representing Devon Unitary & District Councils	Councillor Peter Edwards (Devon Districts Forum) Councillor David Stark (Plymouth) Councillor Chris Pattison (Plymouth) Councillor John Thomas (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 Chief Executive John Mills Executive Director of Finance, IT & Trading Barry White Investment Manager Rod Turner Pensions Manager
Actuary	Hewitt Associates Ltd

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

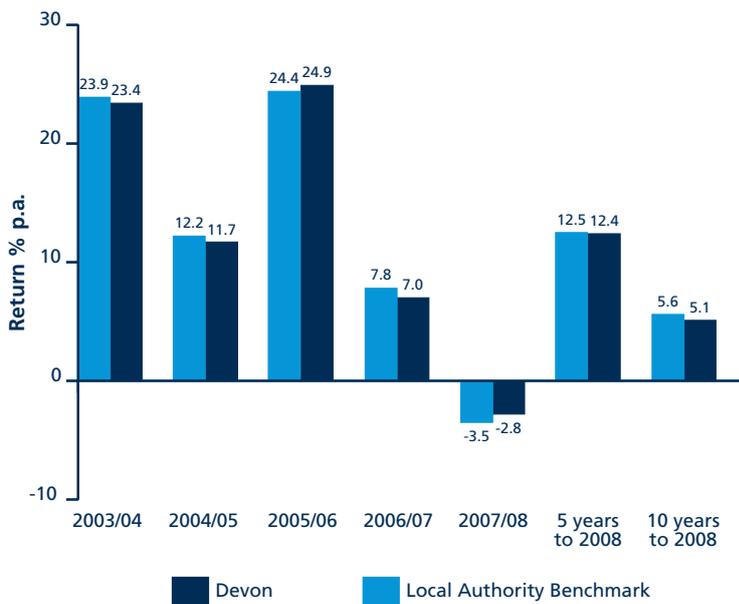


Report of the Executive Director of Finance, IT & Trading

The financial world is currently in a very fragile state and as I write this commentary it is perhaps worth reviewing my comments from 12 months ago. At that time I observed that markets had become more volatile and exposure to the sub-prime mortgage market in the United States was likely to be with us for the foreseeable future, also that the full effect of a global credit crunch would take some time to materialise. I can now observe that those comments were unfortunately only too accurate and the impact is most definitely being felt not just in the United States but in all of the major world economies, there are no regions immune from this contagion. This review of the Pension Fund concentrates on the main issues arising during the financial year ending 31 March 2008, but I will return to the current malaise of the world's economies at the conclusion of my commentary.

Investment Performance

Last year was the first time since 2002/03 that the overall return achieved by the Fund was negative. As always the principal aim of the Investment & Pension Fund Committee is to maintain consistent outperformance over the longer term. It can be seen from the figures presented in the chart below that the investment strategies which are in place have helped the Fund achieve that target compared to our peer group of other local authority funds. The underperformance in 2007/08 is disappointing and just after the year end the Committee decided that it was necessary to replace one of the Fund's external Investment Managers. The process to find a replacement is underway.



Over the last few years whilst many funds have moved assets into the alternative asset arena (principally Hedge Funds) the Devon Fund has





continued to strive for reasonable outperformance without taking undue risk. The Fund is ranked 17th over 10 years compared to its local authority peers (2006/07 25th).

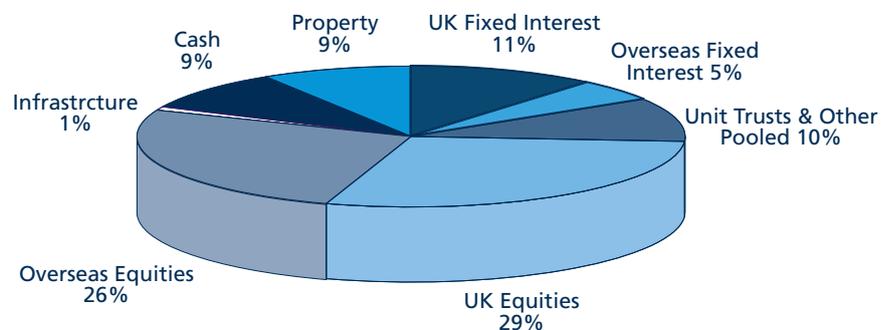
Fund Solvency

An Actuarial Valuation of the Fund was completed last year covering the three year period to 31 March 2007, showing that the Fund was 80% solvent (assets covered 80% of all future liabilities), an increase of 19% from the 2004 valuation. This improvement in solvency can in some part be attributed to better market conditions during the valuation period which resulted in investment returns of 44% compared with the Actuary's assumed returns of 22%. Despite these impressive gains from investment returns there is still a need for an increase in Employer pension contributions.

