



Pension Fund Committee

Date **Tuesday 6 December 2011**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

1. Declarations of interest (if any)
2. The Minutes of the Last Meeting held on 29 September 2011
 (Pages 1 - 4)
3. Graphs showing recent movements of the Stock and Share
 Indices (Pages 5 - 20)
4. Graphs showing recent movements of the major currencies
 against sterling (Pages 21 - 26)
5. Performance Measurement Report (Pages 27 - 36)
6. Pension Fund Investments (Pages 37 - 42)
7. Government Consultation on Changes to the Local Government
 Pension Scheme (Pages 43 - 48)
8. Academy Schools in the Pension Fund (Pages 49 - 50)
9. Such other business as, in the opinion of the Chairman of the
 Meeting is of sufficient urgency to warrant consideration

10. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

11. The Minutes of the Last Meeting held on 29 September 2011 (Pages 51 - 58)
12. Report of the Pension Fund Advisor (Pages 59 - 66)
13. Report of Blackrock (Pages 67 - 78)
14. Report of Alliance Bernstein (Pages 79 - 116)
15. Report of CB Richard Ellis (Pages 117 - 140)
16. Report of Edinburgh Partners (Pages 141 - 178)
17. Report of Royal London Asset Management (Pages 179 - 234)
18. Report of Barings Asset Management (Pages 235 - 242)
19. Internal Audit Progress Report (Pages 243 - 266)
20. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Colette Longbottom
Head of Legal and Democratic Services

County Hall
Durham
28 November 2011

To: The Members of the Pension Fund Committee

County Council Members:

Councillors Andy Turner, N Martin, C Carr, J Chaplow, A Hopgood, P Jopling, J Lethbridge, D Morgan, R Ord, G Richardson and R Todd

Darlington Borough Council Members

Councillor I G Hazeldine
(vacancy)

Scheduled Bodies Representative

Mr D Sanders

Admitted Bodies Representative:

Mr K Tallintire

Pensioner Representative

Mrs O Brown

Active Members Representative

(vacancy)

Further Education Colleges Representative

(vacancy)

Advisers:

County Council Officers

Chief Executive	G Garlick
Corporate Director, Resources	D McLure
Head of Legal and Democratic Services	C Longbottom
Principal Finance Officer – Strategic Finance	H Appleton

Independent Advisers

P J Williams
H Prior

Investment Managers

Alliance Bernstein
Barings Asset Management
Blackrock
CBRE
Edinburgh Partners

Staff Observers

UNISON	N Hancock
GMB	

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2 - County Hall, Durham on **Thursday 29 September 2011 at 1.00 pm**

Present:

Councillor N Martin (Chair)

Members of the Committee:

Councillors C Carr, J Chaplow, P Jopling and R Ord

Apologies:

Apologies for absence were received from Councillors Andy Turner, A Hopgood, J Lethbridge, D Morgan, G Richardson and R Todd, and D Sanders

Also Present:

Admitted Bodies Representative

K Tallintire

Durham County Council Officers:

Corporate Director, Resources – D McLure

Litigation Manager – B Smith

Principal Finance Officer – Strategic Finance – H Appleton

Payroll and Pensions Manager – N Orton

Independent Advisers;

P J Williams

PSolve Asset Solutions – H Smith

D Banks

C Archer - Actuary

1 Declarations of interest (if any)

Councillor Carr declared a personal but not prejudicial interest in the reference made to Premier Waste, considered under matters arising from the Minutes.

2 The Minutes of the last Meeting held on 6 June 2011

The Minutes of the Meeting held on 6 June 2011 were agreed as a correct record and were signed by the Chair.

Matters Arising from the Minutes

A Member referred to the increase in the number of employees accessing the scheme at 55 and the strain placed on the Pension Fund because of early retirement applications. He asked for clarification as to whether these costs were met from reserves.

N Orton, Payroll and Pensions Manager responded that the early retirement costs were not but redundancy payments were met from reserves at present. In respect of Durham County Council and Darlington Borough Council early retirement costs were met by increased employer contributions. Other employers in the Scheme were required to make an additional contribution.

In response to a further question in relation to other employers within the Scheme, N Orton explained the meaning of admitted bodies and what was required for organisations to be eligible to join the DCC Pension Fund.

The Member also had a number of questions in relation to Premier Waste and it was agreed that this be discussed with the Member direct.

RESOLVED

That the information given, be noted.

Actuarial Valuation as at 31 March 2010

Members were advised that C Archer from AonHewitt, the Pension Fund Actuary was present to respond to queries that Members had at the last meeting in relation to assumptions around salary increases.

C Archer outlined to Members the Fund's experience between the 2007 and 2010 valuation, the 2010 valuation results, salary increase assumption and the Fund's experience since the 2010 valuation.

With regard to the salary increase assumption he advised that this was a long term assumption amounting to 40 plus years for young members. Historically salary increases had been 1% to 2% above RPI on average and RPI plus 1.5% per annum was used for the long term assumption. Evidence showed that salaries tended to increase more rapidly following restraint and promotional salary increases tended to be higher during inflationary pay restraint.

In addition, during the current phase of economic cycle it was expected that salary increases would be depressed, investment returns would be lower and fewer people would leave an organisation.

A Member commented that people were living longer and had greater expectations when they retired. He therefore suggested that employees contributions should be increased, although it was considered by other Members that this would be unreasonable given the current pay freeze.

N Orton stated that the latest proposal from the employer's side suggested an increase in employee contributions. Employees could elect not to pay the additional amount but would earn a lower accrual rate. Those on an annual salary of less than £15k would be protected.

Following discussion it was

RESOLVED

That the information given, be noted.

3 Graphs showing recent movements of the Stock and Share Indices

Consideration was given to graphs showing recent movement in the Stock and Share Indices, a copy of which had been circulated.

RESOLVED

That the information given, be noted.

4 Graphs showing recent movements of the major currencies against sterling

Consideration was given to graphs showing recent movement in the major currencies against sterling, a copy of which had been circulated.

RESOLVED

That the information given, be noted.

5 Performance Measurement Report

Consideration was given to the report of the Corporate Director, Resources which provided an overview of the Fund to date, a copy of which had been circulated.

RESOLVED

That the information given, be noted.

6 Pension Fund Investments

Consideration was given to the report of the Corporate Director, Resources which gave details of the overall value of the Pension Fund as at 30 June 2011, of the additional sums available to the Managers for further investment and of the result of the latest Fund Rebalancing, a copy of which had been circulated.

RESOLVED

That the information given, be noted.

