Pension Fund

Annual Report and Accounts

For the year ended 31 March 2013

The Durham County Council Pension Fund is registered with the Pension Schemes Registry

No. 10079166

Durham County Council Pension Fund **Page**

INTRODUCTION

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31 March 2013.

These are the key issues;

- Contributing members decreased by 2.31% to 16,837
- Market value of the Fund's assets increased from £1,889m to £2.085m (10.4%)

The report provides further information on these issues and on the activities and management of the Fund during the year.

I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed. For further information on the Fund or letting me know what you think about this report, contact details are provided at the end of the report.

Don McLure, C.P.F.A.
Corporate Director - Resources

THE LOCAL GOVERNMENT PENSION SCHEME

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) administered by Durham County Council. It is a statutory scheme governed by regulations made under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- LGPS (Administration) Regulations 2008 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009
- LGPS (Miscellaneous) Regulations 2012.

HOW THE SCHEME PRESENTLY WORKS

The LGPS is required to be funded. Scheme funds, currently surplus to immediate pension benefit requirements, are invested in approved securities. The Fund must be sufficient to sustain future pension entitlements of past and present members. The Fund is financed by contributions from members, employers and earnings from investments.

The LGPS is classified as a “Final Salary Scheme” which means that the annual pension and any retirement grant are paid based on the period of membership and usually the final twelve months pay.

An independent actuarial valuation of the Fund is carried out every three years to review the assets and liabilities of the Fund and to determine the rate of contributions which the employers must make to the Fund. The most recent valuation applicable to the period covered by the report was undertaken as at 31 March 2010 and a report of the actuary is provided on page 30. The next review is due to take place during 2013/14.

Contributors to the scheme are required to pay between 5.5% and 7.5% of their pensionable wage/ salary to the Fund. The rate they pay depends on which of seven different salary bands their whole-time equivalent pay falls into. Employee contributions qualify for income tax relief. Members may have additional voluntary contributions (AVCs) deducted from pay and paid into a personal fund. AVCs can be invested with any of the following companies:

- Standard Life
- Prudential
- Equitable Life (closed for new investors).

Contributors to the scheme can also choose to pay Additional Regular Contributions (ARCs) over a number of years to buy additional pension on retirement, either just for themselves, or with a proportion paid to benefit their dependants as well after their death.

Members who leave the scheme may transfer their accrued benefits to other approved schemes. Members who leave with less than three months membership receive a refund of their contributions (less income tax and a payment to the State Second Pension) provided they have no other LGPS benefits in the Fund or any other LGPS Funds in England or Wales. New members may transfer benefits accrued with other schemes into the Fund.

PENSION BENEFITS

The pension is paid at the rate of 1/80th of pay for each year of membership before 1 April 2008, and 1/60th of pay for each year of membership on or after 1 April 2008. Retirement grants are based on 3/80th of pay for each year of membership before 1 April 2008. Retirees have the option to take more lump sum from the scheme up to certain limits, getting £12 of tax free lump sum for every £1 of annual (taxable) pension given up.

A married man with service prior to 1 April 1972, who has not elected to purchase this service (or did not complete the purchase of service), will have the membership value of the unpurchased service reduced by 11%.

Where a member dies in service a lump sum in the form of a death grant would be paid to the member's estate. This death grant is equal to three years' pay. Survivor's pensions are payable on the death of a scheme member to that scheme member's husband, wife or nominated partner. Children's pensions are also payable to eligible children of deceased scheme members. A survivor's pension is at a rate of half the member's pension calculated on membership before 1 April 2008 and 37.5% of the member's pension calculated on membership on or after 1 April 2008. The survivor's pension for a nominated partner only takes into account the member's pensionable service after 5 April 1988. Eligible children receive a pension of one half of the survivor's pension, subject to a maximum of half for two or more children. (Giving up pension for lump sum will not affect the amount of any survivor pension payable after the member's death.)

In the main benefits are payable immediately upon leaving in the following circumstances:

- On reaching 65 years of age
- Between the age of 60 and 65, however early retirement reductions will normally apply where someone draws their pension benefits before age 65. The amount of reduction that applies depends on the individual's age, length of pensionable service and the date they joined the scheme.
- It is possible to draw immediate pension benefits when leaving service between

age 55 and 59 but only with employer consent (as the employer will usually have to make additional payments into the Fund where someone draws their benefits before age 60).

- At any age, with at least 3 months membership, if the member retires on the grounds of permanent ill-health. Three different levels of ill-health benefit are payable, depending on how soon it is judged that an individual will be able to obtain gainful employment again in future. In the case of death in service, dependants' benefits are paid even if the membership is less than 3 months. For death in service where membership is at least 3 months, an additional period of membership is awarded in calculating the survivor pension
- At the age of 55 and over with at least 3 months membership, if the member is made redundant or retires under an employer's early retirement scheme.

If a member leaves with at least 3 months membership and is not entitled to immediate payment of benefits and does not elect for a transfer of accrued benefits, deferred benefits are awarded. Deferred benefits are benefits which remain in the Fund and are paid when the member reaches retirement age. Such benefits are subject to cost of living increases between the date of leaving and the date of payment.

PENSION INCREASES

Mandatory increases in pensions and deferred benefits are made in accordance with annual statutory Pension Increase (Review) Orders to help protect pensions against inflation. The pension increase is currently linked to the Consumer Price Index (CPI).

The following table shows the pension increases over the last 5 years:

Effective Date	*% Increase*
6 April 2009	5.0
12 April 2010	0.0
11 April 2011	3.1
9 April 2012	5.2
8 April 2013	2.2

Pensioners must be over the age of fifty five or have retired on ill-health grounds to receive the increase. Those in receipt of a widow's, widower's or dependant's benefit receive the increase regardless of age.

PROPOSALS FOR CHANGES TO THE LGPS FROM 1 APRIL 2014

The Independent Public Service Pensions Commission, chaired by Lord Hutton, was established to review all aspects of Public Sector pension provision. The Commission's final report proposed a number of changes for all public sector pensions, including an increase in normal pension age and a move from final salary to career average revalued earnings benefits.

On 31 May 2012 the Local Government Association (on behalf of the employers) and the main LGPS unions (on behalf of the employees) made a joint announcement setting out their proposals for the LGPS which will take effect from 1 April 2014. The key features are as follows:

- Career Average Revalued Earnings scheme structure
- Pension earned at 1/49th of pensionable earnings for each year of service
- Revaluation rate of CPI for benefits of all types of member
- Normal Retirement Age linked to the State Pension Age
- Member contribution rates increased for those earning above £43,000, with potential reductions for part-time members (as contribution rates will be based on actual rather than full time equivalent pay)
- A two year vesting period, where anyone who joins the pension scheme from 1 April 2014 and leaves with less than two years membership, will get a refund of their contributions, instead of a deferred pension benefit
- Introduction of a "50/50 option" where a member can choose to pay half of the member contribution rate to earn benefits at half of the normal rate
- Pre April 2014 benefits protected and calculated by reference to final salary and current retirement ages
- An underpin will apply for members within 10 years of age 65 in April 2012

These proposals have been subject to an informal consultation with Employers and unions who approved the proposals. A series of formal statutory consultations on proposed regulatory changes started in December 2012.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

PENSION FUND COMMITTEE MEMBERS, MANAGERS AND ADVISERS

The Constitution of Durham County Council, as administering authority to the Fund, has delegated to the Pension Fund Committee powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder, regarding the administration and investment of funds.

In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council.

The contact details of managers and advisers as at 31 March 2013 are as follows:

PENSION FUND COMMITTEE:	Durham County Council Members:	Councillor Andrew Turner (Chairman) Councillor Nigel Martin (Vice Chairman) Councillor Colin Carr Councillor Jean Chaplow Councillor Amanda Hopgood Councillor Patricia Jopling Councillor John Lethbridge Councillor Dennis Morgan Councillor Reg Ord Councillor George Richardson Councillor Robin Todd
	Darlington Borough Council Members:	Councillor I. G. Haszeldine (Vacancy)
	Scheduled Body Representative	Mr D. Sanders
	Admitted Body Representative	Mr K. Tallintire
	Pensioner Representative	Mrs O. Brown
	Active Members Representative	(Vacancy)
	Further Education Colleges Representative	(Vacancy)

ADMINISTERING AUTHORITY OFFICERS:	G Garlick C Longbottom, LLB D McLure	Chief Executive Head of Legal and Democratic Services Corporate Director – Resources
STAFF OBSERVERS:	N Hancock	UNISON GMB
GLOBAL CUSTODIAN	J P Morgan Europe Ltd	1 Chaseside, Bournemouth, BH7 7DA
ACTUARY:	AonHewitt	40 Queen Square, Bristol. BS1 4QP
INVESTMENT MANAGERS:	AllianceBernstein Ltd	50 Berkeley Street, London. W1J 8HA
	Baring Asset Management	155 Bishopsgate, London. EC2M 3XY
	BlackRock Investment Management (UK) Ltd	12 Throgmorton Avenue, London. EC2N 2DL
	CB Richard Ellis Collective Investors Ltd	3rd Floor, One New Change, London. EC4M 9AF
	Edinburgh Partners Ltd	27-31 Melville Street, Edinburgh. EH3 7JF
	Royal London Asset Management Ltd	55 Gracechurch Street, London. EC3V 0UF
INDEPENDENT ADVISERS:	P. J. Williams	AllenbridgeEPIC, 26th Floor, 125 Old Broad Street, London, EC2N 1AR
	PSolve Asset Solutions	11 Strand, London, WC2N 5HR
AVC PROVIDERS:	Equitable Life Assurance Society	PO Box 177, Walton Street, Aylesbury, Bucks. HP21 7YH
	Prudential	Local Government AVC Department, Stirling. FK9 4UE
	Standard Life	Occupational Pensions, Standard Life House, 30 Lothian Road, Edinburgh. EH1 2DH
AUDITOR:	Mazars LLP	Tower Bridge House, St Katherine’s Way, London. E1W 1DD

RISK MANAGEMENT

The Statement of Investment Principles (SIP), provided as Appendix 2, sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safekeeping of the Pension Fund's assets. The Funding Strategy Statement (FSS), at Appendix 1, identifies the Fund's key risks and counter measures taken by the administering authority to mitigate those risks. The administering authority takes professional advice from the actuary, custodian and advisers before taking appropriate action.

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e. promised benefits payable to members). The Fund's assets are diversified to reduce exposure to market (price, currency and interest rate) risk and credit risk. The assets are divided between five investment managers to further control risk. Asset allocation benchmarks have been set and performance is monitored relative to these benchmarks to ensure compliance with the Fund's investment strategy.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The administering authority manages the Fund's liquidity position through a comprehensive cashflow management system to ensure cash is available when needed.

Note 17 of the Pension Fund's Accounts provides more detail on the nature and extent of risks arising from financial instruments and how the administering authority manages those risks.

The Pensions Administration team manages the risk of late payment of contributions by monitoring contribution payments, identifying cases of late payment and contacting employing bodies as appropriate.

Responsibility for the Fund's risk management rests with the Pension Fund Committee. The objective of the risk management strategy is to identify, manage and control the risks faced by the council's pensions operations whilst achieving a good return on investment. Risk is measured, in part, by the administering authority's risk management team as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

Performance of investment managers is reported monthly; reviews are carried out by officers monthly and on a quarterly basis by the Pension Fund Committee. All internal and external audit reports are reviewed by the Pension Fund Committee.

The investment managers and custodian are audited by companies outside of the administering authority's control. However their auditors produce an annual Statement on Auditing Standards report which is used to provide some level of assurance to the Pension

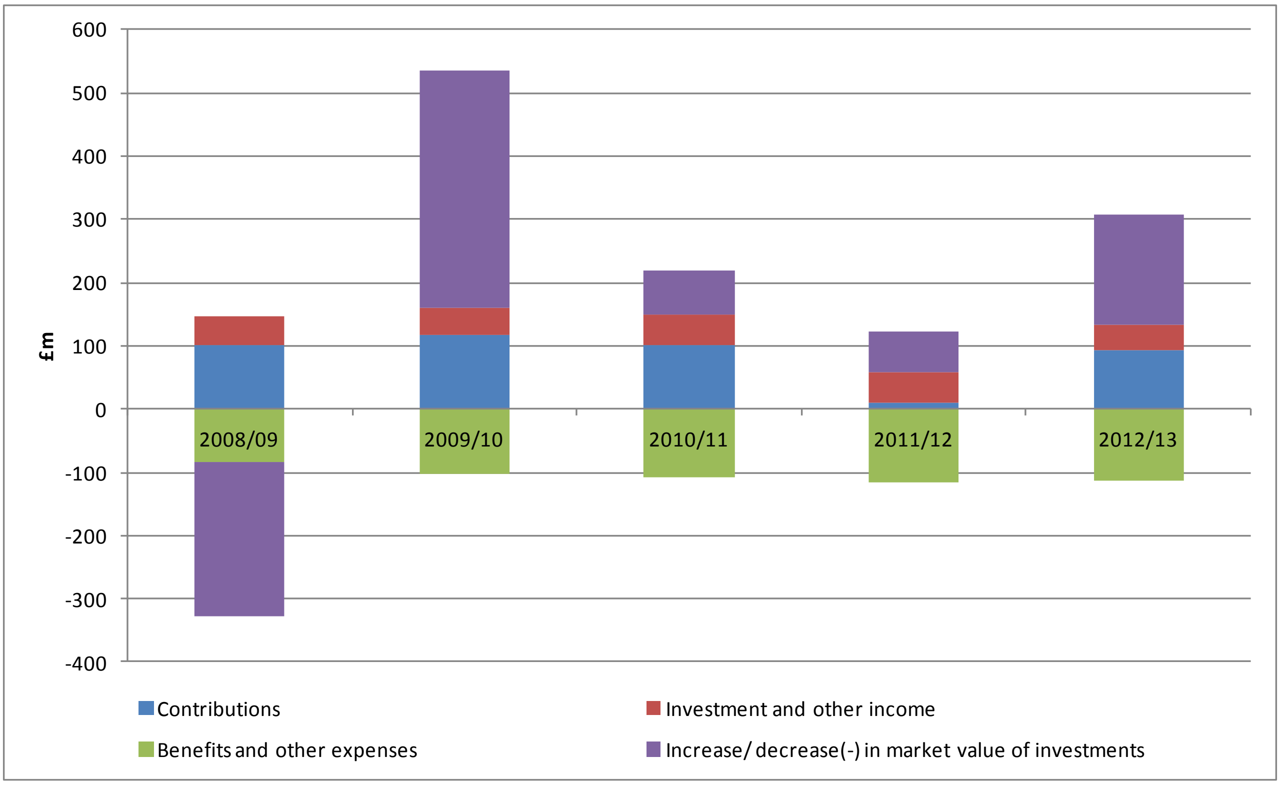
Fund that the managers and custodian have effective internal controls in operation within their organisations.

KEY FINANCIAL INFORMATION

The following table and bar charts provide an overview of the fund's financial position over the last five years. The key financial information is summarised below:

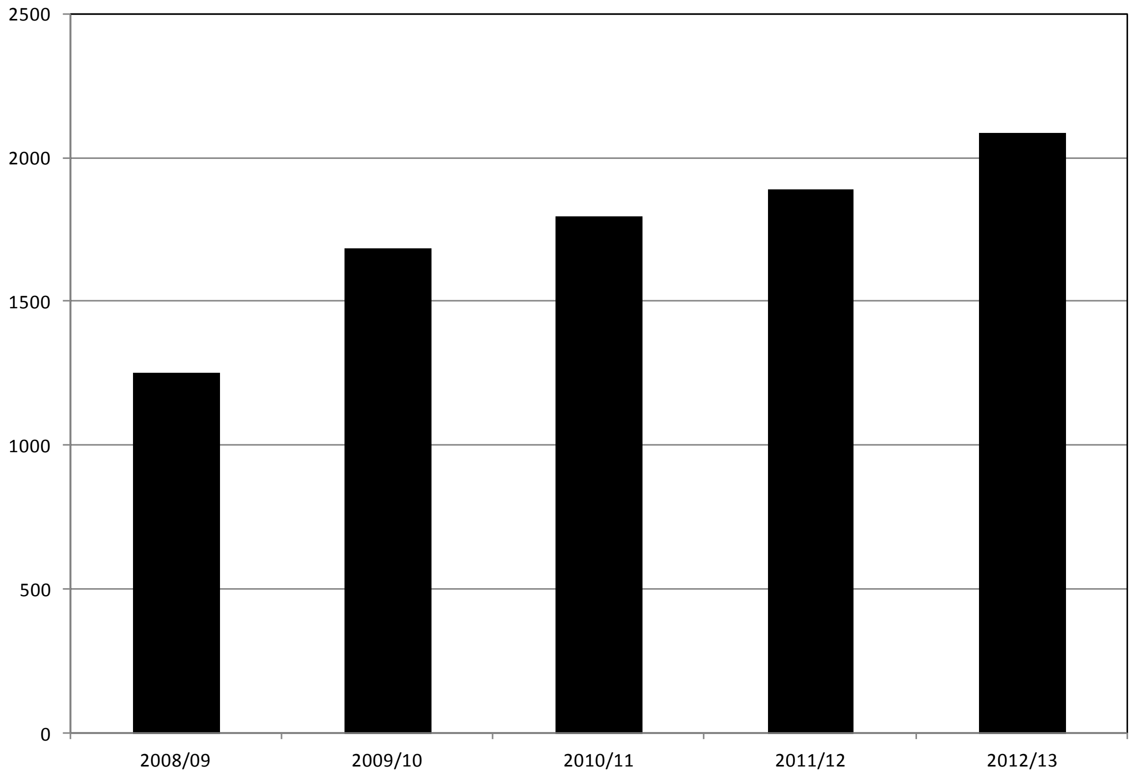
- over the last 4 years the market value of the net assets has steadily increased to £2,085.460m at 31 March 2013;
- the Fund's net income has been reducing since 2009/10 due to fewer contributions being received;
- the benefits paid to scheme members has outweighed contributions received during the last 2 years;

	2008/09 £000	***2009/10 £000***	***2010/11 £000***	***2011/12 £000***	***2012/13 £000***
Income					
Contributions	100,740	118,041	101,633	96,448	93,884
Investment and other income	46,405	42,564	47,282	48,082	38,939
Total Income	147,145	160,605	148,915	144,530	132,823
Less :					
Benefits and other expenses	84,785	103,685	106,999	114,787	111,827
Net income	**62,360**	**56,920**	**41,916**	**29,743**	**20,996**
Add **:**					
Increase/ decrease(-) in market value of investments	-243,712	375,300	69,702	65,556	175,578
Increase/decrease(-) in Fund during year	-181,352	432,220	111,618	95,299	196,574
Net assets at 31 March	**1,249,749**	**1,681,969**	**1,793,587**	**1,888,886**	**2,085,460**



NET ASSETS OF THE FUND

The following graph shows how the net assets of the Fund have changed over the last five years:



ADMINISTRATIVE MANAGEMENT PERFORMANCE

The Council participates in the annual CIPFA benchmarking exercise, which analyses the pension administration function of the various authorities that participate. One aspect of this benchmarking involves a comparision of the Council's pension's administration activity against a set of industry standard performance indicators. The following table shows how the Fund compared against these industry standard performance indicators and the average of participating authorities in 2012:

Industry Standard Performance Indicators	**Target (in days)**	**Achieved by the Fund**	**Average of 62 authorities**
Letter detailing transfer in quote	10	97.10%	86.40%
Letter detailing transfer out quote	10	100.00%	86.30%
Process refund and issue payment voucher	5	91.40%	88.70%
Letter notifying estimate of retirement benefit	10	94.90%	92.80%
Letter notifying actual retirement benefit	5	94.90%	92.10%
Letter acknowledging death of member	5	90.70%	94.20%
Letter notifying amount of dependant's benefits	5	95.20%	89.50%
Calculate and notify deferred benefits	10	70.40%	78.30%

MEMBERSHIP

The Durham County Council Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Appendix 4 provides a list of all organisations currently contributing to the Fund; it includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments.