When looking at future trends and assumptions the Actuary takes a long term view, in the knowledge that Local Authority pension funds are more secure than private sector funds because Councils cannot go into liquidation. If they cease to exist, a successor authority would take over their liabilities. It is not essential, therefore, that their pension funds are 100% solvent as long as they can meet current pension payments. In 2007/08 the Devon Fund had income from contributions and investment income of £197m and paid out £108m by way of pensions and related payments. This position, whereby annual receipts exceed annual payments of benefits, is likely to continue for at least the next 25 years.

Asset Allocation

No change was made to the Committee's notional asset allocation target of 70% equities (UK, Overseas and 50% Property) and 30% fixed interest (Bonds, Cash and 50% Property). At 31 March 2008 the actual asset allocation was in line with the target set, shown in the chart below.



The LGPS review

Government as the sponsors of the Local Government Pension Scheme (LGPS) continued to consult on revisions to the existing scheme and delivered regulations for the 'new look' scheme which came into effect on 1 April 2008. It should be noted that the major decision taken by Government was that the



LGPS would continue as a final-salary based scheme. The acceptance of retaining the final salary based scheme was recognised by Government as an essential part of the 'employment package' offered by local government to attract and retain a quality workforce. A summary of the changes made in 2007/08 and on-going changes from April 2008 can be found later in this report under Scheme and Benefit information.

Governance

The governance of the Fund is an ongoing requirement. During the year the Committee undertook a review of its governance arrangements in order to comply with draft guidance issued by Communities & Local Government (CLG). This established that under the proposed review criteria covering nine areas of best practice for the governance of pension funds the Committee considered Devon to be fully compliant under seven of those categories and partially compliant for the other two. In addressing this the Committee has made places available and has extended invitations to two major groups of Employers within the Fund to nominate a representative. The Governance Compliance Statement was published by the Fund on the County Council website and can be found at: http://www.devon.gov.uk/governance_compliance_statement_260308.pdf

All of the Pension Fund statutory statements are available online and full details are shown later in this report on page 8.

Economic Commentary

The 12 month period to March 2008 evidenced signs of slowing world growth. It was however more robust than many economic forecasters expected with continued strength coming from many of the emerging market economies. Commodity prices continued upwards with oil hitting record levels. This strength in commodities has however contributed to rising inflation globally; prices in March 2008 were 4.1% higher than the same time the previous year.

During the Fund's last financial year the investment market reflected the economic situation of the major economies with equity returns in the UK - 7.7%, in North America -4.8%, -15.4% in Japan, +2.8% in Europe and +20.3% in Emerging Markets. Within Bond markets UK conventional bonds returned +7.6%, UK index-linked bonds +13.1%, while overseas bonds achieved +19.0%. UK property returned -9.6% during the year.

Interest rates in the three major world economic zones varied considerably during 2007/08. In the UK base rate commenced at 5.25% and by July had increased to 5.75% but was later stepped down to end the year back at 5.25%. The European Central Bank made only one move increasing its rate from 3.75% to 4% in June 2007 where it remained for the rest of last year. The United States Federal Reserve Bank were more aggressive in an attempt to keep growth in its economy, moving its central rate down in six steps from 5.25% to reach 2% at the year end.





Market Outlook

The consensus view of many eminent economic commentators is that the world's major economies are rapidly heading towards, or are already in recession. The as yet unquantifiable impact of the credit crunch will force Governments and Central Banks to take measures which might not be palatable against a background of low or zero economic growth. Recent indicators show a rapid slowdown of the UK housing market; this will quickly impact on the wider UK economy and the Bank of England Monetary Policy Committee may have to reduce interest rates more aggressively than previously forecast.