- 7 Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration**

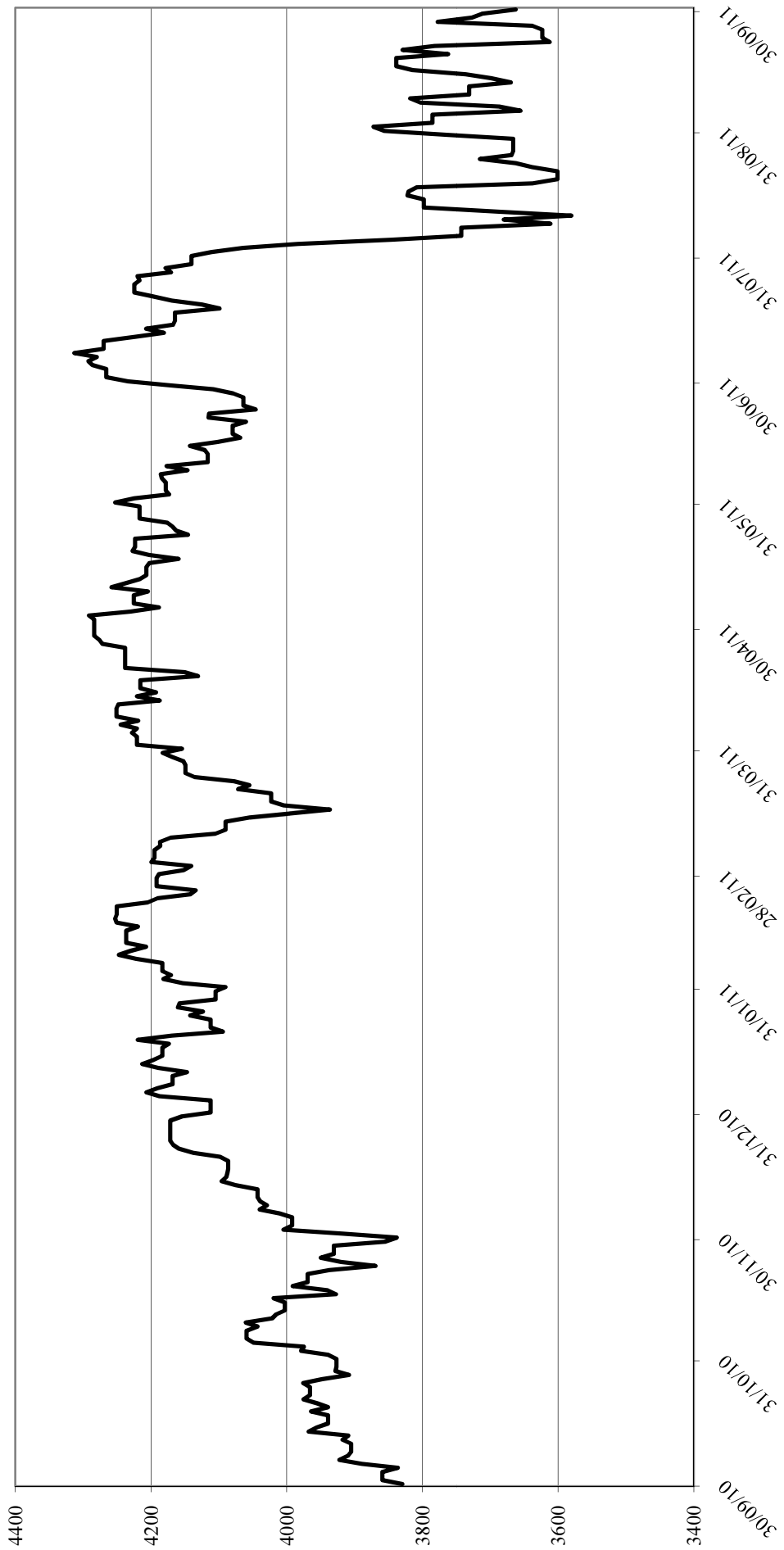
**Annual Governance Report
Durham County Council Pension Fund Audit 2010/2011**

Consideration was given to the report produced by the Audit Commission in relation to the audit of the Durham County Council Pension Fund Audit 2010/2011, a copy of which had been circulated.

RESOLVED

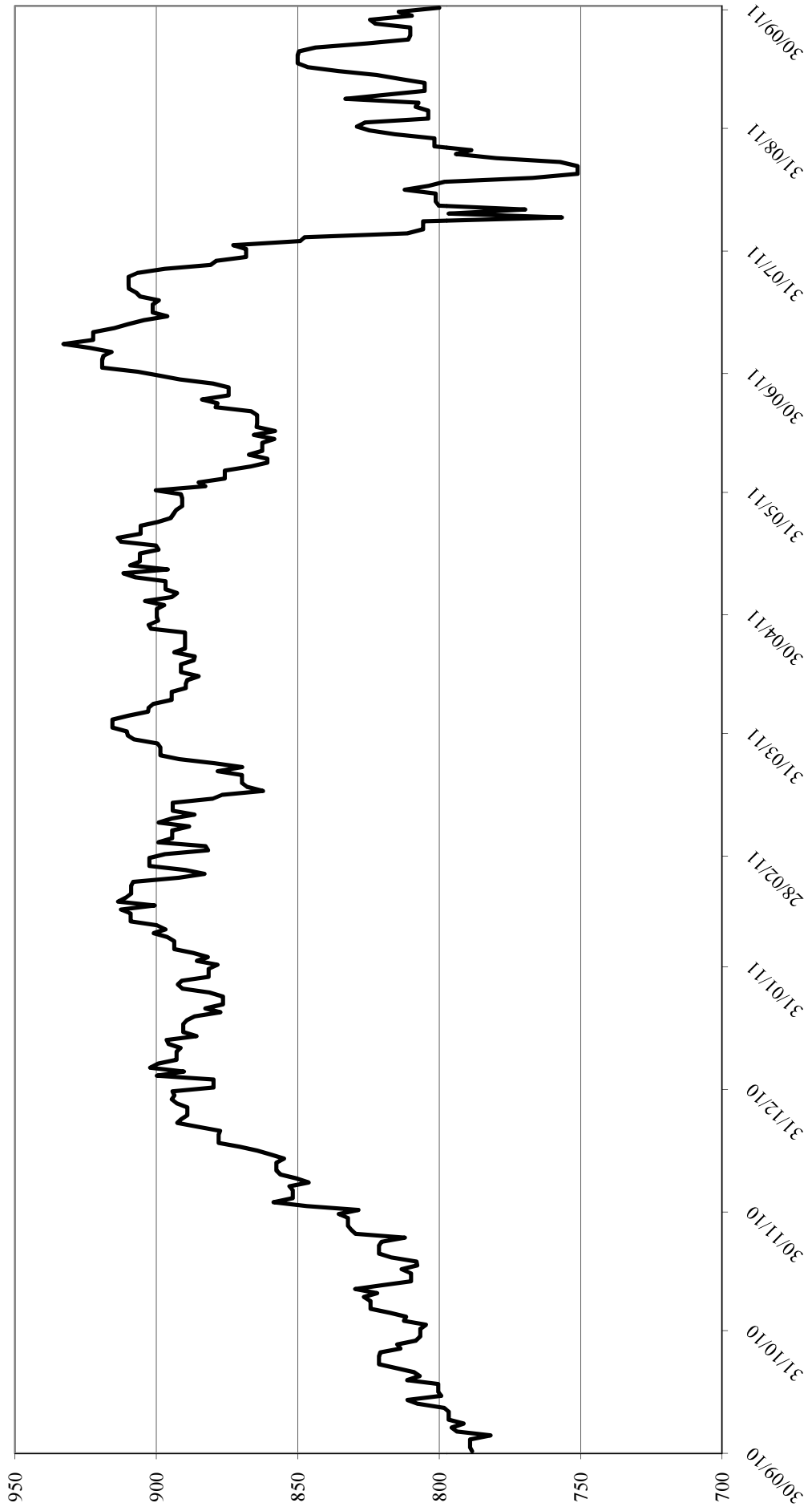
That the information given, be noted.