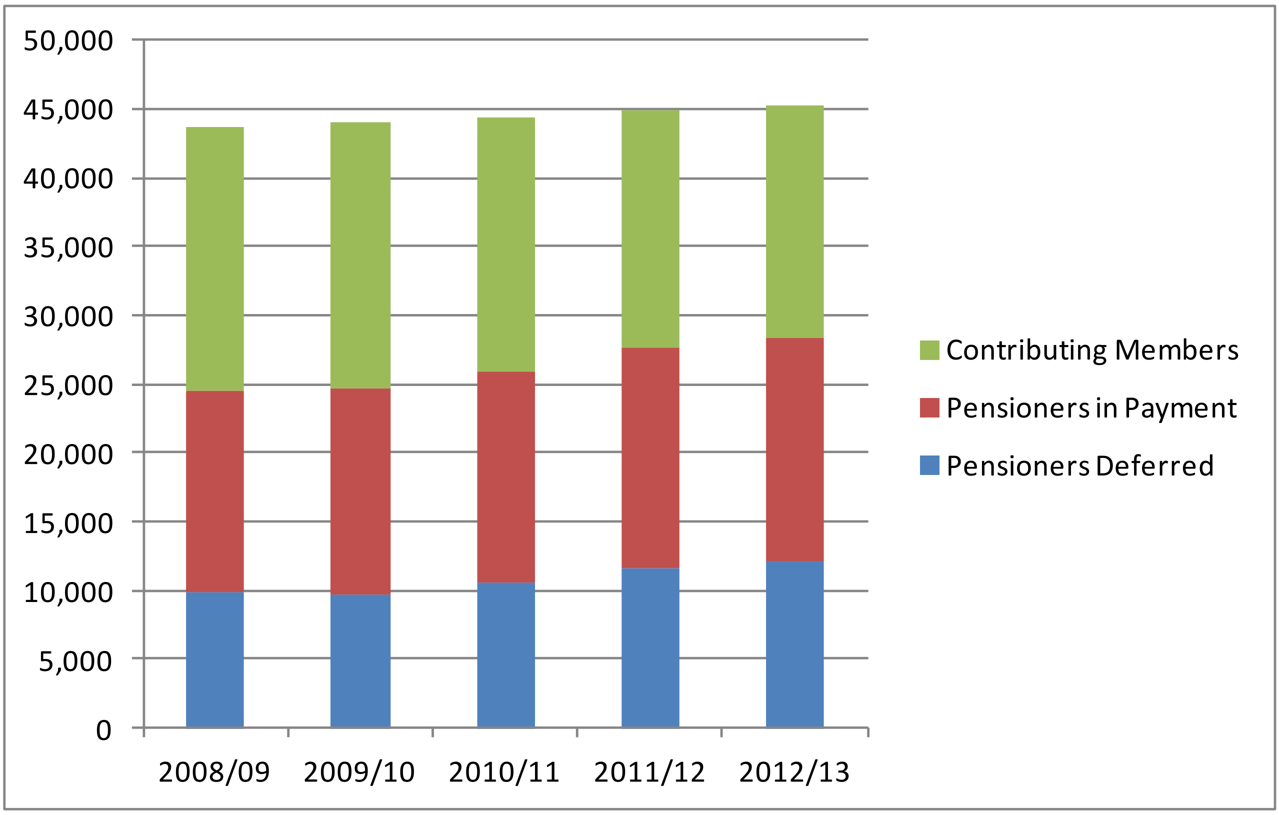
During 2012/13 the number of contributing members within the Pension Fund decreased by 2.31% from 17,235 to 16,837. In summary, the number of members contributing to the Scheme is:

As at 31 March 2012		***As at 31 March 2013***
11,326	Durham County Council	10,751
2,105	Darlington Borough Council	1,897
202	Town/ Parish Councils	194
98	Fire and Rescue Authority	102
837	Colleges	907
870	Police Authority	866
1,797	Others	2,120
17,235	Total	**16,837**

The number of pensioners in receipt of payments from the Fund increased from 16,049 to 16,386 (or 2.10%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

(1)	***2008/09*** (2)	***2009/10*** (3)	***2010/11*** (4)	***2011/12*** (5)	***2012/13*** (6)
Contributing Members	19,303	19,405	18,526	17,235	16,837
Pensioners in Payment	14,641	14,922	15,341	16,049	16,386
Pensioners Deferred	9,823	9,715	10,595	11,573	12,211



Appendix 5 provides a detailed analysis of the movement in the numbers of pensionable employees in and pensioners of the scheme between 31 March 2012 and 31 March 2013.

INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT POWERS AND DUTIES

Durham County Council, as administering authority, has delegated responsibility for the investment arrangements of the Pension Fund to the Pension Fund Committee who decide on the investment policy most suited to the meet the liabilities of the Pension Fund. The principal powers to invest are contained within the Local Government Pension Scheme Regulations 1997 which permit a wide range of investments in the UK and overseas markets.

Income to the Fund is primarily from the contributions of the Fund members and their employers and from the interest and dividends received from investments. Income to the Fund, which is not required to pay pension and other benefits, must be invested having regard to the need for a suitably diversified portfolio of investments and the advice of appropriately qualified advisers.

FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which administering authorities are required to prepare a Funding Strategy Statement. A copy of the Funding Strategy Statement, which was revised during 2012/13, and is line with the fund’s Statement of Investment Principles, is included at Appendix 1. The purpose of the Funding Strategy Statement is to establish a clear and transparent fund specific strategy to identify how employers’ pension liabilities are best met going forward, to provide a means of supporting the requirement to maintain employer contribution rates at a constant a level as possible. It raises the level of transparency and accountability, and provides a helpful context for adopting higher levels of communication with scheme employers.

STATEMENT OF INVESTMENT PRINCIPLES

It is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. On 16 March 2009, the Pension Fund Committee authorised the Corporate Director Resources to make suitable amendments to the Investment Managers’ Agreements and to make consequential changes to the Statement of Investment Principles. The Statement of Investment Principles was revised during 2012/13 and is attached in Appendix 2. This document provides details of the principles governing the pension fund’s decisions about investment.

ASSET ALLOCATION

The strategic target asset allocations have been determined in line with the Fund's Statement of Investment Principles and following the advice of the independent advisers. The target asset allocation and actual asset allocations on the first and last days of 2012/13, split between investment managers, are detailed in the table below:

Investment Manager	Asset Class	Investment Style	% Asset Allocation			
			Target at 1/4/12	Actual at 1/4/12	Target at 31/3/13	Actual at 31/3/13
Edinburgh Partners (terminated July 12)	Global Equities	Active	21.00	22.36	0.00	0.00
BlackRock	UK Equities	Active	20.00	21.10	15.00	15.82
BlackRock (pooled)	Global Equities	Passive	7.00	6.74	22.00	23.49
AllianceBernstein	Global Bonds	Active	16.00	15.45	15.00	14.67
RLAM	Investment grade sterling bonds	Active	20.00	19.97	20.00	20.08
CBRE	Global Property	Active	8.00	6.60	8.00	6.59
Barings	Dynamic Asset Allocation - all major asset classes	Active	8.00	7.77	20.00	19.35
Other			0.00	0.01	0.00	0.00
Totals			**100.00**	**100.00**	**100.00**	**100.00**

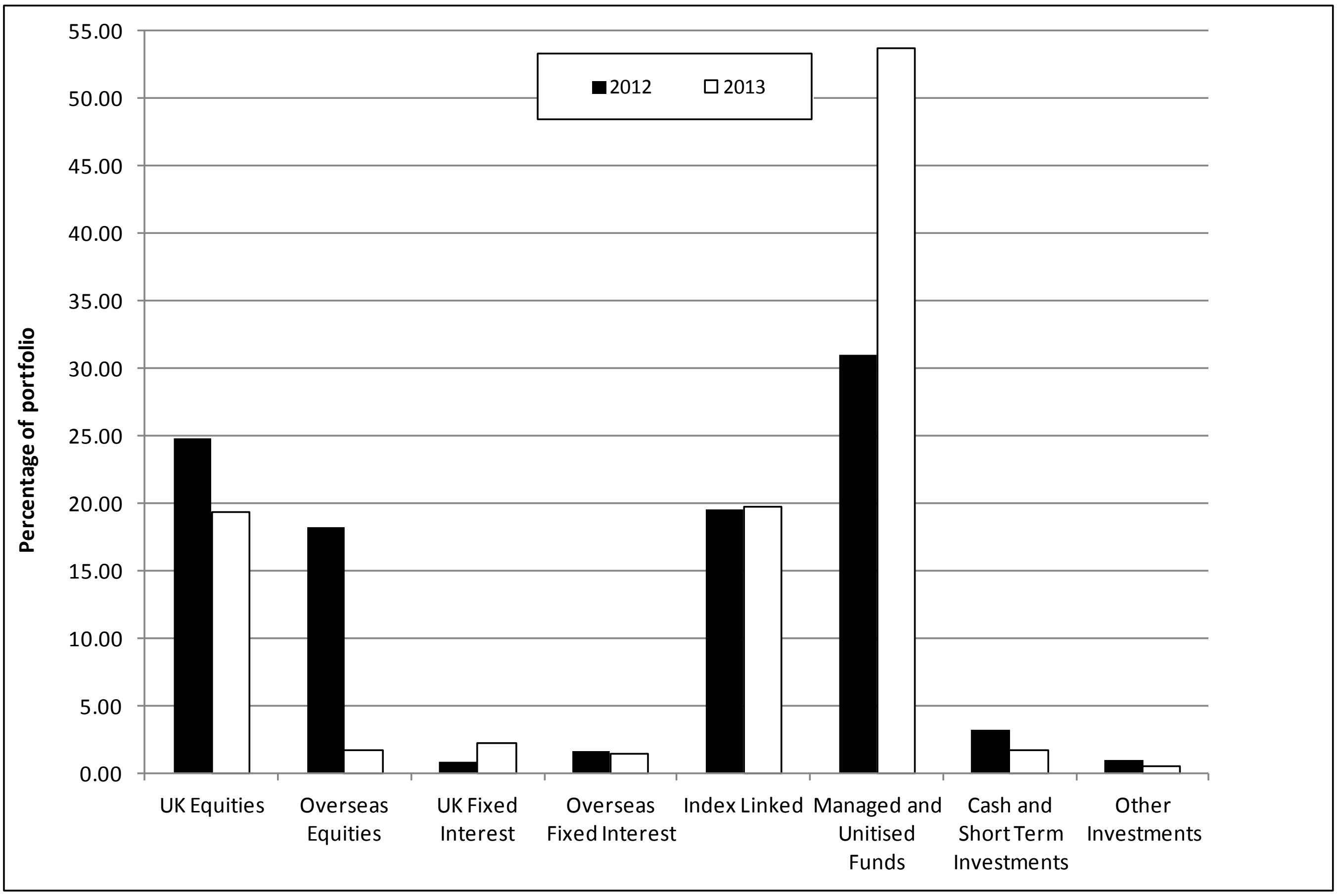
The actual allocation varies slightly due to market movements.

Following a review of the Pension Fund's investment strategy during 2012/13, it was decided to reduce and reshape the strategic allocation to equity holdings. Consequently, all investments held with Edinburgh Partners were removed and re-allocated to other investment managers in year. In October 2012 Durham County Council, on behalf of the Fund, approached the market for global equity and emerging market investment managers to replace the existing manager of global/ UK equities. On 1 May 2013 the Pension Fund Committee approved the appointment of three new investment managers: two of which will manage global equity with an emerging market bias and one of which will have an emerging market equity mandate. It is anticipated that the re-allocation of the Fund's equity assets will take place in the second quarter of 2013/14.

An asset allocation rebalancing exercise is normally undertaken by the administering authority on a quarterly basis, however whilst the Fund is going through this strategic asset allocation review, rebalancing has been suspended until the re-allocation of the Fund's equity assest has been completed.

DISTRIBUTION OF INVESTMENTS

The following graph shows the distribution of Fund investments (by market value) at the beginning and end of the year. Further details of the distribution are shown in Appendix 6.

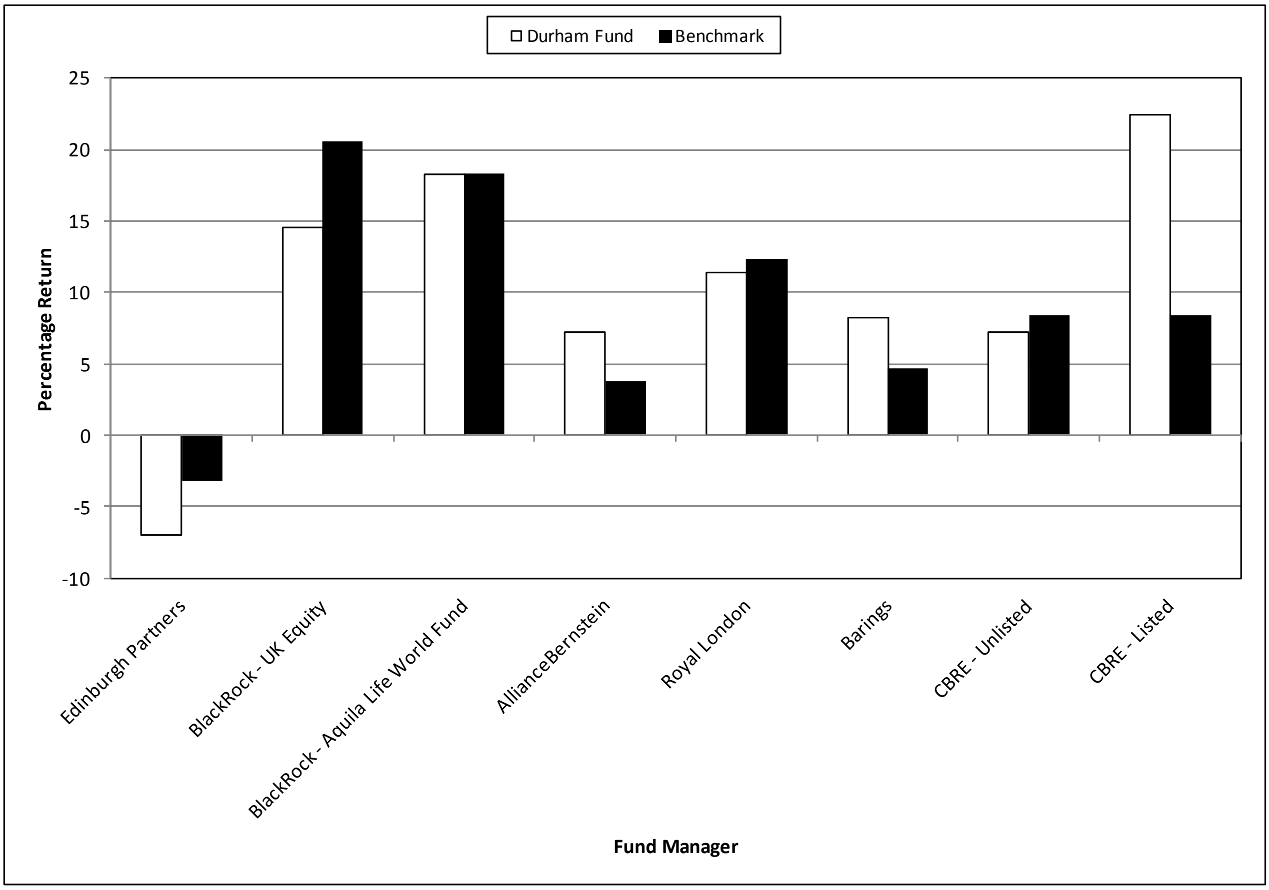


INVESTMENT MONITORING AND PERFORMANCE STATISTICS

The performance of the investment managers is monitored and reported to the Pension Fund Committee on a quarterly basis, with an Annual Meeting to consider the full year's performance. At the quarterly meetings of the Committee, the investments are reviewed and advice is given by independent advisers. The Managers submit reports to the meetings giving detailed information on transactions, views on the economy and investment strategy, including any proposed changes in asset allocation and a valuation of the investments and cash under management as at the end of the quarter.

Performance measurement is undertaken by J P Morgan, the Pension Fund's Global Custodian. Performance reports are produced on a quarterly basis, and the results are considered by the Fund's independent investment advisers and reported to the Pension Fund Committee.

TOTAL FUND PERFORMANCE



The following table shows the performance of the total fund for the year ended 31 March 2013 compared to the fund's specific benchmark adopted in February 2008.