The world faces a very uncertain period due to the global credit crunch & banking crisis and needs co-operation between all of the major world economies to redress the situation. Unfortunately I cannot conclude this report with a positive outlook; I fear that we face a prolonged period of reassessment before confidence is restored to world financial and credit markets.

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.

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

Governance Policy Statement

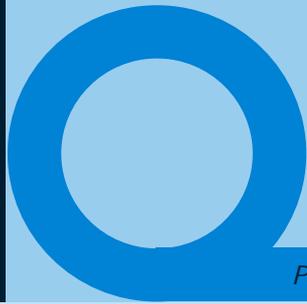
A Governance Policy Statement was approved by the Investment & Pension Fund Committee and published in February 2006. This statement sets out the Administering Authority's policy on Fund governance including the representation and participation of key stakeholders on the Investment & Pension Fund Committee.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

During 2007/08 the Committee reviewed its Governance Policy Statement in order to comply with Regulation 73A of the LGPS Regulations 1997 and has published a compliance statement which can be viewed on the County Council's website at www.devon.gov.uk/governance_compliance_statement_260308.pdf



Statement of Accounts

2007/2008



Statement of Accounts

Fund Account

	Notes	2007 £000	2008 £000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable :			
Employers		99,201	102,582
Employers - Additional Capital Contributions	12	540	928
Employees		32,109	33,427
Transfers in from other schemes			
Group Transfers		1,996	3,330
Individual Transfers		16,343	16,707
		150,189	156,974
Benefits payable :-			
Pensions		(72,978)	(78,888)
Lump Sums		(20,564)	(18,788)
Death Benefits		(1,885)	(2,099)
Refunds		(75)	(27)
Transfers out to other schemes			
Group Transfers		0	0
Individual Transfers		(7,059)	(7,061)
Administration expenses	1	(1,201)	(1,346)
		(103,762)	(108,209)
Net Additions from dealings with Fund members		46,427	48,765
RETURNS ON INVESTMENTS			
Investment Income			
Fixed Interest			
U.K. Government Stocks		5,182	5,500
U.K. Government Index Linked Stocks		2,270	2,044
Overseas Government		2,641	2,810
Overseas Index Linked		13	190
Other		1,035	1,144
Equities (Listed)			
U.K.		7,048	7,273
Overseas		3,378	4,059
U.K. Property Unit Trusts		7,119	6,964
Other Unit Trusts		32	37
Interest on Cash Deposits		6,097	9,900
Underwriting Commission		6	0
Investment Management expenses	1	(1,509)	(1,530)
Change in Market Value of Investments:-			
Realised & Unrealised profit/(loss)		121,714	(116,349)
		155,026	(77,958)
Net Returns on Investments		155,026	(77,958)
Net Increase (Decrease) in the Fund during the year		201,453	(29,193)
ADD			
Opening Net Assets of the Fund at 1 April		1,985,968	2,187,421
Net Assets of the Fund at 31 March		2,187,421	2,158,228



Net Asset Statement

	Notes	2007 £000	2008 £000
Investments at Market Value	3/5		
Fixed Interest			
U.K. Government Stocks		107,242	115,310
U.K. Government Index Linked Stocks		94,071	121,359
Overseas Government		72,328	50,639
Overseas Index Linked		5,302	39,190
Other		38,910	28,046
Equities (Listed)			
U.K.		210,265	169,509
Overseas		244,201	245,720
Managed Funds	5	830,578	763,064
U.K. Property Unit Trusts		217,865	189,246
Other Unit Trusts		90,219	120,442
Unlisted Securities		123,888	119,158
Foreign Currency		269	1,075
		2,035,138	1,962,758
Short Term Deposits		120,175	161,650
Cash & Bank Deposits		17,138	15,538
Current Assets	13	21,596	22,597
Current Liabilities	13	(6,626)	(4,315)
Net Assets of the Fund at 31 March		2,187,421	2,158,228



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 2008
- 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. Administration Expenses and Related Party Transactions	2006/07	2007/08
	£000	£000
Administration Expenses		
Pensions Administration (note a)	1,169	1,263
Actuarial Services	32	83
	1,201	1,346
Investment Management Expenses		
Investment Management & Accounting (note a)	314	312
External Investment Managers & Advisers (note b)	1,094	1,050
Custodian	163	271
Stock Lending Income & Commission Recapture	(62)	(103)
	1,509	1,530
	2,710	2,876

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 £0.312m for Investment Management and Accounting and in Administration expenses £1.263m 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 2007/08.