FTSE All Share



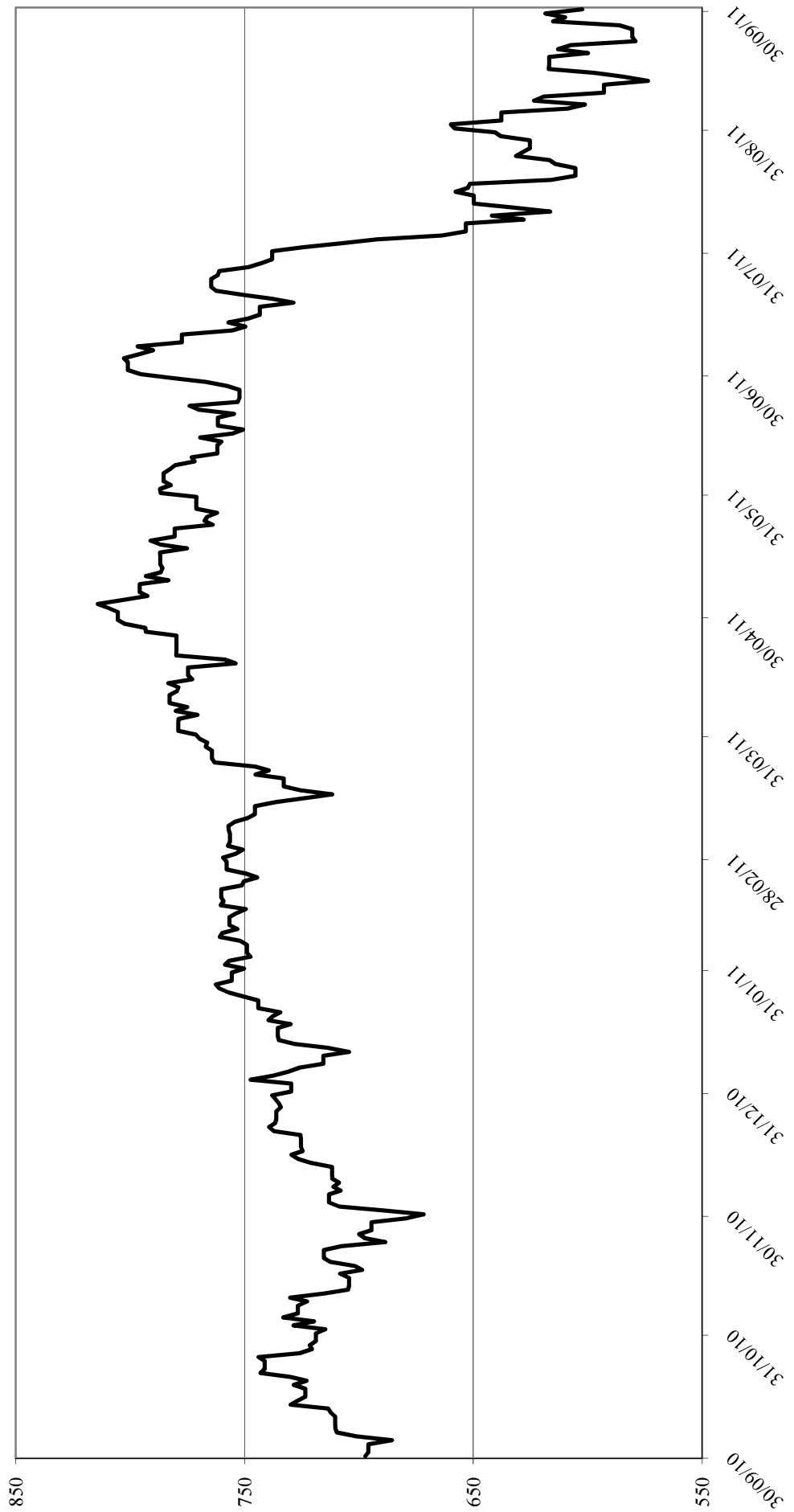
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FTSE N. America



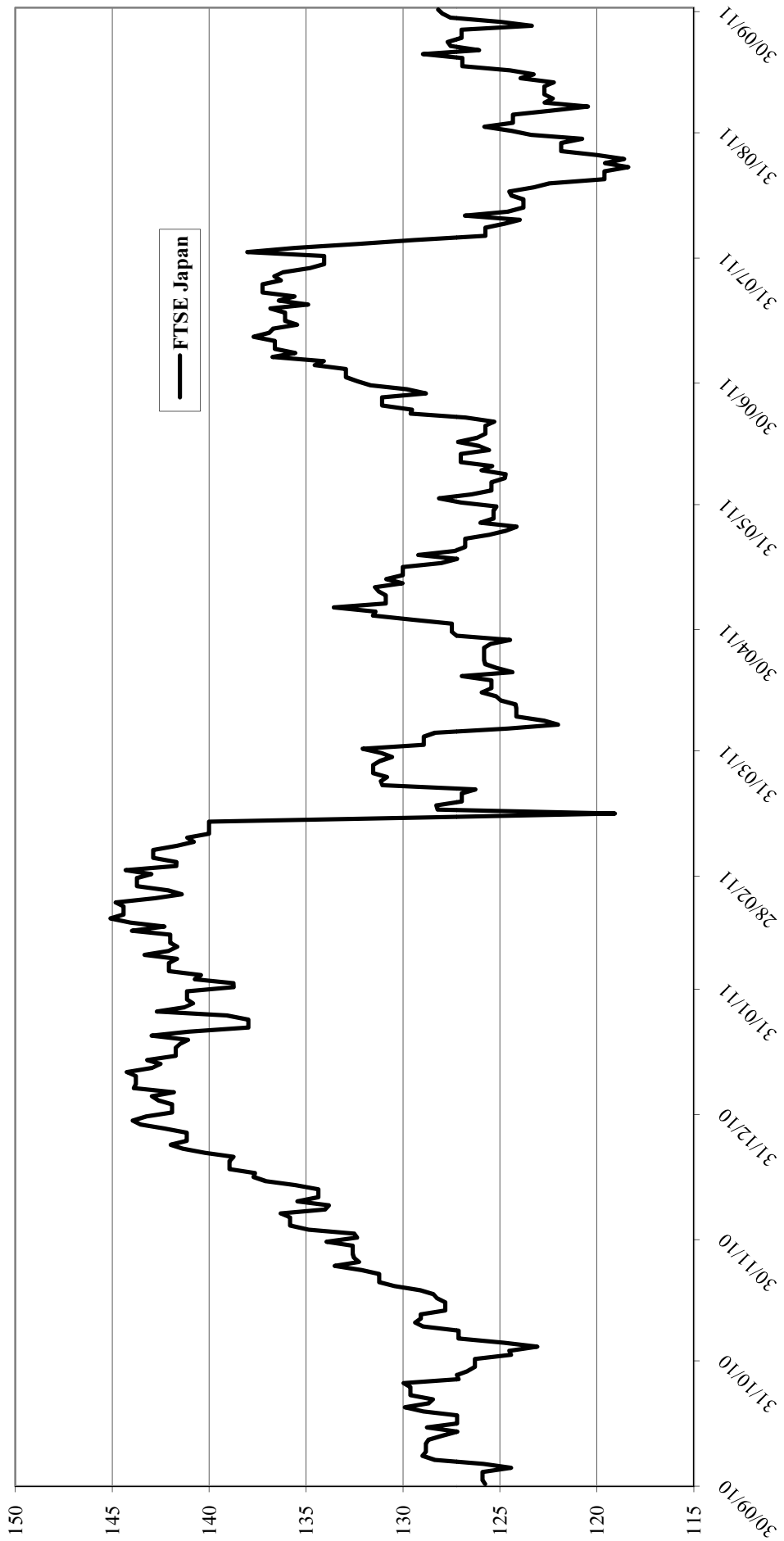
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FTSE Europe