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
Total Plan	11.2	7.11
Total Plan Benchmark	*11.3*	8.61
Relative Performance	*-0.01*	*-1.50*

The figures show overall performance below the benchmark for the 12 month period and since inception. The sources and reasons for this are discussed below. A general point can be made in respect of three of the mandates, Broad Bonds, Dynamic Asset Allocation and Global Property. In these cases the performance target is expressed as a margin over a cash return, or retail price inflation. However, the assets in which the managers invest have characteristics quite different from the target and therefore short term performance is very likely to diverge significantly from the target.

INVESTMENT MANAGERS' PERFORMANCE

The following tables show performance for each of the Pension Fund's investment managers in turn. In all cases the manager's benchmark and performance target are shown and the benchmark figures quoted include the out-performance objective.

Edinburgh Partners Asset Management (EPAM)

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
Edinburgh Partners	-6.99	1.93
MSCI World Index (Gross) +3% pa	-3.22	6.44
Relative Performance	*-3.77*	*-4.51*

EPAM managed the global equity portfolio up to July 2012. EPAM's performance has been somewhat erratic. A high tracking error between the Benchmark and the portfolio is to be expected, but there has been consistent underperformance versus the target and against the Index since inception.

Accordingly, in July 2012, all the remaining monies were moved from EPAM to be managed passively by BlackRock, this was to be an interim position. Upon completion of the first part of the Strategic Review, a proportion of the money was transferred to BAM.

BlackRock

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
BlackRock	14.59	7.26
FTSE All Share (Gross) +3% pa	20.56	9.48
Relative Performance	*-5.97*	*-2.22*

BlackRock manages the UK equity portfolio. Their performance has improved after a very difficult period from around the time the market bottomed in March 2009. The record is erratic, as might be expected from such a concentrated portfolio.

With a demanding target to meet, BlackRock have to run a quite concentrated portfolio and single positions can have a large impact on performance. A further consequence of this is that the tracking error between the portfolio and benchmark tends to be high.

In July 2012, BlackRock took stewardship of all of the monies from EPAM; this was invested in the Aquila Life World Fund and managed on a passive basis replicating the World Market Index. The performance of this part of the portfolio is shown in the table below:

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
BlackRock	18.24	17.12
FTSE Aw Developed (Gross)	18.34	17.32
Relative Performance	*-0.10*	*-0.20*

AllianceBernstein

AllianceBernstein manages the global bonds portfolio. It is important to note that the objective for this portfolio, and therefore its composition, is quite different from the matching bonds portfolio and this is reflected in the benchmark index.

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
Alliance Bernstein	7.18	5.10
GBP Libor +3% pa	3.72	4.66
Relative Performance	*3.46*	*0.44*

AllianceBernstein's performance has rebounded strongly since March 2009, as corporate and other non-government bonds have recovered. As conditions have improved their portfolio has benefited from holdings in a wide range of investment grade corporate bonds, high quality commercial mortgage backed securities and financials. These bonds continue to offer good spreads over government bonds and over the very low LIBOR rate.

AllianceBernstein have also been given discretion to broaden their mandate to allow them to invest, separately, up to 10% of the portfolio's assets in distressed US assets under the US authorities' Term Asset Backed Loan Facility (PPIP). Investment in the PPIP was exited during 2012/13 and a profit realised,

Royal London Asset Management (RLAM)

RLAM manages the liability matching bonds portfolio.

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
Royal London	11.43	10.01
FTSE index Linked >5 years +0.5% pa	12.30	9.99
Relative Performance	*-0.87*	*0.02*

This is the lowest risk element of the Fund's strategy, relative to liabilities. Extraordinarily this Manager has underachieved against the target this year; this is due to the underperformance of their off- benchmark holdings. However, over the last five years this portfolio has delivered what is required of it and overall performance remains satisfactory.

Barings Asset Management (BAM)

BAM manages the Dynamic Asset Allocation portfolio. This is a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities.

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
Barings	8.24	7.93
GBP Libor +4% pa	4.73	5.68
Relative Performance	*3.51*	*2.25*

The delivery of this mandate, in particular, needs to be judged over at least a full market cycle, rather than any shorter period. BAM preserved capital during a severe market downturn and have begun to reap rewards in the recovery. BAM were selected for their record in making good asset allocation decisions and, despite the sub-par performance in the early months of their mandate, the evidence is that their skills are still capable of adding value over the long term, as can be seen from the above figures. BAM have performed well over twelve months and are ahead of target since the inception of the mandate.

CB Richard Ellis Investors (CBRE)

CBRE manages the global real estate portfolio. The mandate is subdivided into listed and unlisted holdings.

	Performance (%)	
Currency GBP	**2012/13**	**Since February 2008**
CBRE - Unlisted	7.17	-0.9
Headline RPI +5% pa	8.43	8.4
Relative Performance	*-1.26*	*-9.3*
CBRE - Listed	22.38	5.28
Headline RPI +5% pa	8.43	8.4
Relative Performance	*13.95*	*-3.12*

In general property markets are exhibiting stability, with some growth in better quality assets. There is a tendency for prime assets to attract an increasing premium over imperfect properties. CBRE are looking at opportunities in imperfect assets which may have become undervalued. In general, the listed portfolio performed strongly as it is highly correlated with the equity markets, though the performance was appreciably higher than that of equity markets overall.

SCHEME ADMINISTRATION REPORT

Durham County Council is the Administering Authority for the Durham County Council Pension Fund and the Scheme administration is the responsibility of their Corporate Director Resources. The costs of administering the Scheme are charged to the Pension Fund.

Resources staff assist the Corporate Director Resources in his statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team comprises 16.1 full time equivalent staff who provide a wide range of services including:

- Administration of the affairs of Durham County Council Pension Scheme and also provision of services in connection with the pensions of teachers and uniformed fire officers.
- Calculation of pensions and lump sums for retiring members of the Local Government Pension Scheme and provision of early retirement estimates.
- Administration of new starters in the Scheme.
- Calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes.
- Collection of employee and employer contributions to be invested into the Local Government Pension Scheme.
- Maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements
- Production of newsletters for active and retired members.
- Calculation of deferred pensions and refunds for early leavers.
- Preparation of Pensions Fund Committee reports relating to benefits related issues.
- Undertaking the annual pension increase exercise.
- Calculation of widows and dependants benefits for retired and active members.
- Dealing with the administration of in-house AVCs
- Working with Pension Fund employers to assist them in understanding and managing the cost of participation in the Local Government Pension Scheme.
- Liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers.

A small team of four staff in Strategic Finance provide support to the Corporate Director Resources in his statutory role in relation to accounting and investment related activities for the Pension Fund, including:

- Preparation of the Pension Fund Accounts for inclusion in Durham County Council's Statement of Accounts
- Preparation of the Annual Report and Accounts of the Pension Fund
- Liaison with External and Internal Audit
- Day-to-day accounting for the Pension Fund
- Completion of statistical and financial returns for Government and other bodies
- Co-ordination of the production of FRS17/ IAS 19 information for employers
- Preparation of Pension Fund Committee reports relating to investments and accounting issues
- Co-ordination of reports for Quarterly Pension Fund Committee meetings and the Pension Fund's Annual Meeting
- Liaison with Investment Managers, Advisers and Actuary
- Appointment of Investment Managers, Advisers and Actuary
- Monitoring and Review of Investment Managers, Advisers and Actuary
- Preparation of the Statement of Investment Principles and Funding Strategy Statement
- Allocation of Cash to Investment Managers
- Rebalancing of Investment Managers to their asset allocations
- Investment of Pension Fund surplus cash balances
- Calculation of interest on all Managers' cash held by the Pension Fund
- Reconciliation of all Managers' purchases, sales and dividends received

Internal Dispute Resolution Procedure

The Pensions Advisory Services offer a free service to all members of the Pension Fund who have problems with their pensions. There are set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme, namely the Internal Dispute Resolution Procedure. Under this procedure initial queries should be referred to the Employing Body or the Administering Authority's Pension Administration Team, who should be able to explain the reasons behind any decision made.

Following this, if a complainant has a dispute, the first stage of appeal is to refer it to the Specified Person (an independent Pensions Officer from another Local Authority Pension Fund). If still not satisfied after that, the complaint must be referred to the Administering Authority in writing as a second stage appeal. A further referral is available to the Pensions Ombudsman.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2012-13	**2011-12**
First Stage Appeals	17	18
Upheld	3	3
Declined	13	15
Ongoing	1	0
Second Stage Appeals	4	8
Upheld	1	1
Declined	3	7
Ongoing	0	0

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2013

INTRODUCTION

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. Actuarial valuations, which do take account of such liabilities, are carried out every three years.

The Local Government Pension Scheme (Administration) Regulations 2008 require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension 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 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The following Actuarial Position is a statement taken directly from the Fund's Actuary, Aon Hewitt Limited.

ACTUARIAL POSITION

1. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,682m) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. 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 2011 was as set out below:
   - 13.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

   Plus

   - monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of up to 19 years from 1 April 2011. The estimated monetary amounts to be paid as set out in the valuation report are £29.1m in 2011/12, £28.4m in 2012/13 and £29.9m in 2013/14, increasing by broadly 5.3% p.a. thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contributions shown above, payments

to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

Discount rate for periods in service Scheduled Bodies Admission Bodies	 6.80% p.a. 6.25% p.a.
Discount rate for periods after leaving service Scheduled Bodies Admission Bodies	 6.80% p.a. 4.75% p.a.
Rate of pay increases:	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.3% p.a.

The assets were valued at market value.

Assumptions for some admission bodies were based on the assumptions used for scheduled bodies if sufficient guarantees were provided by another body in the Fund.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2010. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Durham County Council, the administering authority of the Fund, in respect of this statement.

9. The report on the actuarial valuation as at 31 March 2010 is available on request from Durham County Council, the administering authority of the Fund.

Aon Hewitt Limited

28 May 2013

GOVERNANCE COMPLIANCE STATEMENT

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with guidance issued by the Secretary of State (CLG) under the provisions of regulation 31 of the Local Government Pension Scheme Regulations 2008.

The following sections set out the principles of governance as prescribed in the CLG guidance and describe the Fund's current arrangements for compliance.

Principle A – Structure	**Fully compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	

The constitution of the Council delegates to the **Pension Fund Committee** "powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder" regarding the administration of the Scheme and investment of funds, including:

- Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
- Appointment of external investment managers and advisers."

The following function is delegated to the **Corporate Director of Resources** by the Council:

"To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including … the Council's functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations."

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. The structure of the Pension Fund Committee is as follows:

Body / category of bodies represented	**Number of Committee Members**
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Other Statutory Bodies – Police, Fire, Town and Parish Councils etc.	1
Admitted Bodies	1
Member representatives	2
Total	**18**
(plus 2 non-voting union observers)	

A secondary committee or panel has not been established due to the full extent of representation on the Committee.

Principle B - Representation	**Fully compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, iv) expert advisors (on an ad-hoc basis). b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	

The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by AllenbridgeEPIC Investment Advisers on behalf of the Committee.

The Committee has appointed Philip Williams of AllenbridgeEPIC and PSolve Asset Solutions to provide independent investment advice.

All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

Principle C - Selection and role of lay members	**Fully compliant**
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter - one from active scheme members and one from pensioner members.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well has having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local tax payers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda.

Principle D - Voting	**Fully compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	

All members appointed to the Committee have voting rights.

Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

Principle E - Training/Facility Time/Expenses	**Fully compliant**
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken.

Principle F – Meetings (frequency/ quorum)	**Fully compliant**
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited.

The quorum for each regular meeting of the Committee is 5.

Principle G - Access	**Fully compliant**
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

Principle H - Scope	**Fully compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	

As set out in the terms of reference, the Committee regularly considers "wider issues" and not just matters relating to the investment of the Fund.

Principle I - Publicity	**Fully compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council's website. The appointment of member representatives was advertised to all members for them to express an interest.

Approved by the Pension Fund Committee

29 November 2010

Allenbridgeepic
INVESTMENT ADVISERS

INDEPENDENT REVIEW OF GOVERNANCE ARRANGEMENTS

I have undertaken an independent review of the Governance Compliance Statement and other statutory statements relating to the investment and administration of the Durham County Council Pension Fund.

In my opinion, the Pension Fund is compliant with the statutory requirements for the publication and review of a Governance Compliance Statement and, overall, the Pension Fund Committee demonstrates a high standard of governance in the operation of its responsibilities.

I am also satisfied that the Pension Fund complies with the statutory requirements relating to the Funding Strategy Statement, the Statement of Investment Principles (subject to updating in respect of compliance with Myners Principles), and the Communications Policy Statement.

In my review I have identified a number of recommendations for the Pension Fund Committee to consider to enhance governance compliance, bringing documentation up to date with industry-wide practice, and to improve transparency.

The current regulatory framework and good practice relating to governance continues to develop, and proposals are under consideration by the Department for Communities and Local Government (CLG). These developments will need to be considered and implemented as requirements change.

My conclusion is that the arrangements now in place for independent advice and review provide a robust basis for the Committee to maintain its governance standards in an efficient and effective manner.

Peter Scales — 16 November 2010

Senior Adviser

AllenbridgeEPIC Investment Advisers

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

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards re quire me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

[*Signature*]

Cameron Waddell

For and on behalf of Mazars LLP, Appointed Auditors

PENSION FUND ACCOUNTS AND DISCLOSURE NOTES

FUND ACCOUNT

2011-12				2012-13	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-96,448		Contributions receivable	7	-93,884	
-7,945		Transfers in from other pension funds	8	-6,723	
-5		Other income		-5	
	-104,398				-100,612
99,973		Benefits payable	9	95,978	
4,618		Payments to and on account of leavers	10	9,053	
1,204		Administrative expenses	11	1,302	
	105,795				106,333
	1,397	**Net withdrawals/ -additions from dealings with members**			**5,721**
		RETURN ON INVESTMENTS			
-40,132		Investment income	12	-32,216	
-65,556		Profit and losses on disposal of investments and change in market value of investments	15	-175,578	
8,992		Investment management fees	14	5,499	
	-96,696	**Net returns on investments**			**-202,295**
	-95,299	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-196,574**

NET ASSETS STATEMENT

2011-12				2012-13	
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
44,332		Fixed interest securities	15	73,341	
814,163		Equities	15	435,804	
367,949		Index linked securities	15	410,966	
585,487	1,811,931	Pooled investment vehicles	15	1,117,793	2,037,904
425		Loans	15	408	
		Other cash deposits:			
35,287		Fund Managers	15	14,091	
25,370		Short term investments	15	20,882	
17,534	78,616	Derivative contracts	15	13,739	49,120
	1,890,547				2,087,024
		Other Investment Assets			
6,816		Dividend accruals	15,18	4,974	
516		Tax recovery	15,18	527	
21,844	29,176	Other investment balances	15,18	41,709	47,210
	1,919,723	**Total Investment Assets**			**2,134,234**
		INVESTMENT LIABILITIES			
-13,937		Derivative contracts	15	-11,984	
-16,399		Other investment balances	19	-39,881	
	-30,336	**Total Investment Liabilities**			**-51,865**
	1,889,387	**NET INVESTMENT ASSETS**			**2,082,369**
	415	**Long Term Assets**	18		1,458
		Current assets			
5,153		Contributions due from employers	18	6,433	
2,537		Other current assets	18	974	
	7,690				7,407
		Current liabilities			
-480		Unpaid benefits	19	-538	
-8,126		Other current liabilities	19	-5,236	
	-8,606				-5,774
	1,888,886	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH**			**2,085,460**

The Pension Fund Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial position of the fund, which does take account of such obligations, is disclosed within the actuarial statement and in Notes 23 and 24. The Pension Fund Accounts should therefore be read in conjunction with the information contained within the statement and Notes.

1. FUND OPERATION AND MEMBERSHIP

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by regulations made under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- LGPS (Administration) Regulations 2008 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009
- LGPS (Miscellaneous) Regulations 2012.

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder, to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Strategic Finance teams in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions (and where applicable, lump sum payments). Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2008/09	2009/10	2010/11	2011/12	2012/13
Contributing Members	19,303	19,405	18,526	17,235	16,837
Pensioners in Payment	14,641	14,922	15,341	16,049	16,386
Pensioners Deferred	9,823	9,715	10,595	11,573	12,211

When comparing the numbers at 31 March 2013 to those at 31 March 2012, the number of pensionable employees in the Fund has reduced by 398, the number of pensioners has increased by 337 and deferred pensioners have increased by 638.

Contributions represent the total amounts receivable from:

- employing authorities, at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2011-12			2012-13	
Benefits	**Contributions**		**Benefits**	**Contributions**
£000	**£000**		**£000**	**£000**
81,352	-66,630	Administering Authority	77,649	-64,694
16,381	-24,867	Scheduled Bodies	16,590	-25,714
2,240	-4,951	Admitted Bodies	1,739	-3,476
99,973	**-96,448**		**95,978**	**-93,884**

The names of all 103 contributing employers are shown in the list overleaf.