2. 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).



3. Investment Management Arrangements

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

	31 March 2007		31 March 2008	
	£000	%	£000	%
DCC Investment Team	849,744	39.0	915,537	42.8
SSGA (Managed Fund)	435,935	20.1	398,806	18.6
UBS (Managed Fund)	394,643	18.2	364,258	17.0
UBS Global Asset Management Ltd.	251,081	11.6	239,394	11.2
Capital International Ltd	241,048	11.1	221,951	10.4
	2,172,451	100.0	2,139,946	100.0

4. Investment Movements

Sector	Market Value 31.03.07 £000	Net New Investment £000	Change in Market Value £000	Market Value 31.03.08 £000
Fixed Interest				
U.K. Government Stocks	107,242	3,762	4,306	115,310
U.K. Index Linked Stocks	94,071	15,345	11,943	121,359
Overseas Government Stocks	72,328	-30,466	8,777	50,639
Overseas Index Linked	5,302	30,139	3,749	39,190
Other	38,910	-12,353	1,489	28,046
Equities (Listed)				
U.K.	210,265	(7,494)	(33,262)	169,509
Overseas	235,619	11,925	(1,824)	245,720
Managed Funds	830,578	0	(67,514)	763,064
U.K. Property Unit Trusts	217,865	0	(28,619)	189,246
Other Unit Trusts	86,333	31,996	2,113	120,442
Unlisted Securities	136,356	0	(17,198)	119,158
Foreign Currency	269	1,115	(309)	1,075
	2,035,138	43,969	(116,349)	1,962,758
Short Term Deposits	120,175	41,475	0	161,650
Cash & Bank Deposits	17,138	(1,600)	0	15,538
Current Assets (Debtors & Prepayments)	21,596	1,001	0	22,597
Current Liabilities (Creditors)	(6,626)	2,311	0	(4,315)
	2,187,421	87,156	(116,349)	2,158,228

5. Analysis of Managed Funds

	UBS £000	SSGA £000
UK	364,258	82,881
North America		145,889
Europe		134,074
Japan		35,962
	364,258	398,806



6. 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 2008 the total stock on loan amounted to £22.526m (1.04% of total fund value).

31 March 2008	
£000	
DCC Investment Team	0
Capital International Ltd	12
UBS Global Asset Man. Ltd.	22,514
	<u>22,526</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.

31/03/2007	Contributions	Investment Return	Paid Out	31/03/2008
£000	£000	£000	£000	£000
5,325	590	(404)	(526)	4,985

9. 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.

10. 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 2008 the Fund had the following declareable holdings:

Company	Value of Holding £000	Percentage of Share Capital %
JP Morgan Emerging Markets Investment Trust	20,807	4.50
Genesis Emerging Markets Investment Trust	17,933	3.95

11. Investment Transactions

During 2007/08 the transactions of the Fund were £818.9million purchases and £703.5million sales.



12. Additional Capital Contributions

Employers' additional capital contributions of £0.928m were made to the Fund.

13. 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.

14. Contingent Liabilities

- (i) On 1 December 2005 staff employed by Torbay in providing social care services were transferred to the Torbay Primary 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 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 should be concluded in 2008/09.
- (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 2008/09.

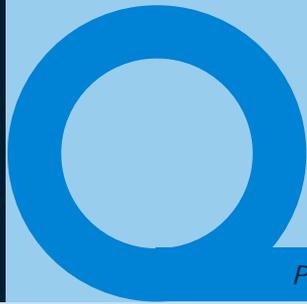
15. Contingent Asset

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. It is anticipated that the first capital receipt should be receivable in 2008/09.

16. Post Balance Sheet Events

On 1 April the Pension Fund consolidated its custody arrangements with the appointment of JP Morgan as master custodian. Prior to this date State Street Bank and JP Morgan were responsible for the custody of the Pension Fund's assets.