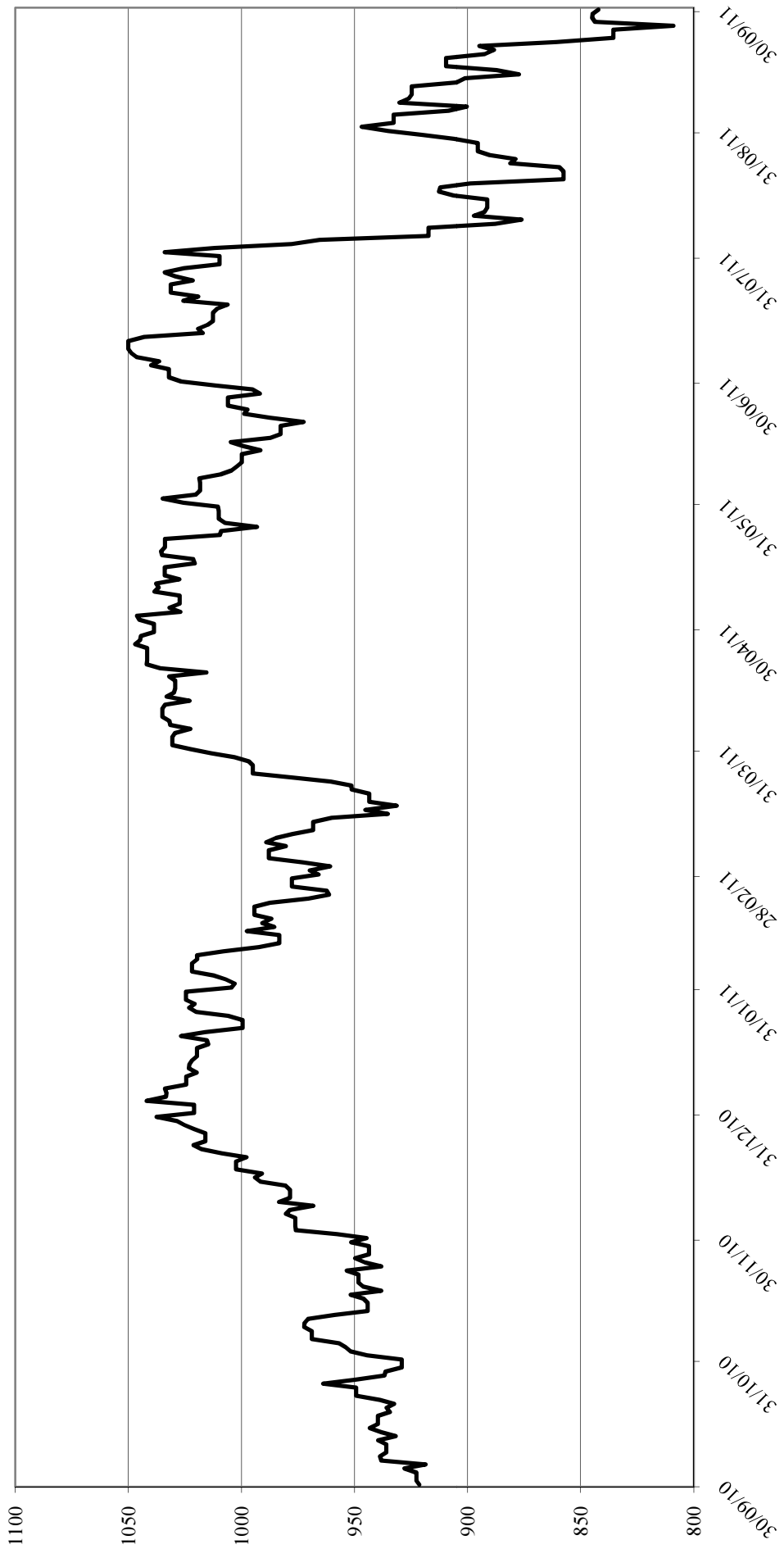
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FTSE -Japan



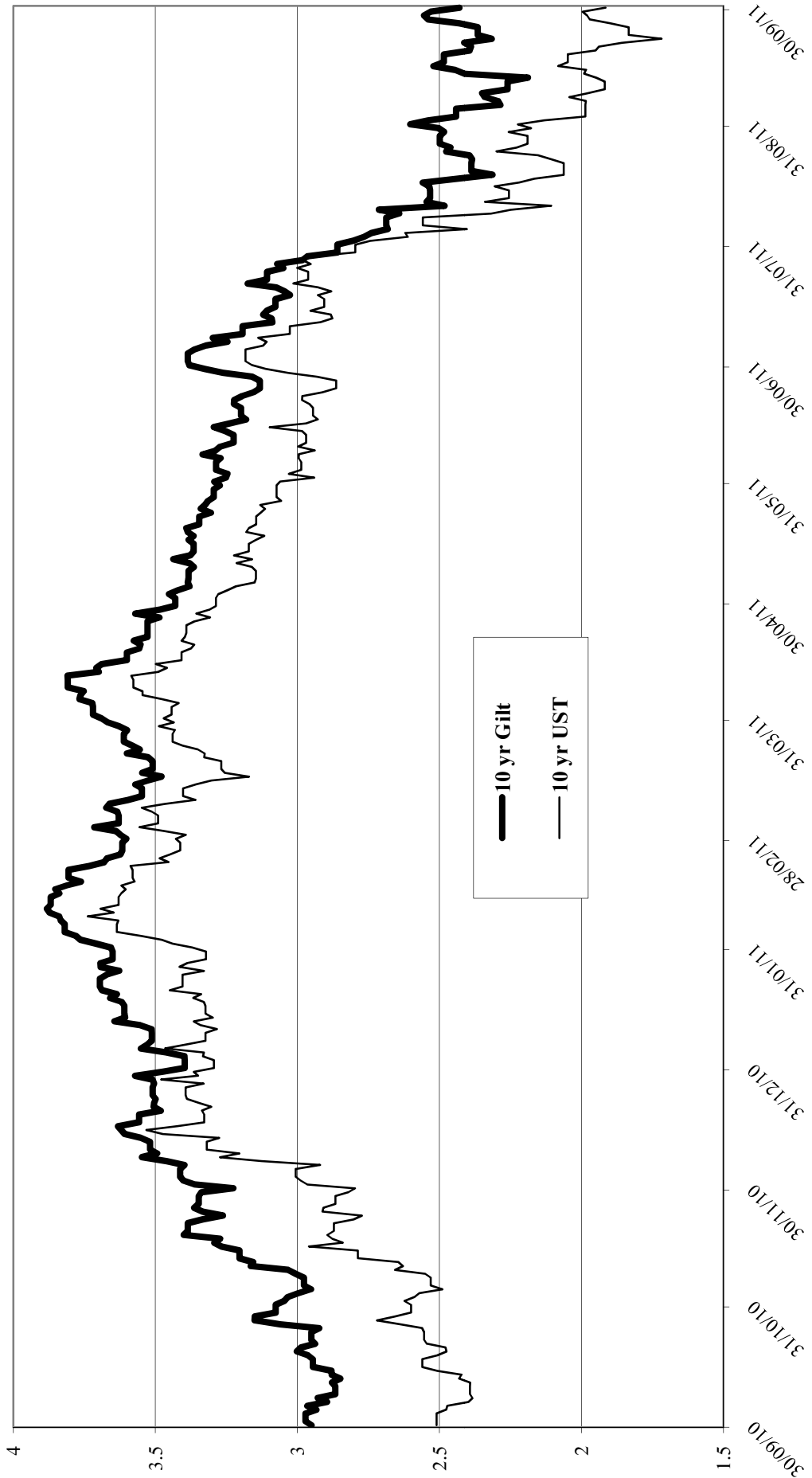
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FTSE Asia-Ex-Japan