Scheduled Bodies

Local Authorities:
Durham County Council
Darlington Borough Council

Parish Councils:
Brandon & Byshottles Parish Council
Chilton Parish Council
Easington Colliery Parish Council
Easington Village Parish Council
Fishburn Parish Council
Framwellgate Parish Council
Horden Parish Council
Hutton Henry Parish Council
Lanchester Parish Council
Monk Helseden Parish Council
Murton Parish Council
North Lodge Parish Council
Shotton Parish Council
South Hetton Parish Council
Thornley Parish Council
Trimdon Foundry Parish Council
Trimdon Parish Council
Wheatley Hill Parish Council
Wingate Parish Council

Town Councils:
Barnard Castle Town Council
Bishop Auckland Town Council
Ferryhill Town Council
Great Aycliffe Town Council
Greater Willington Town Council
Peterlee Town Council
Seaham Town Council
Sedgefield Town Council
Shildon Town Council
Spennymoor Town Council
Stanley Town Council

Colleges:
Bishop Auckland College
Darlington College
Derwentside College
East Durham College
New College Durham
Queen Elizabeth 6th Form College

Statutory Bodies:
BRandH Academy Limited
Carmel College
Central Durham Joint Crematoria Committee
Dale and Valley Homes
Darlington School of Maths & Science
Durham & Darlington Fire and Rescue Authority
Durham Police Authority
Easington Academy
East Durham Homes

Statutory Bodies (continued):

Education Village
Excel Academy Partnership (Framwellgate School)
Federation of Abbey Schools Academy Trust
Firthmoor Primary School
Glendene Academy
Heathfield Academy Trust
Hummersknott Academy Trust
Hurworth Primary
Hurworth School Limited
King James I Academy
Longfield Academy Trust
Murton Community Primary School
New College Durham Academies Trust
New Seaham Primary School
Park View Academy
Parkside Sports College
Reid Street Primary School
Skerne Park Primary
St Aidans C of E Academy
St Bedes Academy
St Bedes RC Primary
St George CE
St John's Catholic School & Sixth Form College
St John's CE Primary School
Staindrop School
Teesdale Education Trust
The Academy at Shotton Hall
The Fed. of Mowden Schools
The Hermitage Academy Trust
Tudhoe Learning Trust
West Park Academy
Woodham College

Admitted Bodies:
Barnard Castle School
Bowes Museum
Carillion
Cestria Community Housing
Compass Group UK
Creative Management Services
Derwentside Homes
Future Leisure in Coxhoe
Hobson Golf Club Ltd
KGB Cleaning & Support Services
Kier Support Services
Leisureworks
Livin plc (formerly Sedgefield Borough Homes)
Mears
Mitie Cleaning
Mitie PFI
Morrison Facilities Management Ltd
Murton Welfare Association
Peterlee Fire Company
Taylor Shaw Longfield
Taylor Shaw Primaries
Teesdale Housing Association
The Forge
Three Rivers Housing Group

2. BASIS OF PREPARATION

The Pension Fund accounts have been prepared in accordance with:

- ❖ International Financial Reporting Standards (IFRS)
- ❖ CIPFA Code of Practice on Local Authority Accounting in the UK, 2012/13 (the Code)

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2010/11, the results of which determined the contribution rates from 1 April 2011 to 31 March 2014. Details of the latest valuation are included in Note 24.

3. STATEMENT OF ACCOUNTING POLICIES

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer’s augmentation contributions are accounted for in the year in which they become due;
- Employer’s other contributions are accounted for on the terms of the arrangement.

Transfers to and from other schemes

Transfer Values represent amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk/ Group transfers out and in are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due but yet to be paid are disclosed in the Net Assets Statement as current liabilities.

Administrative expenses

All administration expenses are accounted for on an accruals basis. All costs of the pensions administration team and a proportion of the costs of the pension fund accounting team are charged to the Pension Fund as administrative expenses.

Investment income

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions when received during the year or at the exchange rates applicable on the last working day in March where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

Taxation

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when investment managers are not able to supply the necessary information, no taxation is separately disclosed in the fund account.

Investment Management Fees

All investment management fees are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the fund account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

A proportion of the costs of the pension fund accounting team and treasury management team are charged to the Pension Fund for investment management activities.

Note 14 includes details relating to investment management fees.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price for which an asset could reasonably be exchanged, or a liability settled, in an arm's length transaction. In the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomed party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- ❖ Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- ❖ Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;

- ❖ Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- ❖ Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager’s valuation report. Single priced unitised securities are valued at the reported price;
- ❖ Unquoted equity investments are included based on an estimated price of the investments held. Valuation techniques are used to establish a price at the year end date based on an arm’s length exchange given normal business considerations;
- ❖ Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

Investment transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency have been accounted for in sterling at the prevailing rate on the transaction date.

Acquisitions costs of investments

Acquisition costs of investments are added to book cost at the time of purchase.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Actuarial present value of promised retirement benefits

The actual present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the reqirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund . In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items in the Net Assets Statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual differs from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. Note 24 summarises the results of the actuarial valuation.	For instance a 3 year increase in life expectancy would reduce the funding target by 4%. A 1% fall in the yield from bonds would reduce the funding target by 13%. If pension increases were 1% higher than expected, the funding target would reduce by 9%. A 25% fall in the market value of equities and property investments would lead to a 12% fall in the funding target. If pensionable pay increases are 1% higher than assumed, the funding target will decrease by 5%.
Fair Value of investments	The Accounts are as at 31 March 2013 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 and there is a risk that these investments may be over or under-stated in the accounts (see Note 16 for an explanation of Level 3 investments). The total value of Level 3 investments held by the Fund is £101.524m at 31/3/12. Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the fund by approximately £1.015m

6. POST NET ASSETS STATEMENT (BALANCE SHEET) EVENT

There have been no events after 31 March 2013 which require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

2011-12 £000		2012-13 £000
	Employer contributions:	
-44,786	Normal	-43,861
-1,719	Augmentation	-120
-27,728	Deficit funding	-28,306
	Member contributions:	
-22,059	Normal	-21,257
-156	Additional contributions	-340
-96,448		**-93,884**
-66,630	Administering Authority	-64,694
-24,867	Scheduled Bodies	-25,714
-4,951	Admitted Bodies	-3,476
-96,448		**-93,884**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2011-12 £000		2012-13 £000
-2,308	Group Transfers	-3,441
-5,637	Individual Transfers	-3,282
-7,945		**-6,723**

Included in the Group Transfers figure for 2012/13, is £2.083m relating to the transfer value due from the Ministry of Justice to fund the pension benefits of Magistrates' Courts staff who have already transferred out of the DCC Pension Fund to the Civil Service Pension Scheme. The transfer will be paid to the Fund in equal instalments of £208,300 over 10 years, however the full amount has been accrued in 2012/13 in line with the Fund's accounting policy for group transfers in.

9. BENEFITS PAYABLE

2011-12 £000		2012-13 £000
76,026	Pensions	81,656
27,678	Commutations and lump sum retirement benefits	17,484
1,290	Lump sum death benefits	1,815
-5,021	Recharged benefits	-4,977
99,973		**95,978**
81,352	Administering Authority	77,649
16,381	Scheduled Bodies	16,590
2,240	Admitted Bodies	1,739
99,973		**95,978**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2011-12 £000		2012-13 £000
5	Refunds to members leaving service	4
1	Payments for members joining state scheme	1
4,612	Individual transfers to other schemes	4,491
-	Group transfers to other schemes	4,557
4,618		**9,053**

11. ADMINISTRATION EXPENSES

2011-12 £000		2012-13 £000
1,038	DCC support costs	1,054
64	Legal fees	37
43	External Audit fees	26
13	Internal Audit fees	25
46	Actuary fees	160
1,204		**1,302**

12. INVESTMENT INCOME

2011-12 £000		2012-13 £000
-2,430	Interest from fixed interest securities	-4,286
-4,291	Income from index-linked securities	-2,307
-27,042	Dividends from equities	-18,855
-177	Interest on cash deposits	-39
-6,192	Income from pooled investment vehicles	-6,729
-40,132		**-32,216**

13. TAXATION

The Pensions SORP requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- United Kingdom IncomeTax

  The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- Value Added Tax

  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

❖ Foreign Withholding Tax

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. INVESTMENT MANAGEMENT FEES

Investment managers' fees are based on the value of assets under management. An ad-valorem fee is payable to one investment manager, whereas the others are paid a performance related fee, derived from a base fee plus a percentage of out-performance. All fees are payable in arrears.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice. Fees for any additional work are based on a daily or hourly rate, as agreed in advance.

2011-12 £000		2012-13 £000
8,695	Manager Fees	5,164
149	Custody Fees	158
148	Adviser Fees	177
8,992		**5,499**

15. INVESTMENTS

Analysis by investment manager

The following investment managers were employed in 2012/13 to manage the Pension Fund's assets:

- AllianceBernstein Limited (AllianceBernstein)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Edinburgh Partners Limited (Edinburgh Partners)
- Royal London Asset Management (RLAM)

Following a review of the Pension Fund's investment strategy in 2012/13, it was decided to reduce and reshape the strategic allocation to equity holdings. Consequently, all investments held with Edinburgh Partners were removed and re-allocated to other (existing) investment managers during the year.

The long-term strategic allocation as at 31 March 2013 was as follows (the actual allocation varies slightly due to market movements):

31 March 2012 %	Investment Manager	Asset Class	31 March 2013 %
16	AllianceBernstein	Global Bonds	15
8	Barings	Dynamic Asset Allocation	20
20	Blackrock	Global equities)	37
6	Blackrock (pooled)	Global equities)	
8	CBRE	Global property	8
22	Edinburgh Partners	Global equities	0
20	RLAM	Investment grade sterling bonds	20
100			**100**

In October 2012 Durham County Council, on behalf of the Pension Fund, approached the market for global equity and emerging market investment managers to replace the existing manager of global/ UK equities. On 1 May 2013 the Pension Fund Committee approved the appointment of three new investment managers (subject to agreeing terms and conditions); two of which will manage global equity with an emerging market bias and one which will have an emerging market equity mandate. It is anticipated that the re-allocation of the Fund’s equity assets will commence in the second quarter of 2013/14.

The market values of investments analysed by Investment Manager as at 31 March were as follows:

31 March 2012 £000	%		31 March 2013 £000	%
285,900	15.45	AllianceBernstein	301,217	14.67
143,727	7.77	Barings	397,393	19.35
515,369	27.84	Blackrock	807,330	39.31
122,132	6.60	CBRE	135,285	6.59
413,927	22.36	Edinburgh Partners	0	0.00
179	0.01	Other - NEL	99	0.00
369,581	19.97	RLAM	412,426	20.08
1,850,815	**100.00**		**2,053,750**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2013 excludes loans of £0.408m, cash invested by the administering authority of £20.882m, other investment assets of £47.210m and liabilities of £39.881m (£0.425m, £25.370m, £29.176m and £16.399m respectively, as at 31 March 2012).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2013, £2.054m (98.6%) is invested through Investment Managers (£1.851m or 98.0% of the total in 2011/12).

Reconciliation of Movements in Investments 2012/13

Investment category	Value at 31 March 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	44,332	339,972	-313,115	2,152	73,341
Equities	814,163	2,085,867	-2,352,246	-111,980	435,804
Index linked securities	367,949	1,642,392	-1,638,844	39,469	410,966
Pooled investment vehicles	585,487	1,642,480	-1,360,844	250,670	1,117,793
	1,811,931	5,710,711	-5,665,049	180,311	2,037,904
Derivative contracts:					
Futures, margins & options	2,628		-141	-1,147	1,340
Forward foreign currency	969			-554	415
	1,815,528	**5,710,711**	**-5,665,190**	**178,610**	**2,039,659**
Other investment balances:					
Loans	425				408
Other cash deposits	60,657			-3,032	34,973
Dividend accruals	6,816				4,974
Tax recovery	516				527
Other investment balances	5,445				1,828
Net Investment Assets	**1,889,387**			**175,578**	**2,082,369**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investment during the year.

Reconciliation of Movements in Investments 2011/12

Investment category	Value at 31 March 2011	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2012
	£000	£000	£000	£000	£000
Fixed interest securities	35,717	169,081	-164,929	4,463	44,332
Equities	898,953	228,094	-281,139	-31,745	814,163
Index linked securities	356,100	1,711,127	-1,771,561	72,283	367,949
Pooled investment vehicles	444,319	205,475	-82,765	18,458	585,487
	1,735,089	2,313,777	-2,300,394	63,459	1,811,931
Derivative contracts					
Futures, margins & options	-	1,281	-1,068	2,415	2,628
Forward foreign currency	-1,312			2,281	969
	1,733,777	2,315,058	-2,301,462	68,155	1,815,528
Other investment balances:					
Loans	441				425
Other cash deposits	39,649			-2,599	60,657
Dividend accruals	7,089				6,816
Tax recovery	566				516
Other investment balances	-3,475				5,445
Net Investment Assets	**1,778,047**			**65,556**	**1,889,387**

Analysis of Investments

2011-12 (as restated) £000	£000		2012-13 £000	£000
		ASSETS INVESTED THROUGH FUND MANAGERS		
		Fixed interest securities		
6,113		UK - Public sector - quoted	22,932	
8,474		UK - other - quoted	22,256	
29,745		Overseas - Public sector - quoted	28,153	
	44,332			73,341
		Equities		
469,321		UK quoted	402,039	
179		UK unquoted	99	
344,663		Overseas quoted	33,666	
	814,163			435,804
		Index linked securities		
358,390		UK quoted - Public sector	373,587	
9,559		Overseas quoted -Public sector	37,379	
	367,949			410,966
		Pooled Investment Vehicles		
8,096		Managed funds - non property - UK - unquoted	24,875	
453,659		Managed funds - non property - Overseas - unquoted	944,643	
859		Unit Trusts - property - UK quoted	1,023	
33,416		Unit Trusts - property - UK unquoted	41,798	
28,504		Unit Trusts - property - Overseas quoted	28,851	
60,953		Unit Trusts - property - Overseas unquoted	76,603	
	585,487			1,117,793
		Derivative Contracts		
17,534		Assets	13,739	
-13,937		Liabilities	-11,984	
	3,597			1,755
35,287	35,287	**Fund Managers' cash**	14,091	14,091
	1,850,815	**NET ASSETS INVESTED THROUGH FUND MANAGERS**		**2,053,750**
		OTHER INVESTMENT BALANCES		
	25,370	Short term investments (via DCC Treasury Management)		20,882
	425	Loans		408
	29,176	Other investment assets		47,210
	-16,399	Other investment liabilities		-39,881
	1,889,387	**NET INVESTMENT ASSETS**		**2,082,369**

Several of the Managed Funds - Non Property investments were incorrectly classified in the 2011/12 accounts and have therefore been re-classified in the figures for 2011/12 in the table above. In summary, £267.439m has been moved out of Managed Funds - Non Property UK quoted, £44.840m has been moved from Managed Funds - Non Property Overseas quoted, Managed Funds - Non Property UK unquoted has been decreased by £141.380m to £8.096m and Managed Funds - Non Property Overseas unquoted has increased by £453.659m.

Analysis of Derivatives

Objectives and policies for holding derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from it's investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and it's investment managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2011-12 £000	£000	Derivative Contracts	2012-13 £000	£000
		Forward foreign currency		
1,226		Assets	2,942	
-257		Liabilities	-2,527	
	969	**Net Forward foreign currency**		415
		Futures		
13,735		Assets	9,493	
-13,680		Liabilities	-9,457	
	55	**Net Futures**		36
		Options		
2,573		Assets	0	
0		Liabilities	0	
	2,573	**Net Options**		0
		Margins		
0		Assets	1,304	
0		Liabilities	0	
	0	**Net Margins**		1,304
	3,597	**Net market value of derivative contracts**		**1,755**

The Pension Fund invests in the following types of derivatives:

i. Forward foreign currency contracts

Currency is bought and sold by investment managers (Barings, CBRE and Royal London) for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, euros and sterling.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	GBP	4,316,734	SEK	44,959,000		-236
1 to 6 mths	GBP	4,335,714	SEK	44,931,000		-214
1 to 6 mths	GBP	3,974,561	SEK	42,981,100		-378
1 to 6 mths	GBP	4,390,654	SEK	42,817,000	55	
1 to 6 mths	GBP	5,452,206	CAD	8,517,000		-68
1 to 6 mths	GBP	7,198,646	EUR	8,323,000	159	
1 to 6 mths	GBP	5,097,381	CAD	8,048,000		-119
1 to 6 mths	GBP	4,471,910	USD	6,766,000	16	
1 to 6 mths	GBP	4,306,909	USD	6,764,000		-148
1 to 6 mths	GBP	5,438,673	EUR	6,685,400		-216
1 to 6 mths	GBP	3,770,098	CAD	6,038,000		-143
1 to 6 mths	EUR	6,861,000	GBP	5,569,554	233	
1 to 6 mths	CAD	8,063,000	GBP	5,184,876	41	
1 to 6 mths	GBP	3,720,498	EUR	4,471,000		-61
1 to 6 mths	CAD	6,469,000	GBP	4,077,786	115	
1 to 6 mths	SEK	42,811,000	GBP	4,058,492	277	
1 to 6 mths	EUR	4,621,000	GBP	3,974,060		-66
1 to 6 mths	EUR	4,584,000	GBP	3,880,952		-4
1 to 6 mths	GBP	2,075,930	EUR	2,529,000		-63
1 to 6 mths	GBP	950,586	EUR	1,121,000	2	
less than 1 mth	USD	4,047,000	GBP	2,711,194		-46
less than 1 mth	GBP	3,493,098	AUD	5,071,000	14	
less than 1 mth	GBP	1,324,976	AUD	1,932,000		
less than 1 mth	USD	1,358,000	EUR	1,058,993		-3
1 to 6 mths	EUR	24,576,325	GBP	21,433,652	628	
1 to 6 mths	USD	84,118,546	GBP	56,167,663	746	
1 to 6 mths	JPY	529,865,132	GBP	3,694,621		-21
1 to 6 mths	GBP	8,495,114	EUR	9,890,000	128	
1 to 6 mths	GBP	22,226,993	USD	34,680,000		-618
1 to 6 mths	GBP	12,074,642	USD	18,250,000	53	
1 to 6 mths	GBP	6,634,667	USD	9,883,000	124	
1 to 6 mths	GBP	11,250,311	JPY	1,555,000,000	351	
1 to 6 mths	GBP	8,178,023	JPY	1,173,000,000		-44
1 to 6 mths	GBP	6,369,802	JPY	920,000,000		-79
					2,942	**-2,527**
Net forward foreign currency contracts at 31 March 2013						**415**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	USD	40,168,026	GBP	25,366,784	216	
1 to 6 mths	GBP	4,226,043	USD	6,637,000	70	
1 to 6 mths	USD	6,474,000	GBP	4,096,431		-42
1 to 6 mths	GBP	2,517,181	USD	4,029,000		-6
1 to 6 mths	GBP	26,513,257	EUR	31,843,052		-55
1 to 6 mths	GBP	35,991,020	USD	57,115,818	223	
1 to 2 mths	GBP	11,172,352	AUD	16,500,000	489	
1 to 2 mths	GBP	11,548,815	EUR	13,900,000		-38
up to 1 mth	GBP	439,985	EUR	530,000		-2
1 to 2 mths	GBP	6,325,031	USD	10,000,000	66	
up to 1 mth	GBP	499,301	USD	789,000	5	
up to 1 mth	USD	12,200,000	AUD	11,551,936	157	
up to 1 mth	USD	10,789,000	GBP	6,865,634		-114
					1,226	**-257**
Net forward foreign currency contracts at 31 March 2012						**969**

ii. Futures

When there is a requirement to hold cash assets, but the fund manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by Barings, are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 13	
				£000	£000
Assets					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	1,207	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 5(	EUR	8,286	
Total assets					9,493
Liabilities					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	-1,206	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 5(	EUR	-8,251	
Total liabilities					-9,457
Net Futures Contracts at 31 March 2013					36

Type	Expires	Product Description	Currency	Market Value at 31 March 12	
				£000	£000
Assets					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	2,977	
Overseas equity	1 to 3 months	S&P 500 (CME) (LG)	USD	10,758	
Total assets					13,735
Liabilities					
Overseas equity	1 to 3 months	IMM S&P 500	USD	-10,720	
UK equity	1 to 3 months	NEW FTSE 100	GBP	-2,960	
Total liabilities					-13,680
Net Futures Contracts at 31 March 2012					55

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, through Barings, has bought a number of equity option contracts to protect it from falls in value in the main markets in which it is invested. There were no option contracts held at 31 March 2013.