At its meeting on 9 May 2008 the Investment & Pension Fund Committee terminated the investment management contract of Capital International Ltd. Transitional arrangements have been put in place until the procurement process to appoint a new manager has been concluded.



Statistical Summary

Financial Summary

	2003/04	2004/05	2005/06	2006/07	2007/08
	£000	£000	£000	£000	£000
Contributions and Benefits					
Contributions received	98,452	108,791	119,571	131,310	136,009
Employers Additional Capital Contributions	2,219	7,492	965	540	928
Transfers from Other Schemes	15,010	20,338	18,529	18,339	20,037
	115,681	136,621	139,065	150,189	156,974
Benefits Paid	(70,641)	(75,934)	(82,554)	(95,502)	(99,802)
Transfers to Other Schemes	(7,745)	(10,957)	(13,113)	(7,059)	(7,061)
Administration Expenses	(1,074)	(1,086)	(1,020)	(1,201)	(1,346)
	(79,460)	(87,977)	(96,687)	(103,762)	(108,209)
Net Additions(Withdrawals) from dealings with Fund members	36,221	48,644	42,378	46,427	48,765
Returns on Investments					
Investment Income	37,640	28,800	32,662	34,821	39,921
Investment Management Expenses	(1,876)	(1,744)	(1,494)	(1,509)	(1,530)
Increase / (decrease) in Market Value of Investments during the Year	218,077	136,425	351,949	121,714	(116,349)
Net Returns on Investments	253,841	163,481	383,117	155,026	(77,958)
Net Assets of the Fund at 31 March	1,348,348	1,560,473	1,985,968	2,187,421	2,158,228

Membership Summary

	31.03.04	31.03.05	31.03.06	31.03.07	31.03.08
Contributors	34,054	34,751	35,058	36,563	36,346
Pensioners and Dependants	18,335	18,483	19,193	20,274	21,206
Deferred Pensioners	11,827	13,144	15,151	16,946	19,293



The Fund's Largest Equity Shareholdings

United Kingdom Equities

Company	Sector	31 March 2008 £000	% of Total Investments
BP	Oil & Gas	11,247	0.52
Vodafone	Telecommunications	9,163	0.42
HSBC	Banks	5,526	0.26
SAB Millar	Beverages	5,415	0.25
Royal Dutch Shell 'B'	Oil & Gas	5,258	0.24
Astrazeneca	Pharmaceuticals	5,156	0.24
HBOS	Banks	5,124	0.24
Rio Tinto	Mining	4,944	0.23
GlaxoSmithkline	Pharmaceuticals	4,613	0.21
Royal Bank of Scotland	Banks	4,286	0.20
		<u>60,732</u>	<u>2.81</u>
Plus other investments including UK Managed Funds		555,916	25.76
		<u>616,648</u>	<u>28.57</u>

Overseas Equities

Company	Sector	Country	31 March 2008 £000	% of Total Investments
Nestle	Food Producers	Switzerland	3,259	0.15
Roche	Pharmaceuticals	Switzerland	3,248	0.15
Total	Oil & Gas	France	2,874	0.13
Novartis	Pharmaceuticals	Switzerland	2,843	0.13
Sanofi Aventis	Pharmaceuticals	France	2,360	0.11
Applied Materials	Pharmaceuticals	United States	2,035	0.09
BNP Paribas	Banks	France	1,778	0.08
Forest Laboratories	Pharmaceuticals	United States	1,672	0.08
AXA	Insurance	France	1,610	0.07
Unilever	Food Producers	Netherlands	1,485	0.07
			<u>23,164</u>	<u>1.07</u>
Plus other investments including Overseas Managed Funds			538,481	24.95
			<u>561,645</u>	<u>26.02</u>

UK Property Unit Trusts

ING Lionbrook Property Unit Trust	20,079	0.93
UBS Triton Property Fund	19,453	0.90
Threadneedle Property Unit Trust	18,925	0.88
Hermes Property Unit Trust	18,543	0.86
Morley Pooled Property Fund	18,290	0.85
Schroder Exempt Property Unit Trust	17,918	0.83
Rockspring Hanover Property Unit Trust	16,444	0.76
Falcon Property Unit Trust	14,627	0.68
Blackrock Property Fund	13,486	0.62
Royal London Exempt Property Fund	10,385	0.48
RReef UK Core Property Fund	9,833	0.46
UBS SERF Property Fund	8,133	0.38
Schroder Indirect Real Estate Fund	3,130	0.15
	<u>189,246</u>	<u>8.77</u>