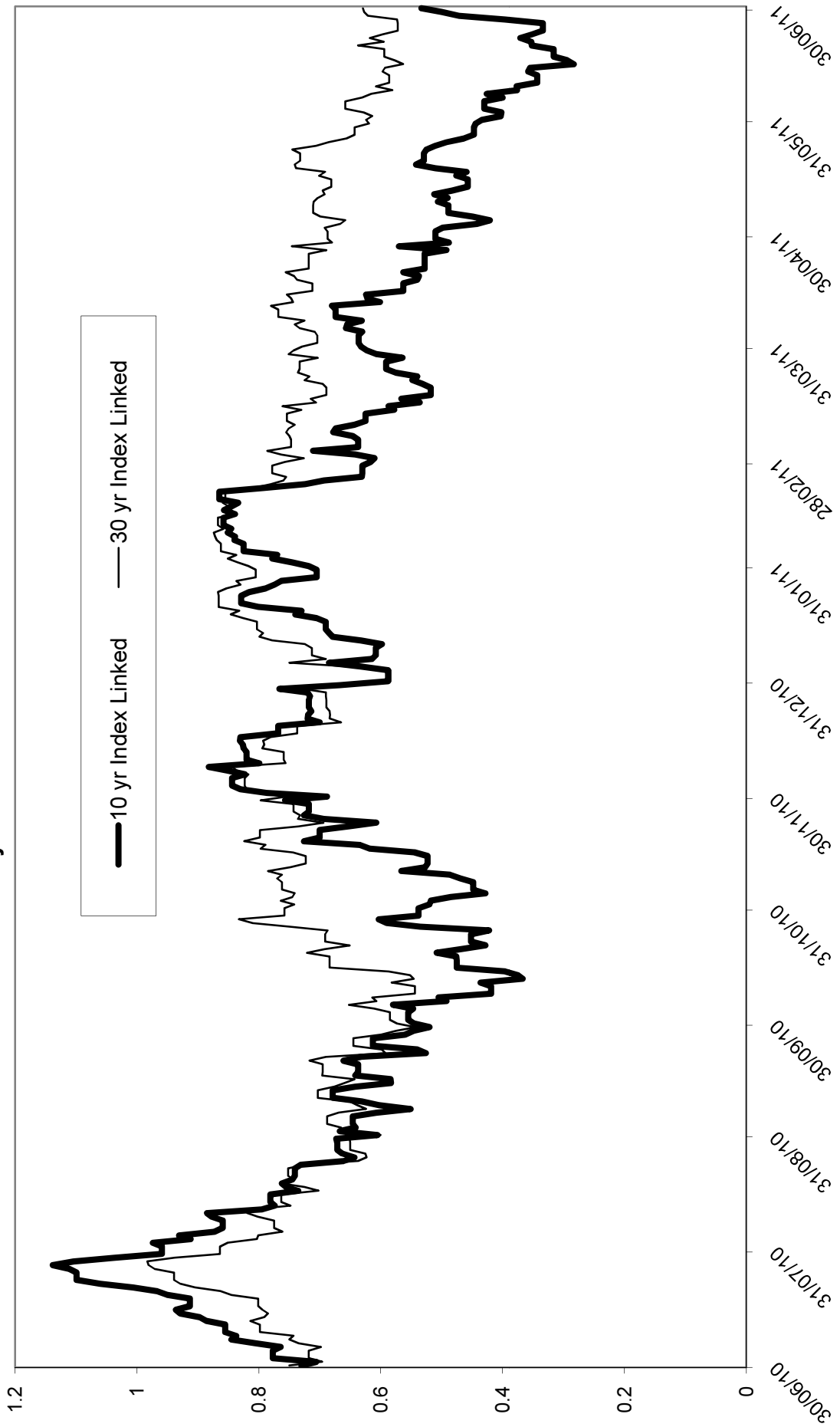
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10 yr US and UK Bond Yields



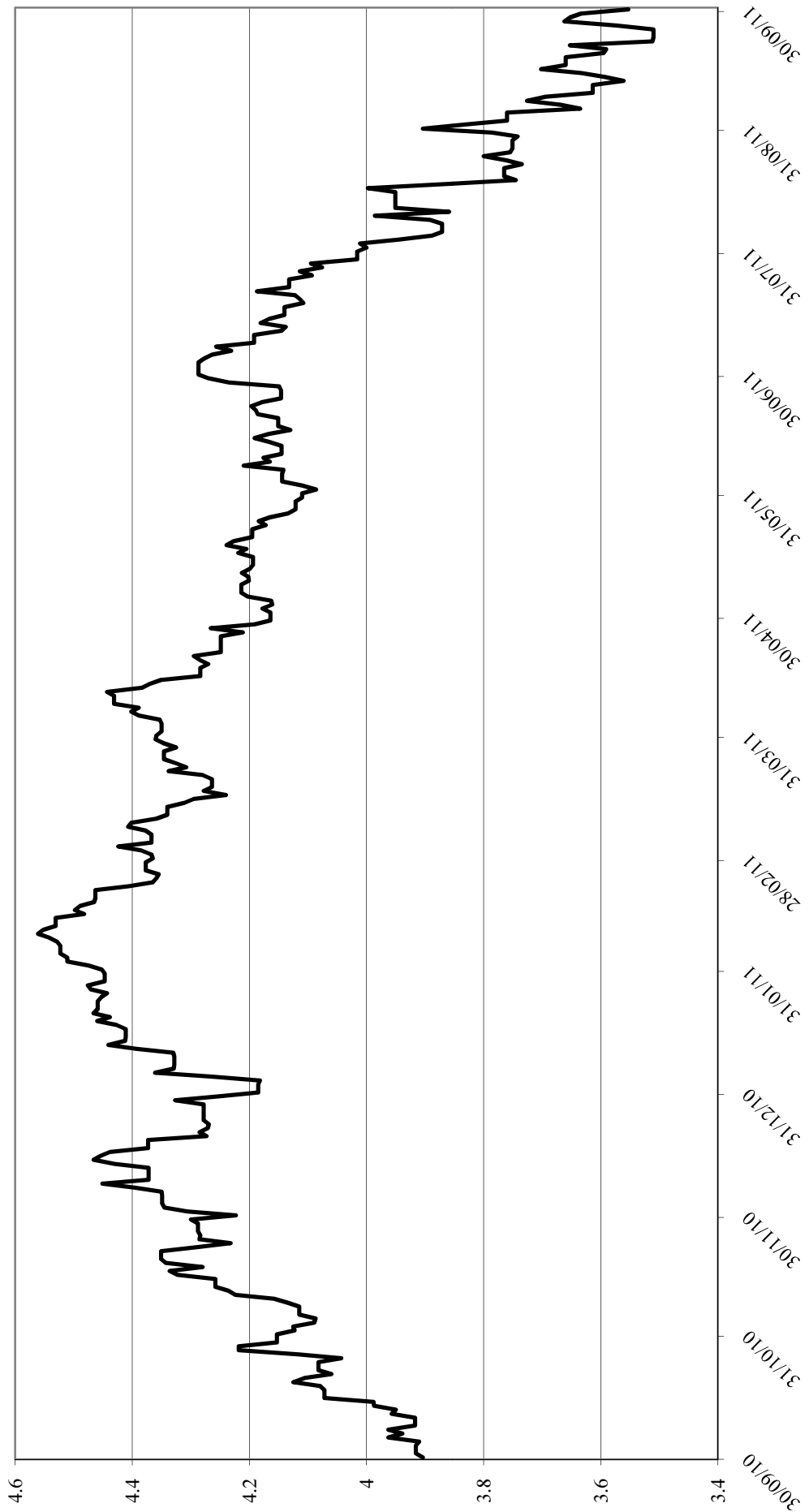
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30yr and 10Yr Index-Linked Gilts