Type	Expires	Product Description	Currency	Market Value at 31 March 13 £000
NIL				0
Net Options at 31 March 2013				**0**

Type	Expires	Product Description	Currency	Market Value £000
Assets				
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	150
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	70
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	297
Overseas equity	up to 1 month	UBS	EUR	0
UK equity	up to 1 month	UBS	GBP	337
Overseas equity	up to 1 month	UBS	USD	537
Overseas equity	up to 1 month	UBS	USD	1,154
Net Options at 31 March 2012				**2,573**

iv. Margins

The value of margin amounts outstanding at 31 March are as follows:

	Product Description	Currency	Market Value at 31 March 13 £000	Market Value at 31 March 13 £000
Assets	UBS	GBP	173	
	UBS	EUR	1,131	
Net Margins at 31 March 2013				1,304

Type	Product Description	Currency	Market Value at 31 March 12 £000	Market Value at 31 March 12 £000
	NIL		0	
Net Margins at 31 March 2012				0

Investments Exceeding 5% of the Market Value of the Fund

The following investments represented more than 5% of the Pension Fund's total net assets available for benefits:

- Aquila Life Fund S1, which is a pooled fund managed by Blackrock, was valued at £480.022m or 23.02% at 31 March 2013 (£123.262m or 6.5% at 31 March 2012);
- Diversified Yield Plus fund - a pooled fund of Broad Bonds through AllianceBernstein. The value of this investment at 31 March 2013 was £301.217m or 14.44% (£259.343m or 13.7% at 31 March 2012).

16. FINANCIAL INSTRUMENTS

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts (equal to fair value) of financial assets and liabilities by category and net assets statement heading:

2011-12				2012-13		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial assets			
44,332			Fixed interest securities	73,341		
814,163			Equities	435,804		
367,949			Index linked securities	410,966		
585,487			Pooled investment vehicles	1,117,793		
17,534			Derivative contracts	13,739		
	425		Loans		408	
	35,287		Cash held by Fund Managers		14,091	
	25,370		Short term investments		20,882	
29,176			Other investment assets	47,210		
	8,105		Debtors		8,865	
1,858,641	69,187	0		2,098,853	44,246	0
			Financial liabilities			
-13,937			Derivative contracts	-11,984		
-16,399		-8,606	Creditors	-39,881		-5,774
0			Borrowings	0		
-30,336	0	-8,606		-51,865	0	-5,774
1,828,305	**69,187**	**-8,606**		**2,046,988**	**44,246**	**-5,774**
		1,888,886	**Net Assets at 31 March**			**2,085,460**

Net gains and losses on financial instruments

31 March 2012 £000		31 March 2013 £000
	Financial Assets	
68,155	Fair Value through profit and loss	178,610
-2,599	Loans and receivables	-3,032
	Financial Liabilities	
0	Fair Value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
65,556	**Total**	175,578

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the pension fund as at 31 March 2013 and 31 March 2012, grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at fair value through profit and loss	997,047	1,000,282	101,524	2,098,853
Loans and receivables	44,246			44,246
Total Financial Assets	**1,041,293**	**1,000,282**	**101,524**	**2,143,099**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-51,865		-51,865
Financial Liabilities at amortised cost	-5,774			-5,774
Total Financial Liabilities	**-5,774**	**-51,865**	**0**	**-57,639**
Net Financial Assets	**1,035,519**	**948,417**	**101,524**	**2,085,460**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at fair value through profit and loss	1,311,011	442,189	105,441	1,858,641
Loans and receivables	69,187			69,187
Total Financial Assets	**1,380,198**	**442,189**	**105,441**	**1,927,828**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-30,336		-30,336
Financial Liabilities at amortised cost	-8,606			-8,606
Total Financial Liabilities	**-8,606**	**-30,336**	**0**	**-38,942**
Net Financial Assets	**1,371,592**	**411,853**	**105,441**	**1,888,886**

17. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

i.	**MARKET RISK**	the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
ii.	**CREDIT RISK**	the possibility that other parties may fail to pay amounts due to the Fund;
iii.	**LIQUIDITY RISK**	the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that it's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. The division of the management of the assets between all managers further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated.

Durham County Council will invest the short term cash balances on behalf of the Pension Fund. This is done in line with the administering authority's Treasury Management Policy and interest is paid on a quarterly basis to the Fund.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses, from shares sold short, is unlimited.

The Fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund Investment Strategy.

Other price risk – sensitivity analysis

Following analysis of historical volatility, investment manager volatility and expected investment return movement during the financial year, in consultation with the Fund’s investment advisers, the Fund has determined that the potential market movements in market price risk, shown in the table below, are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits in the market price by Investment Manager would vary as illustrated in the following table (the prior year comparator is also shown below):

Manager	**Asset type**	**Asset value at 31 March 2013 £000**	**Potential market movements %**	**Value on increase £000**	**Value on decrease £000**
Alliance Bernstein	Broad Bonds	301,217	6%	319,290	283,144
Barings	DAA	390,795	8%	422,059	359,531
BlackRock	UK/ Passive Global Equity	803,427	21%	972,147	634,707
CBRE	Unlisted property	101,525	10%	111,678	91,373
CBRE	Listed property	29,874	24%	37,044	22,704
RLAM	UK Index Linked Gilts	410,967	8%	443,844	378,090
Other	UK Equity	99	24%	123	75
	Loans	408	0%	408	408
	Cash	34,973	0%	34,973	34,973
	Net derivative assets	1,755	0%	1,755	1,755
	Net investment balances	7,329	0%	7,329	7,329
Total change in net investment assets available		**2,082,369**		**2,350,650**	**1,814,089**

Manager	Asset type	Asset value at 31 March 2012 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Alliance Bernstein	Broad Bonds	259,344	7%	277,498	241,190
Alliance Bernstein	PPIP	26,213	21%	31,718	20,708
Barings	DAA	129,406	8%	139,758	119,054
BlackRock	Global Equity	508,849	21%	615,707	401,991
CBRE	Unlisted property	87,525	13%	98,903	76,147
CBRE	Listed property	29,363	20%	35,236	23,490
Edinburgh Partners	Global Equity	403,103	21%	487,755	318,451
RLAM	Global Linked Gilts	367,949	7%	393,705	342,193
Other	UK Equity	179	21%	217	141
	Loans	425	0%	425	425
	Cash	60,657	0%	60,657	60,657
	Net derivative assets	3,597	0%	3,597	3,597
	Net investment balances	12,777	0%	12,777	12,777
Total change in net investment assets available		**1,889,387**		**2,157,953**	**1,620,821**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund’s interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund’s risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund’s asset values having direct exposure to interest rate movements as at 31 March 2013 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2013	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	34,973	175	-175
Fixed interest securities	73,341	367	-367
Total change in net investment assets available	**108,314**	**542**	**-542**

Asset type	Asset Values at 31 March 2012	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	60,657	303	-303
Fixed interest securities	44,332	222	-222
Total change in net investment assets available	**104,989**	**525**	**-525**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund’s currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund’s risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk - sensitivity analysis

Having consulted with the Fund’s independent investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 13%. For prudence, the Fund has applied a 13% fluctuation (as measured by one standard deviation) based on the adviser’s analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Fund Manager, to what extent a 13% strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (a prior year comparator is also provided) :

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 13	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	301,217	301,217	301,217
Barings	DAA	20%	3%	390,795	402,519	379,071
BlackRock	UK Equity	0%	0%	323,405	323,405	323,405
BlackRock	Global Equity	90%	12%	480,022	537,625	422,419
CBRE	Global Property	15%	2%	131,399	134,027	128,771
RLAM	UK Index Linked Gilts	0%	0%	410,967	410,967	410,967
Other	UK Equity	0%	0%	99	99	99
	Loans	0%	0%	408	408	408
	Cash	0%	0%	34,973	34,973	34,973
	Net derivative assets	0%	0%	1,755	1,755	1,755
	Net investment balances	0%	0%	7,329	7,329	7,329
	Total change in net investment assets available			**2,082,369**	**2,154,324**	**2,010,414**

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 12	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds & PPIP	0%	0%	285,557	285,557	285,557
Barings	DAA	20%	3%	129,406	133,288	125,524
BlackRock	Global Equity	0%	0%	508,849	508,849	508,849
CBRE	Global Property	10%	1%	116,888	118,057	115,719
Edinburgh Ptns	Global Equity	100%	13%	403,103	455,506	350,700
RLAM	Global Linked Gilts	0%	0%	367,949	367,949	367,949
Other	UK Equity	0%	0%	179	179	179
	Loans	0%	0%	425	425	425
	Cash	0%	0%	60,657	60,657	60,657
	Net derivative assets	0%	0%	3,597	3,597	3,597
	Net investment balances	0%	0%	12,777	12,777	12,777
	Total change in net investment assets available			**1,889,387**	**1,946,841**	**1,831,933**

ii. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Fund managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the

Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the custodian is a direct exposure to the balance sheet of the custodian. Arrangements for investments held by the custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2013, this level of exposure to the custodian is only 0.7% of the total value of the portfolio.

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Annual Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under it's treasury management arrangements at 31 March 2013 was £21.39m (£25.37m at 31 March 2012). This was held with the following institutions:

	Rating as at 31 March 2013	Balances as at 31 March 2013 £000	Rating as at 31 March 2012	Balances as at 31 March 2012 £000
Bank Deposit Accounts				
Bank of Scotland	A	11,355	A	0
Barclays	A	4,731		
The Co-operative Bank	BBB+	444	A-	889
Natwest Bank	A	2,271	A	7,201
Santander UK Plc			A+	1,800
Fixed Term Deposits				
Barclays			A	1,260
Bank of Scotland			A	9,000
Nationwide Building Society			A+	2,700
Natwest Bank	A	1,892	A	1,800
UK Local Authorities			N/A	540
Income Bond				
National Savings & Investments	N/A	189	N/A	180
Total		**20,882**		**25,370**

iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council, as administering authority, invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The County Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

18. ANALYSIS OF DEBTORS

2011-12 £000		2012-13 £000
928	Central government bodies	1,680
5,767	Other local authorities	5,649
30,586	Other entities and individuals	48,746
37,281	**Total debtors**	56,075
	Included in the Net Assets Statement as:	
415	Long Term Assets	1,458
29,176	Other Investment Balances	47,210
7,690	Current Assets	7,407
37,281		56,075

Of the £56.075m, £54.617m is repayable within 12 months after the year end. The remaining £1.458m which falls due after 12 months relates to the transfer value in from the Ministry of Justice for Magistrates' Courts staff who transferred out of the Fund.

19. ANALYSIS OF CREDITORS

2011-12 £000		2012-13 £000
-663	Central government bodies	-706
-1,404	Other local authorities	-1,343
-22,938	Other entities and individuals	-43,606
-25,005	**Total creditors**	-45,655
	Included in the Net Assets Statement as:	
-16,399	Other Investment Liability Balances	-39,881
-8,606	Current Liabilities	-5,774
-25,005		-45,655

All of the £45.655m is expected to be paid by the Pension Fund within 12 months after the year end.

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31 March 2012 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2013 £000
Equitable Life	2,265	44	210	134	2,233
Prudential	2,605	831	700	128	2,864
Standard Life	1,220	58	70	131	1,339
Total	**6,090**	**933**	**980**	**393**	**6,436**

* Purchases represent the amounts paid to AVC providers in 2012/13.

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

21. RELATED PARTY TRANSACTIONS

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- ❖ being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- ❖ actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

a) Employer related
b) Member related
c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party.

The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2011/12	2012/13
Contributions receivable	Amounts received from employers in respect of contributions to the Pension Fund	£96.448m	£93.884m
Debtors	Amounts due in respect of employers and employee contributions	£5.568m	£7.891m
Creditors	Amounts due to the Administering Authority in respect of administration expenses	£1.032m	£1.343m
Administration Expenses	The administration of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.032m	£1.343m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.283m	Loans outstanding £0.272m
Investment Income	Part of the Pension Fund's cash holding is invested in the money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance = £19.535m Interest = £0.187m	Balance= £20.395m Interest = £0.303m

b) MEMBER RELATED

Member related parties include:

- Member and their close families or households
- Companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. Each member of the pension fund committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any members or their families and the Pension Fund.

There are 3 members of the pension fund committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further 4 members are active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- Key management i.e. Senior officers and their close families

- Companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

22. CONTINGENT ASSETS

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund accounts.

b) FOREIGN INCOME DIVIDENDS (FIDS)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a “withholding tax” (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

It is likely that now a precedent for the change in WHT has been set by the Netherlands, and that other states have reduced the level of WHT of non-residents; recovery is probable but the timing and amount of income is uncertain.

23. FUNDING ARRANGEMENTS

In line with the LGPS (Administration) Regulations 2008, the Fund’s actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2010. The next one will take place as at 31 March 2013.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;

- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. At the 31 March 2010 actuarial valuation, the Fund was assessed as being 80% funded (79% at 31 March 2007).

The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2011 was 13.1% of pensionable pay plus additional monetary amounts of £29.1m in 2011/12 and £28.4m in 2012/13 and £29.9m in 2013/14, increasing broadly by 5.3% p.a. thereafter.

The actuarial valuation of the Fund has been undertaken using the projected unit method for most participating bodies, whereby the salary increase for each member is assumed to increase until they leave active service. The principal assumptions made by the actuary when assessing the funding target and contribution rates are as follows:

Discount rate for periods in service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	6.25% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	4.75% p.a.
Rate of pay increases	5.3% p.a.
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	3.3% p.a.

24. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actual present value of promised retirement benefits (or defined benefit obligation) is assessed on a triennial basis by the scheme actuary in accordance with the reqirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The following table provides the actuarial present value of the promised retirement benefits in the Fund at the last valuation date i.e. 31 March 2010. The corresponding fair value of fund assets is also shown in order to illustrate the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. For comparison purposes information from the previous triennial valuation is also provided.

	Value as at 31-Mar-10 £m	**Value as at 31-Mar-07 £m**
Fair value of net assets	1,682	1,459
Actuarial present value of the promised retirement benefits	2,833	2,172
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,151	-713

Assumptions

The principal assumptions used by the Fund's independent qualified actuaries were:

Financial Assumptions

	31-Mar-10 (% p.a.)	**31-Mar-07 (% p.a.)**
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

* In excess of Guaranteed Minimum Pension increases in payment where appropriate
** In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for 31 March 2010 measurement date and as set out in the 2007 Valuation Report for 31 March 2007

Commutation Assumption

31 March 2010	31 March 2007
Each member is assumed to exchange 60% of the maximum amount permitted of their past service pension rights on retirement for additional lump sum	Each member is assumed to exchange 50% of the maximum amount permitted of their past service pension rights on retirement for additional lump sum
Each member is assumed to exchange 80% of the maximum amount permitted of their future service pension rights on retirement for additional lump sum	

Demographic Assumptions

Post retirement mortality	**31 March 2010**	**31 March 2007**
Males		
Base table	Standard SAPS Normal Health All Amounts (S1NMA)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	105%	125%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	21.7	20.2
Future lifetime from age 65 (currently aged 45)	23.6	22.1
Females		
Base table	Standard SAPS Normal Health All Amounts tables (S1NFA)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	105%	125%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	23.9	22.4
Future lifetime from age 65 (currently aged 45)	25.9	23.6

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

** The scaling factors shown apply to normal health retirements

25. STATEMENT OF INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the County Council has prepared and reviewed a written statement of the investment policy of the Pension Fund. This statement has been adopted by the Pension Fund Committee and is attached as Appendix 2.

26. FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005 and has been reviewed by the Pension Fund Committee during 2012/13. As a minimum it must be revised whenever there is a material policy change in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is attached as Appendix 1.

Pension Fund

Funding Strategy Statement

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(A) STATUTORY BACKGROUND AND KEY ISSUES

1. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 come into effect on 1 April 2004. They originally provided the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities are required to prepare a Funding Strategy Statement (FSS) by 31 March 2005. The requirements are now set out under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the Administration Regulations).

2. Key issues:

- After consultation with relevant interested parties involved with the Fund, e.g. local authority employers, admitted bodies, scheduled/resolution bodies, the administering authority is required to prepare and publish their funding strategy.

- In preparing the FSS, the administering authority has to have regard to:

    - o Guidance published by CIPFA in March 2004 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles".
    - o Its Statement of Investment Principles (SIP) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

- The FSS must be revised and published whenever there is a material change in policy either on the matters set out in the FSS or the Statement of Investment Principles.

- Each Fund Actuary must have regard to the FSS as part of the fund valuation process and the Fund Actuary has therefore been consulted on the contents of this FSS.

- Benefits payable under the Scheme are secure, because they are guaranteed by statute. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, allowing for scrutiny and accountability through improved transparency and disclosure.

- The Scheme is a defined benefit final salary scheme. The benefits are specified in the governing legislation, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (Benefits Regulations). Constraints on the levels of employee contributions are also specified in the Benefits Regulations.