Other Large Holdings

Fund	Included in	31 March 2008 £000	% of Total Investments
UK Focus Fund	Unlisted Securities	39,322	1.82
Hermes European Focus Fund	Unlisted Securities	26,569	1.23
Hermes UK Small Companies Focus Fund	Unlisted Securities	11,810	0.55
F&C Stewardship Fund **	Other Unit Trusts	14,409	0.67

** The F&C Stewardship Fund invests in UK companies selected using ethical criteria. Over 20% of the Fund's investments in the UK stock market is invested in those same ethical stocks.



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 was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2007/08 were based on the actuarial valuation carried out as at 31 March 2004.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £2,190.0M) covering 80% 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 2008 was as set out below:

- 15.0% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 4.9% of pensionable pay 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 from 1 April 2008.

Less

- 1.4% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
 - Changes were made consistent with the Finance Act 2004.
 - A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.
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.

The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.



5. The 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.
6. The main actuarial assumptions were as follows:

Discount rate for periods

In service

Admitted Bodies	6.2% a year
Scheduled Bodies	6.2% a year

Left service

Admitted Bodies:	5.2% a year
Scheduled Bodies:	6.2% a year

Short term investment returns until 1 April 2011

Equity/property assets	6.9% a year
Other investments	5.2% a year

Rate of general pay increases 4.7% a year

Rate of increases to pensions in payment 3.2% a year

Valuation of assets market value

7. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of Devon County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. 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 Associates Limited does not accept any responsibility or liability to any party other than our client, Devon County Council, in respect of this statement.

Hewitt Associates Limited
May 2008

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
 Torridge 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 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
 PLUS
 Plymouth Citizen's Advice Bureau
 Plymouth Keyham Community Partnership
 Plymouth Millfield Economic

Development Trust
 Plymouth Shopmobility
 Plymouth Wolseley Development Trust
 Riviera Housing Trust
 Exeter Royal Academy for Deaf Education
 South West Tourism
 Tarka Housing Ltd
 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

For 2007/08 employees paid 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.

During 2007 a valuation was performed by the fund actuary, the results of which will not come into effect until 1 April 2008.

Benefits

The LGPS provides significant retirement and death benefits to its members which for service up to 31 March 2008 included 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 prior to 31 March 2008. A comprehensive version of the 'Employee guide to the LGPS' covering the 1997 scheme is available on request from Devon Pension Services.



Changes made affecting benefits during 2007/08

Changes made to the LGPS during the year mainly related to clarifying regulations in line with the Finance Act 2004 that came into effect back in April 2006. The changes included

- The ability to exchange small pension entitlements to a one off lump sum was updated in line with the provisions of the Finance Act 2004
- The maximum additional service that could be purchased for a member was increased from 6 2/3rd years to a maximum of 10 years
- Death in service grants are now only payable where death occurs prior to the member's 75th birthday
- Enhanced service awarded on ill health retirements is no longer restricted to the maximum service of 40 years.

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 from 1st April 2008 will be as follows:

- A guaranteed pension calculated as $1/60 \times \text{final salary} \times \text{post 1 April 2008 service}$.
- 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.
- Three tier ill health pension, targeted at those most in need
- Death in Service lump sum of 3 x salary
- Death after retirement grant of 10 years pension less pension already paid, providing death occurs before the member's 75th birthday
- Survivor benefits have been extended to include nominated co-habiting partners. Widow's and widowers pensions are now to be calculated on all member service except in some circumstances where marriage occurred after retirement
- Employee contribution rate based on a system of full time equivalent salary bands ranging from 5.5% for salary band £0 - £12,000 to 7.5% for salaries in excess of £75,000
- 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



Pension and lump sum benefits built up prior to 31 March 2008 will continue to be calculated on 1/80th for pension and 3/80th for lump sum as shown under the earlier section entitled 'Benefits'.

For more details of the benefits available from the scheme after 1 April 2008, an online version of the current 'Employee guide to the LGPS' can be found on our website at www.devon.gov.uk/pensions

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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