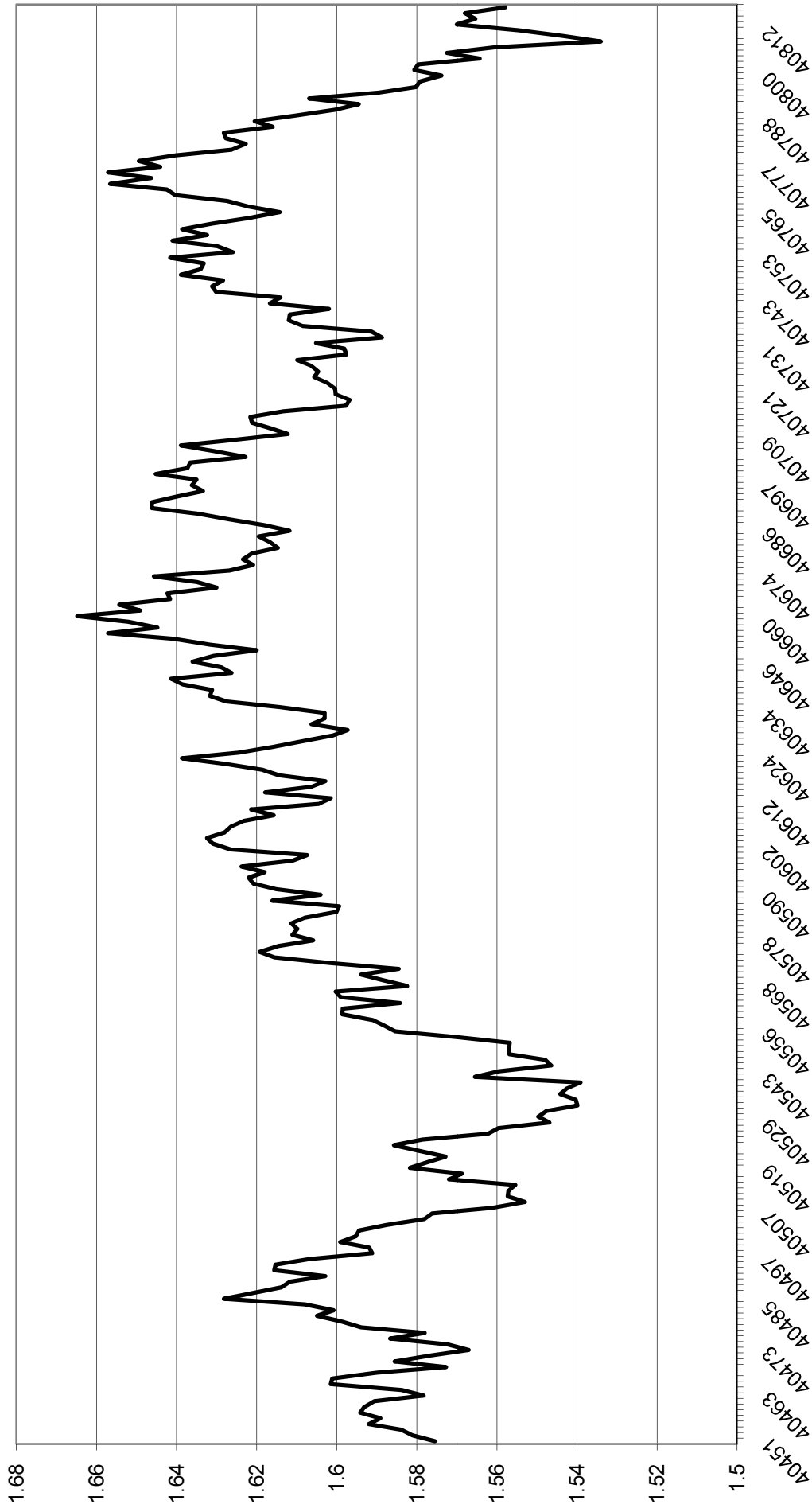
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30 yr Gilt



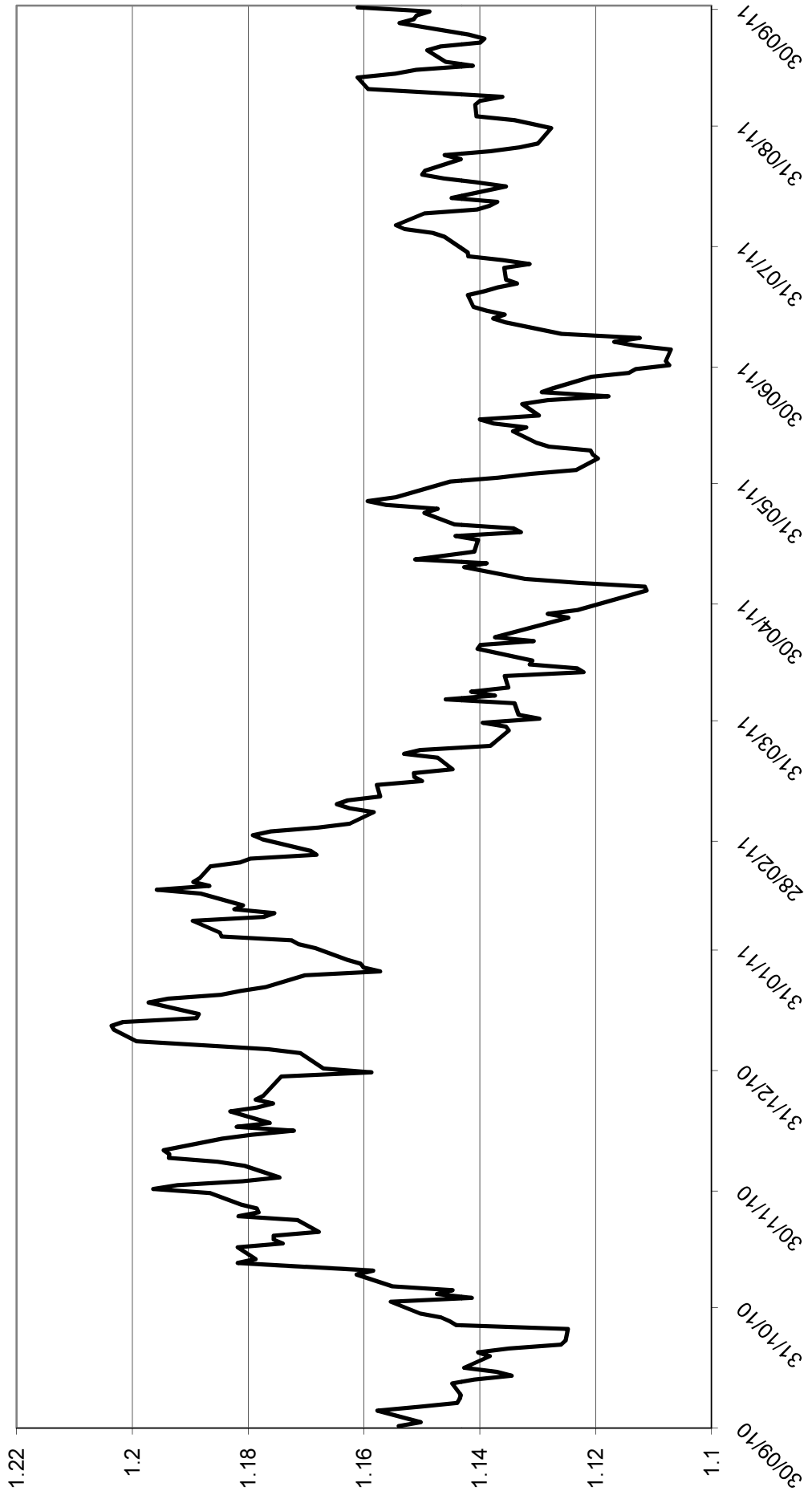
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US\$ vs. £