- Employer contributions are determined in accordance with the Administration Regulations, which require that an actuarial valuation is completed every three years by the Fund Actuary.

3. This Statement has been reviewed in accordance with Regulation 35 of the Administration Regulations in March 2010 as part of the triennial valuation as at 31 March 2010

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

4. The purpose of this Funding Strategy Statement (FSS) is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding the Fund's liabilities.

The intention is for this Strategy to apply comprehensively for the Scheme as a whole, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

Invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

6. The aims of the fund are to:

- **Comply with Regulation 36 of the Administration Regulations and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible**

The Administering Authority aims to keep employer contributions as nearly constant as possible, whilst taking account of:

- the regulatory requirement to secure solvency
- the requirement to ensure that costs are reasonable, and
- maximising return from investments

In order to achieve nearly constant employer contribution rates there may be a need to invest in assets that match the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return consistent with the requirement to maximise the returns from investments. These assets are more risky in nature than fixed interest investments, and this can lead to more volatile returns in the short-term.

This can have an effect on employer contribution rates as the funding position of the Pension Fund is measured at the triennial valuations. The impact of this can be reduced by smoothing adjustments at each actuarial valuation. Smoothing adjustments recognise that markets can rise and fall too far.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for admission bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

- **Manage employers' liabilities effectively**

The Administering Authority seeks to manage employers' liabilities effectively. In a funding context, this is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund's assets through quarterly meetings of the Pension Fund Committee.

- **Ensure that sufficient resources are available to meet all liabilities as they fall due**

  The Administering Authority recognises the need to ensure that the Fund has sufficient liquid assets to pay pensions, transfer values and other expenses. This position is continuously monitored and the cash available from contributions and cash held by Fund Managers is reviewed on a quarterly basis by the Pension Fund Committee.

- **Maximise the returns from investments within reasonable risk parameters.**

  The Administering Authority recognises the desirability of maximising returns from investments within reasonable risk parameters. Investment returns higher than those of fixed interest and index-linked bonds are sought from investment in equities, property **and other growth assets.** The Administering Authority ensures that risk parameters are reasonable by:

  - Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers
  - Controlling levels of investment in asset classes through the Statement of Investment Principles
  - Restricting investment to asset classes recognised as appropriate for UK Pension Funds.

(D) RESPONSIBILITIES OF THE KEY PARTIES

7. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary:

8. The administering authority should:

- Collect employer and employee contributions

- Determine a schedule of due dates for the payment of contributions - Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the Administering Authority and therefore places a duty to report late payments of contributions to the Pensions Regulator.

- Take action to recover assets from admission bodies whose Admission Agreement has ceased.

- Invest surplus monies in accordance with the regulations.

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

- Manage the valuation process in consultation with the Fund's Actuary.

  Ensure effective communications with the Fund's Actuary to:

  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement;
  - Ensure reports are made available as required by guidance and regulation;
  - Agree timetables for the provision of information and valuation results;
  - Ensure provision of accurate data; and
  - Ensure that participating employers receive appropriate communications.

- Consider the appropriateness of interim valuations.

- Prepare and maintain an FSS and a SIP, both after proper consultation with interested parties, and

- Monitor all aspects of the fund's performance and funding and amend the FSS and SIP on an annual basis as part of the on-going monitoring process.

9. The individual employers should:

- Deduct contributions from employees' pay correctly.

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

- Exercise discretions within the regulatory framework.

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

- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.

10. The fund actuary should:

- Prepare triennial valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.

- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

- In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.

(E) FUNDING TARGETS, SOLVENCY AND NOTIONAL SUB-FUNDS

Funding principle

11. The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

Funding Targets and assumptions regarding future investment strategy

12. The Funding Target is the amount of assets which the Fund needs to hold at any point in time such that the funds held, plus future anticipated investment returns on those funds, and taking into account the anticipated future experience of the membership and contributions due from the membership, meet the funding principle.

13. Some comments on the principles used to derive the Funding Target for different bodies in the Fund are set out below.

<u>Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following cessation</u>

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets including equities for Scheduled Bodies and certain other bodies. With regard to Admission Bodies the guarantor must have been judged to be of suitable covenant by the Administering Authority (see section on Guarantors on page 14).

<u>Admission Bodies and other bodies whose liabilities are expected to be orphaned</u>

For Admission Bodies the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such cessation, and any likely change in notional or actual investment strategy as regards the assets held in respect of the Admission Body's liabilities at the date of cessation (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Orphan liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund the assets notionally related to these liabilities will be assumed to be invested in low risk investments. This is described in more detail later in this document

Full Funding

14. The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

Solvency and 'funding success'

15. The Fund’s primary aim is long-term solvency. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term.

    The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Funding Target.

16. A further Aspirational Funding Target is set by reference to a similar level of prudence as used for the actuarial valuation of the Fund carried out as at 31 March 2007. The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Recovery Period, is fully funded on the basis of the Aspirational Funding Target.

Assumptions and methodology

17. The Administering Authority will agree with the Fund’s Actuary the assumptions used in this calculation prior to each actuarial valuation.

18. The Administering Authority has agreed with the Fund Actuary that a market led approach should be used for future valuations at least for the foreseeable future. Under this method of valuation, the assets are taken into account at their mid market value and the value is then compared with the value of the Fund’s liabilities calculated using consistent, market rates of interest. The Administering Authority

has also agreed with the Fund Actuary that some element of smoothing of the assets can be used in the valuations. The size of the smoothing adjustment if applied will be discussed at each valuation.

19. The rates of interest are obtained by examination of prevailing yields in the long term gilt market, which are then adjusted to make partial allowance for excess returns expected on other types of riskier investments such as equities. The risk of this approach is that the additional returns may not be achieved.

Recovery Periods

20. Where a valuation shows the Fund to be in surplus or deficit against the solvency measure, employer's contribution rates will be adjusted to reach the solvent position over a number of years. The 'recovery period' for reaching 'full' funding is set by the Administering Authority in consultation with the Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

21. The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. For employers of sound covenant, the Administering Authority is therefore prepared to agree recovery periods that are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term the recovery period is set to be the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk involved in relying on long recovery periods and has agreed with the Actuary a maximum recovery period of 30 years. It is the intention of the Administering Authority to agree with employers a recovery period of as short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible. For each individual employer the following will also be taken into account:

- covenant and strength of any guarantee relating to an employer and hence the risk of default
- length of participation in the Fund
- whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund

Stepping

22. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary the Administering Authority accepts that long term employers may step up to the new rates in equal annual steps. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.

Grouping

23. In some circumstances it is may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

24. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be set its own contribution rate.

25. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

26. Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

27. All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Notional sub-funds

28. In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

29. This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, or ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of sub-funds

30. The notional sub-fund allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

31. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

32. In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used.

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

33. Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

(F) SPECIAL CIRCUMSTANCES RELATED TO ADMISSION BODIES

Interim reviews for Admission Bodies

34. Regulation 38(4) of the Administration Regulations provides the Administering Authority with a power to carry out valuations in respect of Admission Bodies, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

35. The Administering Authority's overriding objective at all times in relation to Admission Bodies is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of cessation of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

36. The Administering Authority's general approach in this area is as follows:

- Where the date of cessation is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.

- For Transferee Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the date of cessation becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For admissions due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

37. Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any Admission Body at any time in accordance with Regulation 38(4).

Guarantors

38. Some Admission Bodies may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an Admission Body ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

39. During the period of participation of the Admission Body a Guarantor can at any time agree to the future subsumption of any residual liabilities of an Admission Body. The effect of that action would be to reduce the Funding Target for the Admission Body, which would probably lead to reduced contribution requirements.

Bonds and other securitization

40. Regulation 6 of the Administration Regulations creates a requirement for provision of risk reviews and bonds in certain circumstances. The Administering Authority's approach in this area is as follows:

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, and so long as the Administering Authority judges the relevant Scheme Employer to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(a) of the Administration Regulations, where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

- In the case of Transferee Admission Bodies admitted under Regulation 6(2)(b) of the Administration Regulations, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will review the required cover regularly, at least once a year.

Subsumed liabilities

41. Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

42. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

43. Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any cessation valuation, carried out in accordance with Administration Regulation 38, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

44. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

45. To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Cessation of participation

46. Where an Admission Body ceases participation, a cessation valuation will be carried out in accordance with Administration Regulation 38. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

47. In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

    - For orphan liabilities the Funding Target in the cessation valuation will anticipate investment in low risk investments such as Government bonds.

    - For subsumed liabilities the cessation valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

48. Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the cessation valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a cessation payment being required.

(G) LINKS TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

49. The current investment strategy, as set out in the SIP, is summarised below:

General Principles and diversification

50. The Fund believes that the emphasis of investment over the long term should be on real assets, particularly equities and property. These are most likely to maximise the long term returns. The balance between UK and Overseas equities is, however, a matter of investment judgement. The Fund should also be diversified to include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash.

51. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.

52. The active Investment managers are expected to adopt an active asset allocation policy to take advantage of the shorter term relative attractions of the various asset types.

53. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the Statement of Investment Principles (SIP) and the funding policy set out in this document.

54. The SIP sets out the investment responsibilities and policies relevant to the Fund.

55. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

56. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible.

For ease of classification some of the key risks may be identified as follows:

57. Financial

These include:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset reallocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- The effect of a possible increase in employer’s contribution rate on service delivery and admitted or scheduled bodies

The Administering Authority will ensure it takes appropriate advice and regularly assess such aspects including regular monitoring of the funding position of the Fund.

58. Demographic

These include:

- The longevity horizon continues to expand
- Deteriorating pattern of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound policies and procedures are in place to manage, e.g. potential ill health or early retirements.

59. Regulatory

These include:

- Changes to regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees
- Changes to national pension requirement and/or Inland Revenue rules

The Administering Authority will keep up to date with all proposed changes, and, if appropriate, request the Actuary to assess the impact on costs of the changes. The Administering Authority will notify employers of the likely impact of changes.

60. Governance

These include:

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)
- Administering authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond

The Administering Authority requires regular communication with employers to ensure that it is made aware of any such changes in a timely manner.

61. Choice of Funding Target

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority’s policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

62. Smoothing of Assets

These include:

- The utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position

The Administering Authority’s policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

63. Recovery Period

These include:

- Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements

The Administering Authority’s policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

64. Stepping

These include:

- Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process

The Administering Authority’s policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps as appropriate. Details of the Administering Authority's Policy are set out earlier in this Statement.

(I) MONITORING AND REVIEW

65. The FSS should be reviewed formally at least every three years and as part of the triennial valuation cycle. The valuation exercise will establish contribution rates for all employers contributing to the fund for the following three years within the framework provided by the strategy.

Pension Fund

Statement of Investment Principles

Table of Contents

1 Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the "Regulations") which require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund. The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. The compliance statement is attached at Appendix A.

Durham County Council is the administering authority (the "Authority") for the Durham County Council Pension Fund (the "Pension Fund") and the purpose of this document is to outline the broad investment principles governing the investment policy of the Pension Fund, thereby satisfying the requirements of the Regulations.

2 Investment Responsibilities

The County Council, as Administering Authority, has delegated the investment arrangements of the Pension Fund to the Pension Fund Committee (the "Pension Fund Committee") who decide on the investment policy most suitable to meet the liabilities of the Pension Fund and the ultimate responsibility for the investment policy lies with it. The Committee is made up of elected representatives of the County Council, Darlington Borough Council, Further Education Colleges, Other Statutory Bodies, Admitted Bodies and Member Representatives.

The Pension Fund Committee has full delegated authority to make investment decisions.

2.1 The Pension Fund Committee has responsibility for:

- Determining overall investment strategy and strategic asset allocation and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Pension Fund is invested in suitable types of investments;
- Preparing policy documents including the Statement of Investment Principles. Monitoring compliance with the Statement and reviewing its contents following any strategic changes and at least every three years;
- Appointing the investment managers, custodian, the Pension Fund actuary and any independent external advisers felt to be necessary for the good stewardship of the Pension Fund;

- Reviewing on a regular basis the investment managers' performance against established benchmarks, and satisfying themselves as to the investment managers' expertise and the quality of their internal systems and controls;
- Reviewing on a regular basis the performance of the independent external advisers;
- In cases of unsatisfactory performance of the investment managers and independent external advisers, taking appropriate action;
- Reviewing policy on social, environmental and ethical matters and on the exercise of rights, including voting rights; and
- Reviewing the resources allocated to investment managers on a regular basis.

2.2 The investment managers are responsible for:

- The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by this document and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;
- Stock selection within asset classes;
- Preparation of quarterly reports, including a review of investment performance;
- Attending meetings of the Pension Fund Committee as requested;
- Assisting the Corporate Director, Resources and Pension Fund Committee in the preparation and review of this document; and
- Where specifically instructed, voting in accordance with the Pension Fund's policy.

2.3 The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;
- Providing the administering authority with quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;
- Collection of income, tax reclaims, exercising corporate administration and cash management;

- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting.

2.4 The Independent Advisers are responsible for:

- Assisting the Corporate Director, Resources and Pension Fund Committee in determining the overall investment strategy, the strategic asset allocation and that the Pension Fund is invested in suitable types of investment, and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director, Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director, Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director, Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- Advising and assisting the Corporate Director, Resources and the Pension Fund Committee on other investment related issues, which may arise from time to time; and
- Providing continuing education and training to the Pension Fund Committee.

2.5 The Actuary is responsible for:

- Providing advice as to the structure of the Pension Fund's liabilities, the maturity of the Pension Fund and its funding level in order to aid the Pension Fund Committee in balancing the short term and long-term objectives of the Pension Fund.
- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.

2.6 The Corporate Director, Resources is responsible for:

- Ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee;
- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations;

- Exercising delegated powers granted by the County Council to:
    - Administer the financial affairs in relation to the County Council's functions as a pension fund administering authority;
    - Exercise those discretions under the Local Government Pension Scheme Regulations 1997 as appear from time to time in Pension Fund Statements of Policy; and
    - Authorise, in cases of urgency, the taking of any action by an investment manager of the Pension Fund which is necessary to protect the interests of the Pension Fund.
- Managing the cash balances of the Pension Fund which the Investment Managers have not invested.

3 Authorised Investments

The powers and duties of the Authority to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended from time to time and updated in 2009. The Authority is required to invest any money which is not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investments and the advice of persons properly qualified on investment matters.

3.1 Types of Investment

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, collective investment schemes, deposits, money market instruments, unquoted equities and property, both in the UK and overseas. The regulations also specify other investment instruments that may be used such as stock lending, financial futures, traded options, insurance contracts, sub underwriting contracts and a contribution to an unquoted limited liability securities investment partnership.

The limits on the amount of money that can be invested in each individual type of investment are specified in schedule 1 of the Regulations. We do not participate in stock lending or underwriting.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 amended the regulations so as to give Authorities the option to increase some of the limits on certain types of investments provided that the Authority complies with the requirements of the Regulations. These requirements include taking proper advice, the suitability of particular investments and types of investments, the limit on the amount of such investment, the reason for such investment and the period for which the increase in the limit of the type of investment will apply. Any increase in the limit must be kept under review.

The 2009 Regulations now prevent the administering authority from investing the Pension Fund’s cash that is not required immediately along with its own cash. The Pension Fund Committee has agreed that as part of its investment strategy it will allow the administering authority to invest, in the short term, on its behalf in line with the administering authority’s Treasury Management Strategy.

Investment Managers are instructed to comply with the regulations in respect of the relevant portfolio subject to any specific instructions. The Authority is responsible for oversight of how compliance affects the compliance of the Pension Fund as a whole.

3.2 Investment Risk

The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

Dividing the management of the assets between six investment managers, further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee’s investment strategy.

The setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The 2009 Regulations require the Pension Fund to describe how it measures and manages risk.

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

3.3 Realisation of Investments

The vast majority of the Pension Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Pension Fund.

3.4 Approval has been given to investment as follows:

In-House Management

i. Midland Enterprise Fund for the North East Exempt Unit Trust

- Small, private and growing companies in the North East of England:
- £200,000 invested.

ii. Capital North East

- Start up and development capital for businesses in the North East:
- £400,000 invested, up to £500,000 may be invested.

External Investment Management

The Pension Fund Committee has appointed six investment managers to manage the remainder of the Pension Fund's assets. They have been appointed under the terms of the Regulations and their roles are described in the Investment Policy in Appendix B.

4 Allocation Strategy

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

Asset Class	Permitted Assets	Benchmark & Performance Target	Proportion of Total Fund *
Conventional Bonds	Investment grade sterling bonds	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	20%
Broad Bonds	Global bonds	UK 3-month LIBOR +3.0%	16%
UK Equity	UK equities	FTSE All Share Index +3.0%	20%
Global Equities	Global Equities	MSCI AC World Index +3.0%	21%
Global Equities	Global Equities	FTSE All-World Developed index	7%
Dynamic Asset Allocation	All major asset classes with the ability to take derivative positions	UK 3-month LIBOR +4.0%	8%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

* Excluding in-house managed funds

More detailed definitions of the mandates are given at Appendix B.

The Pension Fund Committee and the Corporate Director, Resources, in conjunction with the Independent Advisers, will formally monitor the actual asset allocation of the Pension Fund on a quarterly basis.

5 Stock Selection

Individual investments are chosen by the Investment Managers with the Pension Fund Committee, Corporate Director, Resources and independent external advisers able to question the investment managers on their actions at each quarterly meeting.

6 Cash Management

The administering authority will invest the short term cash balances on behalf of the Pension Fund. This will be done in line with the administering authority's Treasury Management Policy and interest will be paid quarterly to the Pension Fund.

7 Investments Requiring Prior Approval

Subject to changes and agreements with Investment Managers, as included at Appendix B, a detailed report must be submitted to and approved by the Pension Fund Committee prior to making investments in the following:

- Private equity/Venture capital funds and enterprises
- Commodities
- Stock lending
- Currency Hedging - Agreed in principle, subject to prior consultation with the Corporate Director, Resources.

8 Socially Responsible Investing

The Pension Fund Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Pension Fund Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally or ethically unacceptable. As part of the investment decision-making process, Investment Managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

9 Corporate Governance

Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. The quarterly report from investment managers should include details of voting activity.