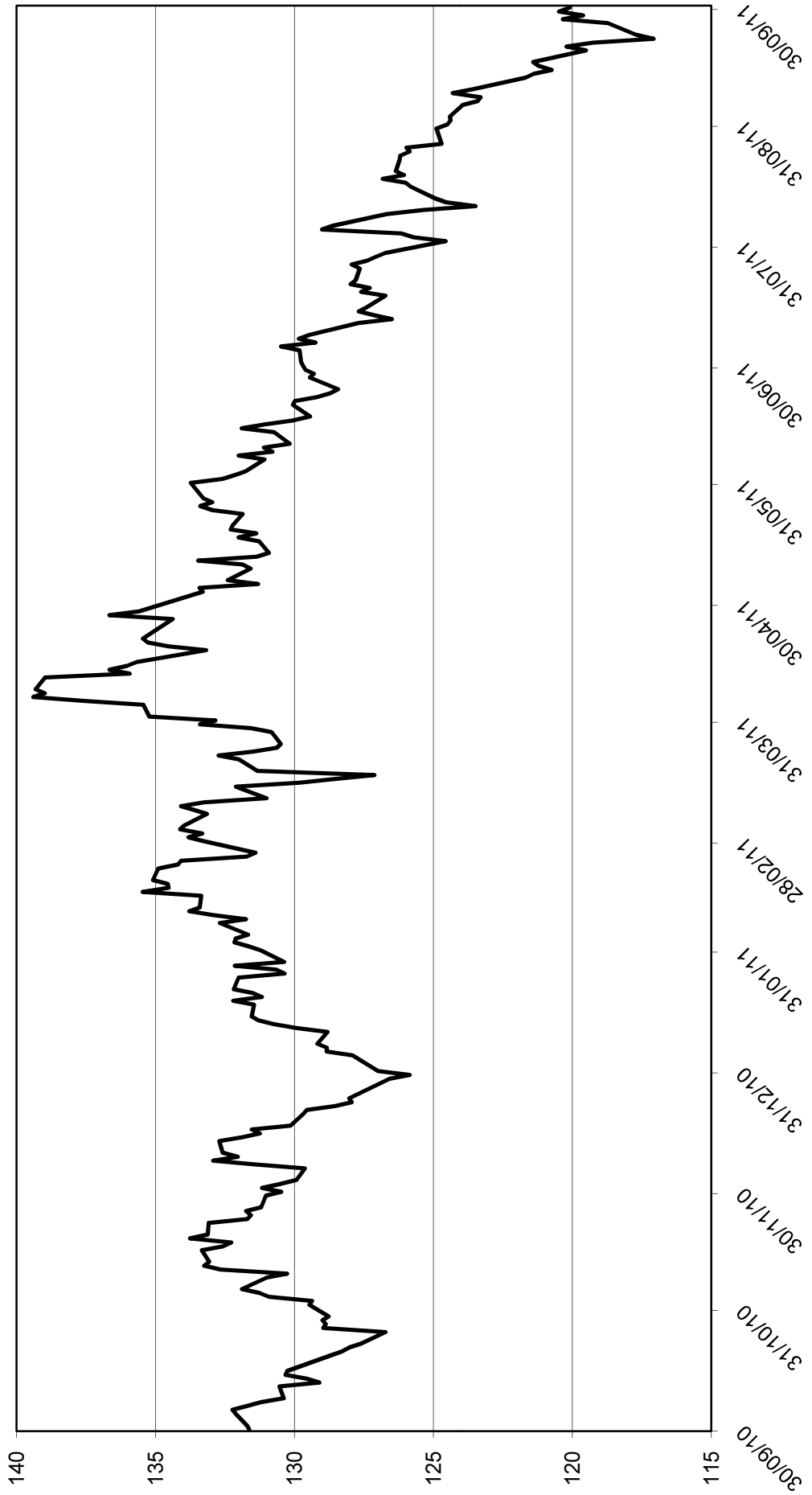
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€ vs. £



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£ vs. Yen



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Pension Fund Committee

6 December 2011



Performance Measurement Report

Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 The purpose of the report is to provide an overview for Members of the performance of the Fund to date.

Background

- 2 The performance of the six Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JPMorgan, the Fund's custodian, shows:-
 - (a) The Managers benchmarks.
 - (b) The total Fund performance, for the quarter, year to date and since inception.
 - (c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter, year to date and since inception.
 - (d) A portfolio comparison for the quarter ended 30 September 2011 and for the period since inception.

Recommendation

- 3 Members note the information contained in this report.

Contact: Hilary Appleton Tel: 0191 3833544

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J.P.Morgan

Worldwide Securities Services

**Performance Measurement Report
for
Durham County Council Pension Fund**

*for period ending
September 30, 2011*

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Benchmark Association Table

PORTFOLIO	INDEX	TARGET	WEIGHT %
Edinburgh Partners	MSCI AC World Index (Gross)	+3% pa	100.00
Blackrock	FTSE All Share (Gross)	+3% pa	100.00
Alliance Bernstein	GBP Libor (3 month)	+3% pa	100.00
Royal London	FTSE index Linked >5 years	+0.5% pa	100.00
Barings	GBP Libor (3 month)	+4% pa	100.00
CBRE 1	Headline RPI	+5% pa	100.00
CBRE 2	Headline RPI	+5% pa	100.00
Re Alliance Bernstein PPIP	GBP Libor (3 month)	+3% pa	100.00
Total Plan Composite	Manager Weighted benchmark	Not Applicable	100.00

Executive Summary of Total Plan as at 30/09/2011

Overview

During the quarter the total market value of the Durham County Council Pension Plan decreased by -£100.88m to £1,683.16m. There were contributions into the plan totalling £7.71m over the quarter, so net losses were therefore -£108.59m.

The performance return for the Plan over the third quarter of 2011 was -6.07%, compared to the Plan benchmark return of -4.54%. The Plan therefore underperformed the benchmark by -1.52%.

Equity markets were down over this quarter with the FTSE All Share (+3%) falling around -12.85% and the MSCI AC World index (+3%) also down by around -14.16% in Sterling terms. Index Linked bonds were up with the FTSE index linked over 5 years index (+0.5%) increasing by around +7.9%.

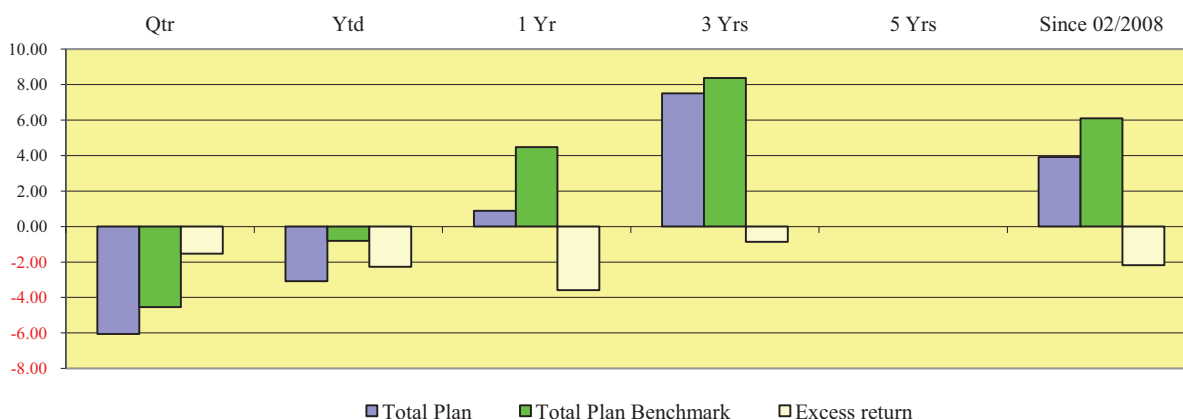
Market Values

	In GBP mil's			
	Qtr 3 - 11	Qtr 2 - 11	Qtr 1 - 11	Qtr 4 - 10
Total Plan	1,683.16	1,784.05	1,751.57	1,724.36