10 Fee Structure

Investment Managers' fees are based on the value of assets under management. In the case of four investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the two remaining investment managers an ad-valorem fee is payable.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

The administering authority fee for Treasury Management will be based upon a percentage of the interest earned on the Pension Fund cash invested.

11 Reporting Requirements

The investment managers must report quarterly on matters covered in their individual agreements, but should include common items such as:

- Investment Managers' views on the UK or other relevant economies and the proposed asset allocation for the past, present and future quarter.
- Reports on any new investment policy issues requiring the approval of the Pension Fund Committee.
- Performance during the previous quarter, previous twelve months, three years and five years.
- A Portfolio valuation, including details of individual holdings.
- Investment transactions schedule for the previous quarter.
- Portfolio distribution and the changes in the markets - summarised by:
    - type of investment;
    - sector
    - geographic area as appropriate.
- Performance of any collective investment funds or internal pooled funds in which investments are held.
- Underwriting commitments relevant to the Portfolio.
- The cash position of the Pension Fund.
- Voting actions and forthcoming activity.

- Any material matters reported to the Financial Services Authority (FSA) in respect of the Portfolio or which reasonably might be brought to the attention of the Pension Fund Committee.
- Any material matters in respect of the interface with the Custodian.
- Investment or ancillary activities carried out in relation to the Portfolio where there arose a material risk of damage to the interests of the Pension Scheme or where a material risk of damage may arise in the future.
- Dealing errors and action taken.
- Any breach of confidentiality.
- Any breach of this Agreement.

Annually, the Global Custodian must present a detailed report relating to the individual investment managers' fund performance and the combined fund performance.

Appendix A - Principles

This appendix sets out the extent to which Durham County Council as the Administering Authority of the Durham County Council Pension Fund complies with the ten principles of investment practice set out in the document published in April 2002 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" (Guidance note issue No. 5), in future, compliance with guidance given by the Secretary of State will be reported.

Principle 1 — Effective decision-making

Fully compliant: Investment decisions are made by those with the skill, information and resources necessary to take them effectively. A programme covering investment issues is being developed for new members joining the Pension Fund Committee and training is provided to all members.

Principle 2 – Clear objectives

Fully compliant: The overall investment objective for the Pension Fund is set out in the Funding Strategy Statement.

Principle 3 – Focus on asset allocation

Fully compliant: All major asset classes are considered. An asset liability modelling exercise is being considered as part of the ongoing review of the administration of the Pension Fund.

Principle 4 – Expert advice

Fully compliant: Two independent advisers were appointed in November 2004. Actuarial services have been subject to a separate open tender process.

Principle 5 – Explicit mandates

Fully compliant: Explicit written mandates agreed with all investment managers. Investment managers have been asked to report on transaction costs and commission.

Principle 6 – Activism

Partial compliance: Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. Normal practice is to allow the Investment Managers to follow their in-house voting policy unless otherwise instructed by the Pension Fund Committee. The mandates do not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Principle 7 – Appropriate benchmark

Fully compliant: Appropriate benchmarks have been set in consultation with the independent advisers and the actuary.

Principle 8 – Performance measurement

Partial compliance: Performance of the Pension Fund is measured; separate monitoring of Pension Fund Committee performance and independent adviser performance has yet to be established.

Principle 9 – Transparency

Fully compliant: Investment objective and asset allocation strategy covered in the Funding Strategy Statement or Statement of Investment Principles. Investment Manager and independent adviser fee structures are included.

Principle 10 – Regular reporting

Fully Compliant: The Funding Strategy Statement including the Statement of Investment Principles is available on the internet and is included in the Pension Fund's Annual Report and Accounts. A summary of overall Pension Fund performance is reported to members of the Pension Fund annually.

Appendix B - Investment Managers

The Pension Fund Commitee has appointed six Investment Managers: Edinburgh Partners Limited (‘Edinburgh Partners’), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited (‘CBRE’) and Baring Asset Management Limited ('Barings') to manage the assets of the Pension Fund.
The long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Edinburgh Partners	21	Global Equities	Active
BlackRock	20	UK Equities	Active
BlackRock	7	Global Equities	Passive
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling and non-sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

The investment restrictions detailed in this Appendix form part of the contractual agreement with Investment Managers and will only be varied after consultation with the Investment Managers in accordance with their contracts.
The Investment Manager may hold cash up to the value of 5% of the market value of the portfolio in respect of which the Investment Manager has been appointed, subject to agreements with individual Investment Managers, who may require a different limit to invest their part of the Pension Scheme’s assets. Cash in excess of this value should be returned to Durham County Council as Administering Authority.
The mandates for each Investment Manager, subject to the overall requirements of the Regulations and this Statement of Investment Principles, are as follows:

Edinburgh Partners

The Pension Fund Committee has appointed Edinburgh Partners to manage a portfolio to be invested in Global Equities.
The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over 3 year rolling basis.
The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equities	MSCI AC World Index

Edinburgh Partners intend to invest in the following to achieve their objective:

Portfolio	%
EP Global Equity	100

Edinburgh Partners have a number of guidelines in place at the regional, sectoral and stock level when considering the control of risk within the portfolio. These are detailed below:

Sector	Range
Number of Stocks	Typically holding 30 to 50 stocks
Maximum holding in one stock	5% of the portfolio's value at time of investment. With market movement max. 7.5% before reduction in holding
Holding in cash	Typically not expected to exceed 5% of the portfolio's value following the initial investment process
Maximum holding in one sector	Diversified (e.g. Financials/Industrials) 40% Partially Diversified (e.g. Consumer Goods) 30% Homogeneous (e.g. Oil) 20%
Maximum holding in any one country	US, Japan, UK max 50% each Other developed markets max 20% each Emerging Market Country (as defined by MSCI Emerging Markets Index) max 10% each

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	10% of the Portfolio or as otherwise advised in writing from time to time
CIS	No CIS sponsored by AllianceBernstein may be held
FM Funds (a sub-class of CIS)	10% of the portfolio or as otherwise advised from time to time
CIS of any one body (a sub-class of CIS)	10% of the Portfolio or as otherwise advised from time to time

BlackRock

The Pension Fund Committee has appointed BlackRock to manage a portfolio to be invested in UK Equities.
The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis.
The benchmark allocation is as follows:

Asset Class	Benchmark
UK Equity	FTSE All-Share Index

BlackRock intend to invest in the following to achieve their objective:

Portfolio	%
UK Focus approach	100

While the BlackRock UK Focus Fund is unconstrained there are some guidelines within the investment process in respect of the portfolio. These guidelines are set out below:

Sector	Range
No. of stocks	Typically holding 15 to 30 stocks
Maximum holding in one stock	15% of the portfolio's value
Maximum holding in one sector	No maximum limit
Holding in cash	Typically not expected to exceed 2% to 5% of the fund value
Active risk	Expect the ex-ante tracking error (active risk) to fall within the range 5% pa to 11% pa.

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	0% to10% of the Portfolio or as otherwise advised in writing from time to time

BlackRock

The Pension Fund Committee has appointed BlackRock to manage a portfolio to be invested passively in Global Equities.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equity	FTSE All-World Developed Index

The Investment Manager's objective is to match the Index whilst minimising tracking error, with a target tracking error of 0.3% or less.
BlackRock intend to invest in the following to achieve their objective:

Portfolio	%
Aquila Life World Index Fund	100

The Aquila Life World Index Fund invests in shares of companies worldwide (UK, Europe, Japan, Israel, Pacific Rim, US and Canadian markets) according to the market capitalisation weights of the FTSE All-World Developed Index. Within each of those markets, the Fund aims to generate returns consistent with those of each country's primary share market. Tracking error within portfolios comes from a number of sources. The principal reasons include: allocation misweights against the index; costs associated with rebalancing, and 'cash drag'.
The contributions into or withdrawals out of the Fund, changes to the construction of the benchmark and different market returns may cause the Fund to move outside the +/- 1% bandwidths around the benchmark. The bandwidths used aim to give optimum balance between close tracking and the cost of trading. To keep the portfolio in line with its benchmark, the Fund is reviewed daily and rebalancing trades are placed in the event of an asset class breaching the bandwidths.

AllianceBernstein

The Pension Fund Committee has appointed AllianceBernstein to manage a portfolio to be invested in Global Bonds.
The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis, with 5 – 10% volatility.
The benchmark allocation is as follows:

Asset Class	Benchmark
Broad Bonds	UK 3-month LIBOR

AllianceBernstein intend to invest in the following to achieve their objective:

Portfolio	%
Diversified Yield Plus Fund	100

AllianceBernstein can use a wide variety of financial instruments to generate returns within the portfolio.
AllianceBernstein intends to make use of financial derivative instruments and shall employ the Value-at-Risk (VaR) approach to measure risk associated with the use of such instruments. The Diversified Yield-Plus strategy employed by AllianceBernstein anticipates VaR exposure of less than or equal to 5%, as calculated by AllianceBernstein or its delegates.
VaR reports will be produced and monitored on a daily basis based on the following criteria:

- 1 month holding period
- 99% confidence level.

The limitations that apply to the investments are detailed below:

Sector	Range
High Yield	0% to 30%
Bank Loans	0% to 25%
Emerging Markets	0% to 20%
Foreign Exchange	0% to 30% gross,0% to 15% net
Sovereign	0% to 100%
MBS	0% to 40%
CMBS/ABS	0% to 30%
Investment-Grade Corporates	0% to 75%

Up to 100% of the Portfolio may be invested in Unit-linked Insurance Contracts issued by Associates of the Investment Manager. Direct investment in Collective Investment Schemes (CIS) is subject to prior approval.

RLAM

The Pension Fund Committee has appointed RLAM to manage a portfolio to be invested in Investment Grade Bonds.
The Investment Manager's objective is to outperform the benchmark by 0.5% per annum net of fees over a rolling three year basis.
The benchmark allocation is as follows:

Asset Class	Benchmark
Conventional Bonds	FTSE Over 5 Year Index-Linked Gilt Index

RLAM intend to invest in the following to achieve their objective:

Portfolio	%
Segregated – with a specified range of +/- 2 years duration of the benchmark, mainly index-linked securities	100

RLAM can invest in a wide variety of bonds to generate returns within the Fund. The limitations to the extent of the investments in each classification are detailed below:

Bond classification	Range
UK Government Index Linked Bonds	50% to 100%
Overseas Government Index-Linked Bonds*	0% to 20%
UK Non-Government Index Linked Bonds	0% to 20%
UK Conventional Government Bonds	0% to 20%
UK Investment Grade Corporate Bonds (or equivalent)	0% to 20%
Overseas Conventional Bonds**	0% to 10%
Derivatives***	0%
Cash or cash equivalents (less than 1 year maturity)	0% to 10%

*Includes government and non-government bonds
**Includes government and corporate bonds and Currency hedged into sterling.
***Derivatives may only be used for the purpose of hedging currency risk.

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	0% of the Portfolio or as otherwise advised in writing from time to time
Any single security excluding government bonds	Maximum of 5% of portfolio

CBRE

The Pension Fund Committee has appointed CBRE to manage a portfolio to be indirectly invested in Property. Investment will not be restricted to UK vehicles, but can be invested globally as well as a pan-European basis.
The Investment Manager's objective is to outperform the benchmark by 5% per annum net of fees to be achieved over a five year time horizon.
The benchmark allocation is as follows:

Asset Class	Benchmark
Global Property	UK Retail Price Inflation

CBRE intend to invest in the following to achieve their objective:

Portfolio	%
CB Richard Ellis RPI +5%	100

There are limitations that apply with the construction of the CBRE portfolio. They are as follows:

Restrictions	Range
Collective Investment Schemes (CIS)	0% to 50% until notified in writing and thereafter 0% to 100%
Maximum allocation to any single fund	0% to 15%
Maximum allocation to listed investments	0% to 30%
Maximum allocation to any single country (including the UK)	0% to 25%
Maximum regional allocations -	
Asia Pacific Region	0% to 40%
North American Region	0% to 40%
Other Regions (excluding Europe)	0% to 10%

In the case of Collective Investment Schemes (CIS) taken on at the Effective Date, the requirement shall be that the Investment Manager liquidate these assets at a time that is appropriate in the reasonable opinion of the Investment Manager. There is no long stop date on this process.

Baring Asset Management

The Pension Fund Committee has appointed Barings to manage a portfolio to be invested in a fully diversified Global portfolio. It is expected that target return will be delivered using dynamic asset allocation over the market cycle incorporating the full range of global investment opportunities.
The Investment Manager's objective is to outperform the benchmark by 4% per annum net of fees over a rolling three year basis, with 5 – 10% volatility.
The benchmark allocation is as follows:

Asset Class	Benchmark
DAA	UK 3-month LIBOR

Barings intend to invest in the following to achieve their objective:

Portfolio	%
Extended Risk Solutions	100

Barings can use a wide variety of asset classes to generate returns within the Fund.
The expected volatility arising from the asset distribution over the medium term is 7% to 11% per annum as represented by standard deviations of monthly returns annualised. Value at Risk (VaR) limit of 5% per 10 days with a 99% confidence level based on three years of data.

The limitations to the extent of the investments in each classification are detailed overleaf:

Asset Class	Range
Equities (segregated and/ or pooled)* and depositary receipts, warrants and P-Notes	0% to 65%
Commodities* in the form of ETFs, CIS' and Index Futures.	0% to 30%
Bonds	0% to 80%
Investment-Grade Corporate Bonds	0% to 50%
High Yield Debt** being all corporate and government sub-investment grade debt securities.	0% to 15%
Emerging Market Debt** being all government debt securities issued by countries falling within the World Bank definition of a developing market country (or similar) at the time of acquisition.	0% to 15%
Property in the form of REITs and CIS'	0% to 30%
Hedge Funds/Structured Products/Private Equity	0% to 50%
Foreign Exchange including Forwards	0% to 40%
Cash/Near Cash	0% to 25%

* Equities and Commodities, aggregate maximum 80%
** High Yield and Emerging Market Debt, aggregate maximum 20%

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	50% of the Portfolio or as otherwise advised in writing from time to time
CIS	No CIS sponsored by AllianceBernstein, titled Diversified Yield Bond Plus Fund, may be held.
FM Funds (a subclass of CIS)	50% of the Portfolio or as otherwise advised in writing from time to time.
CIS of any one body (a subclass of CIS)	50% of the Portfolio or as otherwise advised in writing from time to time.

Note: Allocations to other bond assets such as mortgage backed securities or asset backed securities and bank loans as well as foreign currency exposure are also permitted. The Pension Fund Committee will allow the Investment Manager to exercise Long/Short strategies; however there will be no net short positions permissable in any asset class.

COMMUNICATIONS POLICY STATEMENT

Durham County Council is the administering authority for the Durham County Council Pension Fund. This Communication Policy Statement has been drawn up to comply with regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) and to ensure the Council offers clear communication to stakeholders of the Local Government Pension Scheme.

WHO WE COMMUNICATE WITH

- Scheme members (active members, pensioners and deferred members)
- Representatives of scheme members
- Prospective scheme members
- Employers participating in the scheme
- Advisors (for example actuaries, investment advisors, Local Government Pensions Committee)
- Other bodies (for example prospective employing authorities and their representatives)

KEY OBJECTIVES

- To ensure communication is clear, factual and concise
- To ensure communication is designed and delivered in a manner appropriate to its audience
- To ensure that the correct information reaches the right people at the right time

COMMUNICATING WITH SCHEME MEMBERS

Scheme members need access to detailed information about the scheme and their own benefits to allow them to make informed choices about their own pension benefits.
The Council provides:

- Scheme literature

  The pension section produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure.

- Annual benefit statements

  All active members are sent a benefit statement each year setting out:

  - the benefits they have earned in the scheme up to 31 March that year
  - the benefits they will be entitled to if they stay in the scheme and retire
  - at the date they are entitled to unreduced benefits (their 'rule of 85' date)
  - the benefits they will be entitled to if they stay in the scheme and retire at age 60
  - the benefits they will be entitled to if they stay in the scheme and retire at age 65

  We are introducing combined benefit statements for active members – these include information on an individual's state pension entitlement. Combined benefit statements are already provided to the active members of around 20 employers and over the next year or so we intend to extend this to cover all employers if possible.

  All deferred members are sent a benefit statement each year setting out the current value of their deferred benefits payable at the earliest date on or after age 60 that unreduced benefits can be paid to them. The statement also sets out the effect of pension increases on their benefits since they left service.

- Newsletters

  All pensioners (including dependants) are sent a copy of each issue of our pensioner newsletter 'Pensions Today'.

  All active members are sent a copy of each issue of our newsletter 'Pensions News'.

  Once a year the newsletters include information on the performance of the Fund.

- Telephone helpline

  All newsletters contain contact telephone numbers for general enquiries. Active members, pensioners and deferred members can contact the Pensions Group by telephone between 8:30am and 4:30pm on weekdays.

COMMUNICATING WITH EMPLOYERS PARTICIPATING IN THE SCHEME

Employers need to be kept up to date with developments in the scheme and need to be informed of consultation exercises that could influence the future of the scheme.

Employers are sent written information on scheme developments as and when changes are proposed to the scheme. Employers are often sent copies of circulars provided by the Employers' Organisation or are directed to copies of these circulars via web-links.

Meetings with individual employers are arranged as necessary or as requested to deal with any significant pension issues that arise. Support is provided to employers who want to provide further pension information to their employees – this includes pre-retirement seminars and mid-life seminars.

All employers are invited to attend the Annual Meeting of the Pension Fund Committee. Copies of the annual report and accounts for the Pension Fund are distributed at this meeting and are also sent to all employers in the scheme.

COMMUNICATING WITH PROSPECTIVE MEMBERS

Employers are provided with pension packs to give to prospective members. These contain a summary of the benefits of scheme membership along with a starter form, information comparing the scheme with other pension options, a nomination form, an opt-out form and an authorisation form for investigating potential pension transfers into the scheme.

COMMUNICATING WITH REPRESENTATIVES OF SCHEME MEMBERS

The Pension Group produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure. This information is available to representatives of scheme members.

The Pension Group telephone helpline is also available between 8:30am and 4:30pm on weekdays for any queries representatives of scheme members may have.

The main local government unions are represented on the Pension Fund Committee. This means they are sent agenda items and minutes from the meetings as well as being able to attend the meetings (albeit in a non-voting capacity).

FUND PUBLICATIONS

COMMUNICATION DOCUMENT	AVAILABLE TO	WHEN PUBLISHED
Newsletter: Pensions Today	Pensioners	When required
Newsletter: Pensions News	Active members	When required
Summary scheme guide	Active members, prospective members	When required
Annual benefit statement	Active members, deferred members	Once a year
Update letter on changes to regulations and other issues	Employers	When required
Report and accounts	All	Once a year – distributed to all employers and available on request to all
Valuation report	Employers	Every three years
P60s	Pensioners	Once a year

PARTICIPATING BODIES AND CONTRIBUTION RATES

The contribution rates of participating bodies are shown below, expressed as a percentage of employees' pensionable pay and an additional annual payment where applicable:

Employer	Employer Contributions		Employer	Employer Contributions	
	%age of pensionable pay	Additional Annual Payment (£)		%age of pensionable pay	Additional Annual Payment (£)
Durham County Council	13.10%	22,879,000	Hummersknott Academy Trust	15.80%	37,422
Darlington Borough Council	13.10%	2,422,893	Hurworth Primary	17.40%	9,992
Brandon & Byshottles Parish Co	18.70%		Hurworth School Limited	12.00%	9,888
Chilton Parish Council	18.70%		King James I Academy	14.40%	43,780
Easington Colliery Parish Council	18.70%		Longfield Academy Trust	14.70%	32,068
Easington Village Parish Council	18.70%		Murton Community Primary School	16.20%	24,500
Fishburn Parish Council	18.70%		New College Durham	13.00%	172,000
Framwellgate Parish Council	18.70%		New College Durham Academies Trust	19.00%	105,243
Horden Parish Council	18.70%		New Seaham Primary School	20.80%	2,400
Hutton Henry Parish Council	18.70%		Park View Academy	15.20%	39,312
Lanchester Parish Council	18.70%		Parkside Sports College	18.30%	48,392
Monk Helseden Parish Council	18.70%		Queen Elizabeth 6th Form College	14.30%	9,900
Murton Parish Council	18.70%		Reid Street Primary School	15.40%	12,891
North Lodge Parish Council	18.70%		Skerne Park Primary	14.40%	7,000
Shotton Parish Council	18.70%		St Aidans C of E Academy	13.10%	42,000
South Hetton Parish Council	18.70%		St Bedes Academy	17.10%	50,333
Thornley Parish Council	18.70%		St Bedes RC Primary	17.90%	10,875
Trimdon Foundry Parish Council	18.70%		St George CE	19.40%	7,692
Trimdon Parish Council	18.70%		St John's Catholic School & 6th Form	15.00%	48,800
Wheatley Hill Parish Council	18.70%		St John's CE Primary School	18.00%	4,950
Wingate Parish Council	18.70%		Staindrop School	16.60%	29,800
Barnard Castle Town Council	18.70%		Teesdale Education Trust	15.10%	29,384
Bishop Auckland Town Council	18.70%		The Academy at Shotton Hall	11.90%	16,848
Ferryhill Town Council	18.70%		The Fed. Of Mowden Schools	15.30%	9,442
Great Aycliffe Town Council	18.70%		The Hermitage Academy Trust	13.60%	28,392
Greater Willington Town Council	18.70%		Tudhoe Learning Trust	15.00%	23,467
Peterlee Town Council	18.70%		West Park Academy	13.90%	6,966
Seaham Town Council	18.70%		Woodham College	17.30%	24,733
Sedgefield Town Council	18.70%		Bowes Museum	47.00%	
Shildon Town Council	18.70%		Carillion	21.50%	
Spennymoor Town Council	18.70%		Cestria Community Housing	12.70%	
Stanley Town Council	18.70%		Compass Group UK	23.50%	2,700
Central Durham Joint Crematoria	18.70%		Creative Management	21.80%	
Durham Police Authority	11.40%	800,000	Derwentside Homes	14.40%	
Durham & Darlington Fire Authority	12.70%	139,000	Future Leisure in Coxhoe	14.70%	
Barnard Castle School	22.20%	161,000	Hobson Golf Club	20.60%	3,200
Bishop Auckland College	12.90%	52,000	KGB Cleaning	27.40%	
BRandH Academy Limited	14.30%	7,340	Kier Support Services	0.00%	
Carmel College	16.40%	33,665	Leisureworks	13.50%	39,000
Dale and Valley Homes	12.20%	15,000	Livin	12.50%	
Darlington College	12.80%	90,000	Mears	5.90%	
Darlington School (Maths & Science)	17.50%	25,692	Mitie Cleaning	24.90%	530
Derwentside College	13.70%	76,000	Mitie PFI	25.20%	3,600
Easington Academy	17.60%	30,096	Morrison Facilities Management Ltd	0.00%	
East Durham College	12.40%	52,000	Murton Welfare Association	20.50%	2,500
East Durham Homes	12.90%	545,000	North Star Housing	22.10%	33,000
Education Village	16.60%	104,274	Peterlee Fire Company	27.60%	9,900
Excel Academy Partnership	15.10%	42,700	Taylor Shaw Longfield	22.20%	1,700
Federation of Abbey Schools	15.90%	12,294	Taylor Shaw Primaries	0.00%	
Firthmoor Primary	17.60%	13,658	The Forge	21.10%	
Glendene Academy	14.50%	26,192	Three Rivers Housing	20.30%	2,500
Heathfield Academy Trust	18.90%	24,292			

MEMBERSHIP STATISTICS

The following table provides details of the number of pensionable employees in the scheme and the number of pensioners.

	Summary of Pensionable Employees				Summary of Pensioners			
	Pension-able employees at 31/3/12	Newcomers during year	Leavers during year	Pension-able employees at 31/3/13	Pensioners at 31/3/12	New pensioners during year	Pensioner deaths during year	Pensioners at 31/3/13
Durham CC	11,326	413	988	10,751	13,026	675	493	13,208
Darlington BC	2,105	132	340	1,897	1,536	121	51	1,606
Town Councils	144	3	11	136	99	1	5	95
Parish Councils	58	0	0	58	46	0	5	41
Joint Crematoria Comm.	5	0	0	5	9	0	2	7
Statutory Bodies								
Durham Police Authority	870	55	59	866	287	23	0	310
County Durham & Darlington Fire & Rescue Authority	98	10	6	102	32	0	1	31
East Durham Homes	137	3	9	131	67	6	1	72
Dale and Valley Homes	56	2	6	52	3	1	0	4
Bishop Barrington Academy	1	1	0	2	0	0	0	0
BRandH Academy Limited	27	4	3	28	0	0	0	0
Carmel College	52	10	5	57	0	1	0	1
Easington Academy	0	32	0	32	0	0	0	0
Education Village	0	120	8	112	0	1	0	1
Framwellgate Moor School	33	2	2	33	0	0	0	0
Glendene Academy	0	34	0	34	0	0	0	0
Heathfield Academy Trust	0	2	0	2	0	0	0	0
Hummersknott Academy Trust	57	10	4	63	0	1	0	1
Hurworth School Limited	32	8	2	38	1	0	0	1
King James I Academy	63	12	15	60	0	2	0	2
Longfield Academy Trust	80	9	6	83	2	2	0	4
Murton Community Primary School	0	33	1	32	0	0	0	0
New College Durham Academies Trust	88	8	7	89	0	1	0	1
Northwood Primary School	0	27	0	27	0	0	0	0
Park View Academy	33	1	2	32	0	3	0	3
Parkside Sports College	38	2	0	40	0	0	0	0
Reid Street Primary School	20	0	1	19	0	0	0	0
St Aidans Academy	43	3	1	45	0	1	0	1
St Bedes Academy	0	37	0	37	0	0	0	0
St Bedes RC Primary	0	3	0	3	0	0	0	0
St George CE	0	5	0	5	0	0	0	0
St John's Catholic School & Sixth Form College	41	1	1	41	0	0	0	0
St John's CE Primary School	1	8	2	7	0	0	0	0
Staindrop School	28	1	2	27	1	1	0	2
Teesdale Education Trust	35	0	6	29	0	0	0	0
The Academy at Shotton Hall	36	0	0	36	0	1	0	1
The Fed. Of Mowden Schools	0	6	1	5	0	0	0	0
The Federation of Abbey Schools Academy Trust	19	10	0	29	0	0	0	0
The Hermitage Academy Trust	38	2	2	38	0	1	0	1
West Park Academy	28	10	8	30	0	0	0	0
Woodham College	0	35	1	34	0	1	0	1

	Summary of Pensionable Employees				Summary of Pensioners			
	Pension-able employees at 31/3/12	Newcomers during year	Leavers during year	Pension-able employees at 31/3/13	Pensioners at 31/3/12	New pensioners during year	Pensioner deaths during year	Pensioners at 31/3/13
Colleges								
Bishop Auckland College	116	26	13	129	56	1	1	56
Darlington College	180	23	19	184	87	6	1	92
Queen Elizabeth 6th Form	66	1	11	56	8	2	0	10
Derwentside College	66	20	6	80	69	2	1	70
New College Durham	260	39	29	270	110	13	2	121
East Durham & Houghall College	149	66	27	188	63	0	3	60
Admitted Bodies								
Barnard Castle School	49	0	2	47	24	5	1	28
Bowes Museum	7	0	0	7	11	0	0	11
Carillion	12	0	2	10	0	2	0	2
Cestria	116	8	11	113	16	4	0	20
Compass Group UK	6	0	2	4	2	1	0	3
Creative Management	2	0	0	2	0	0	0	0
Derwentside Homes	180	9	9	180	36	10	1	45
F.L.I.C	6	0	0	6	0	0	0	0
Hobson Golf Club	1	0	1	0	0	0	0	0
KGB Cleaning	2	0	0	2	1	0	0	1
Kier Support Services	33	0	3	30	3	1	0	4
Leisureworks	29	0	1	28	21	0	0	21
Mears	82	0	2	80	22	3	1	24
Mitie Cleaning	1	0	0	1	1	0	0	1
Mitie PFI	1	0	0	1	2	0	0	2
Morrisons	81	0	9	72	5	3	1	7
Murton Welfare Association	3	0	0	3	0	0	0	0
Peterlee Fire Company	2	0	1	1	0	1	0	1
Sedgefield Homes	144	10	12	142	21	2	0	23
Taylor Shaw	37	11	6	42	5	0	0	5
Teesdale Housing	8	0	0	8	2	0	0	2
The Forge	2	0	0	2	0	0	0	0
Three Rivers Housing	2	0	0	2	0	0	0	0
Former Employers	0	0	0	0	370	7	1	376
Commission for New Towns	0	0	0	0	5	2	0	7
Totals	**17,235**	**1,267**	**1,665**	**16,837**	**16,049**	**908**	**571**	**16,386**

DISTRIBUTION OF INVESTMENTS

UK EQUITIES

The following twenty largest holdings account for 85.3% of the Fund's investment in UK equities and 16.5% of the total Fund investments:

Holding	*Market Value as at 31 March 2013*
	£000
British American Tobacco	32,387
Standard Chartered	32,303
Compass Group	32,201
Next	29,532
British Sky Broadcasting	27,667
B G Group	25,336
Wolseley	21,598
Rio Tinto	20,552
Melrose	16,590
Reckitt Benckisser	16,383
John Wood	14,731
Tullow Oil	14,003
Shire	11,647
Astrazeneca	9,997
Barclays	9,845
B H P Billiton	7,573
Johnson Mathey	7,238
Easyjet	5,243
Cairn Energy	4,598
Royal Dutch	3,626
	343,050

FIXED INTEREST HOLDINGS

The following ten largest holdings account for 56.3% of the Fund's fixed interest holdings and 13.1% of the total portfolio:

Holding	***Market Value as at 31 March 2013***
	£000
Treasury 2.5% Index Linked 14/04/20	35,159
Treasury 2.5% Index Linked 26/07/16	32,436
Treasury 0.625% Index Linked 22/03/40	30,558
Treasury 0.75% Index Linked 22/03/34	29,777
Treasury 1.125% Index Linked 11/55	29,226
Treasury 0.125% Index Linked 22/03/29	28,375
Treasury 1.625% Index Linked 15/08/22	28,152
Treasury 0.5% Index Linked 22/03/50	25,775
Treasury 1.125% Index Linked 11/37	17,847
Treasury 2% Index Linked 26/01/35	15,245
	272,550

FUNDS AND UNITS

The following ten holdings account for 82.2% of the Fund’s holdings in Managed and Unitised Funds and 44.1% of the total Fund investments:

Holding	***Market Value as at 31 March 2013***
	£000
Aquila Life World Equity Fund	480,022
Alliance Bernstein Diversified Yield	301,217
Axa funds US Shares High Yield	26,649
Schroder UK Alpha plus	22,715
Neuburger Berman High Yield Bonus	20,694
I Shares MSCI Emerging Mkts	18,377
Source Physical Mkts Security Gold Linked notes	14,118
BAM global growth	13,472
ING Lux Flx Sen	11,971
BAM Themed Equity Fund	9,741
	918,976

OVERSEAS HOLDINGS

The following ten largest overseas equity holdings account for 23.5% of the Fund's investment in overseas equities and 0.4% of the total portfolio:

Holding	***Market Value as at 31 March 2013***
	£000
Toyota Motor Corp	1,246
Mitsubishi UFJ Financial	1,119
Sumitomo Mitsui Financial	828
Denso	740
Tokio Marine Holdings	710
Seven and I Holdings	663
Antofagusta	663
Altus Resources Capital	657
Tokyo Gas	650
Sumitomo Mitsui Trust	642
	7,918

PROPERTY HOLDINGS

The following holdings in property comprise 42.7% of the Fund's investment in Property and 3.0% of the total portfolio:

Holding	***Market Value as at 31 March 2013***
	£000
Prime Property Fund	10,759
Hines US Core Office Fund	8,680
C B Ellis Asia Alpha Fund 1	8,268
BAM multi Manager Property Fund	6,507
Old Mutual Fd	5,735
Prologis Targeted US Logistics	5,419
C B Ellis Asia Alpha Fund 2	5,353
PECO- ARC Inst Joint Venture	4,281
ING Clarion Lion Prop Fund	4,174
Henderson UK Shopping Centre	4,112
	63,288

Glossary of Terms

Academy School

Academy Schools are directly funded by Government and are independent of the County Council's control.

Accounting Period

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACE

Assistant Chief Executives Service

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the County Council.

Amortisation

Amortisation is the equivalent of depreciation for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Assets

An item having a monetary value to the County Council, e.g. property, investments or cash.

Area Based Grant

A general grant, allocated by Central Government. There is no restriction on how the grant is spent.

Assets Held for Sale

Long term assets that are surplus to the County Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets Under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the County Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the County Council's financial affairs.

Available for Sale Financial Instruments Reserve

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

AWH

Adult, Wellbeing and Health Service

Balance Sheet

This is a financial statement that shows the financial position of the County Council at a point in time, the balance sheet date, which for the County Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Best Value Accounting Code of Practice (BVACOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the County Council.

Budget

The Council's plans and policies for the period concerned, expressed in financial terms.

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

CLG

Department for Communities and Local Government

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

Capital Expenditure

Expenditure on the acquisition or construction of non-current assets that have a value to the County Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement (CFR)

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the County Council's Minimum Revenue Provision.

Capital Grants Unapplied Account

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CIES) but where expenditure has not yet been incurred

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives. The County Council's accounting policy is detailed in paragraph 19 of the Accounting Policies.

Comprehensive Income and Expenditure Account (CIES)

This statements reports the net cost of services for which the County Council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingent Asset

Potential benefits that the County Council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the County Council may incur in the future due to something that has happened in the past.

Corporate Democratic Core

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Creditors

Persons or bodies to whom sums are owed by the County Council.

CSR

Comprehensive Spending Review.

CYPS

Children and Young Peoples' Service

Debtors

Persons or bodies who owe sums to the County Council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

Direct Revenue Financing

The cost of capital projects that is financed directly from the annual revenue budget.

Direct Service Organisations (DSOs)

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

Equities

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

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Finance Lease

A lease that transfers substantially all of the risks, and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

Financial Instrument

A contract that gives rise to a financial assets of one entity, and a financial liability, or equity instrument of another.

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Formula Grant

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

Foundation Schools

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

Futures

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

Going Concern

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

Government Grants

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the County Council.

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

Housing Revenue Account (HRA)

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originated from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applies to the County Council's Statement of Accounts for the first time in 2010/11.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and do fall within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

LGR

Local Government Re-organisation.

Local Authority Business Growth Incentive Grant (LABGI)

A reward for promoting growth in local businesses.

Local Public Service Agreement Performance Reward Grant (LPSA)

A reward for achieving more demanding performance in the delivery of local services.

Long-Term Investments

Investments intended to be held for use on a continuing basis in the activities of the County Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

Major Repairs Allowance (MRA)

The MRA is an element of housing subsidy, and represents the capital cost of keeping HRA dwellings stock in its current condition. It largely replaces credit approvals as a means of financing HRA capital expenditure.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

Mid-market price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the County Council analysed into 'usable reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the County Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

Net Expenditure

The actual cost of a service to the County Council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Non Distributed Costs

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

Non-Operational Assets

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

NS

Neighbourhood Services

Operating Lease

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

Operational Assets

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Outturn

Actual expenditure within a particular year.

PCT

Primary Care Trust.

Past Service Cost

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Precept

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

Precept Income

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

Prior Period Adjustment

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

A government initiative that enables authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

RED

Regeneration and Economic Development Service.

Related Party

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

RES

Resources Service

Reserves

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the County Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue Expenditure Funded from Capital Under Statute

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

Revenue Support Grant (RSG)

A Government grant that can be used to finance expenditure on any service.

RICS

Royal Institution of Chartered Surveyors

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.

SIP

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Subsidiary

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

Supported Capital Expenditure (SCE)

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Properties

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the County Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Usable Capital Receipts Reserve

Represents the resources held by the County Council from the sale of non-current assets that are yet to be spent on other capital projects.

Unusable Reserves

Unusable reserves are reserves that the County Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Reserves

Usable reserves are reserves that the County Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the County Council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.

Contacts for Further Information

For further information on issues relating to the Pension Fund, please contact the Corporate Director - Resources.

Telephone 0300 123 7070

E-mail HELP@DURHAM.GOV.UK

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