Performance

	Performance (%) *					
	Qtr	Ytd	1 Yr	3 Yrs	5 Yrs	Since 02/2008
Total Plan	-6.07	-3.09	0.89	7.5	-	3.92
Total Plan Benchmark	-4.54	-0.81	4.48	8.4	-	6.09
<i>Excess return</i>	<i>-1.52</i>	<i>-2.28</i>	<i>-3.58</i>	<i>-0.87</i>		<i>-2.18</i>

Total Plan Performance

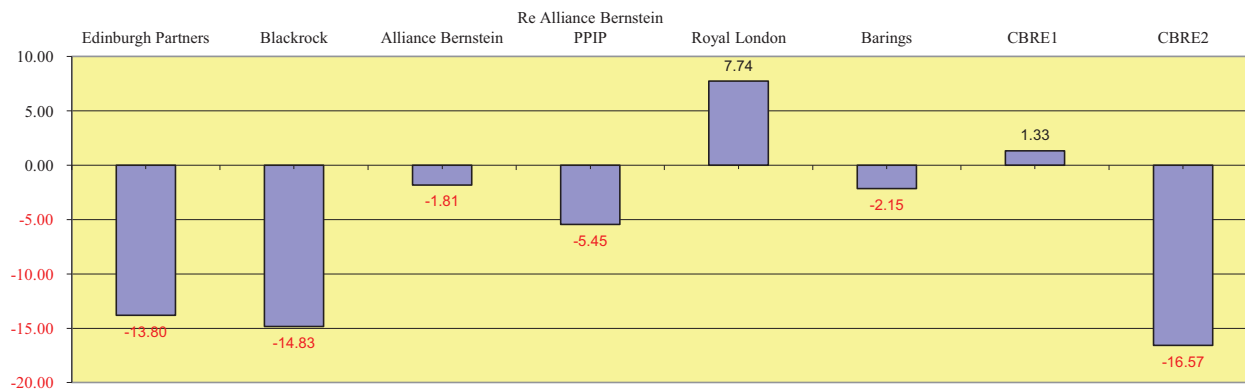


Total Plan Performance Returns as at 30/09/11

Currency GBP	Mkt. Val. in Mil's	Performance (%) *					
		Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
Total Plan	1683.2	-6.07	-3.09	0.89	5.52	7.5	3.92
Total Plan Benchmark		-4.54	-0.81	4.48	7.76	8.4	6.09
<i>Excess return</i>		-1.52	-2.28	-3.58	-2.24	-0.87	-2.18

	Mkt. Val. in Mil's	Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
Edinburgh Partners	432.1	-13.80	-12.94	-7.58	-2.67	3.2	0.69
MSCI AC World Index (Gross) +3% pa		-14.16	-10.81	-1.58	5.87	9.0	5.05
<i>Excess return</i>		0.36	-2.13	-6.00	-8.54	-5.76	-4.36
Blackrock	312.8	-14.83	-9.98	-3.87	7.55	11.2	1.63
FTSE All Share (Gross) +3% pa		-12.85	-8.77	-1.30	6.94	9.3	3.38
<i>Excess return</i>		-1.98	-1.21	-2.57	0.61	1.94	-1.75
Alliance Bernstein	260.1	-1.81	0.78	1.31	5.14	5.8	3.95
GBP Libor +3% pa		0.97	2.86	3.81	3.74	4.2	5.01
<i>Excess return</i>		-2.78	-2.08	-2.50	1.39	1.55	-1.06
Re Alliance Bernstein PPIP	23.4	-5.45	-6.11	-1.06	-	-	11.82
GBP Libor +3% pa		0.97	2.86	3.81	-	-	3.76
<i>Excess return</i>		-6.41	-8.97	-4.88	-	-	8.06
Royal London	404.1	7.74	12.58	13.66	12.04	9.5	8.69
FTSE index Linked >5 years +0.5% pa		7.90	12.99	14.37	12.19	9.4	8.50
<i>Excess return</i>		-0.16	-0.41	-0.71	-0.14	0.10	0.19
Barings	142.6	-2.15	-0.36	3.09	6.86	10.6	7.27
GBP Libor +4% pa		1.21	3.61	4.82	4.75	5.3	6.03
<i>Excess return</i>		-3.36	-3.97	-1.73	2.12	5.31	1.24
CBRE1	80.0	1.33	5.98	9.01	10.06	-1.20	-4.25
Headline RPI +5% pa		2.38	8.02	10.84	10.35	8.0	8.50
<i>Excess return</i>		-1.05	-2.04	-1.83	-0.29	-9.22	-12.75
CBRE2	28.0	-16.57	-15.34	-10.15	2.62	11.7	-2.01
Headline RPI +5% pa		2.38	8.02	10.84	10.35	8.0	8.50
<i>Excess return</i>		-18.96	-23.36	-20.99	-7.73	3.68	-10.51

Manager Quarterly Returns

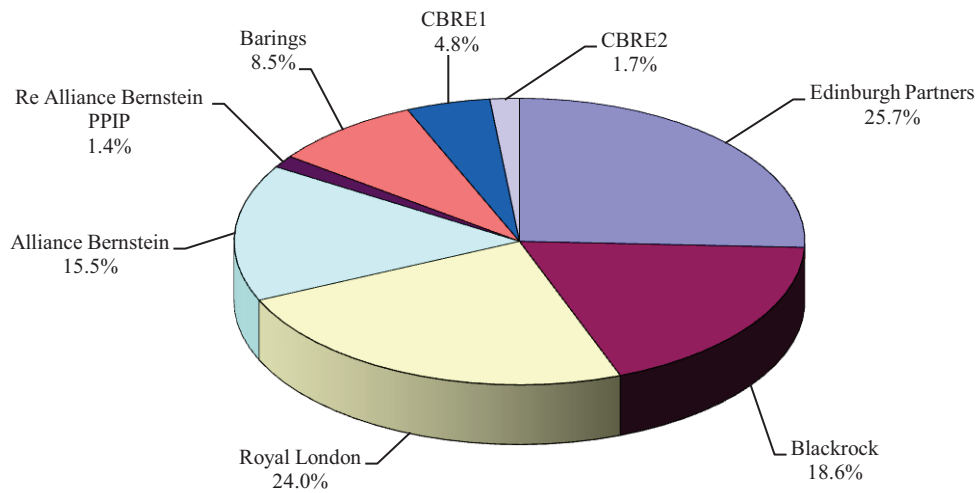


*All Portfolio and Composite returns are Gross of Fees. For time periods in excess of 1 year the performance returns are annualised.

Portfolio Comparison for Quarter 3, 2011

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	1,683,164,172	100.00%	(6.07)	(4.54)	(1.52)	
Edinburgh Partners	432,141,528	25.67%	(13.80)	(14.16)	0.36	(3.92)
Blackrock	312,755,979	18.58%	(14.83)	(12.85)	(1.98)	(3.11)
Royal London	404,103,960	24.01%	7.74	7.90	(0.16)	1.66
Alliance Bernstein	260,118,855	15.45%	(1.81)	0.97	(2.78)	(0.28)
Re Alliance Bernstein PPIP	23,381,265	1.39%	(5.45)	0.97	(6.41)	(0.08)
Barings	142,647,687	8.47%	(2.15)	1.21	(3.36)	(0.19)
CBRE1	79,996,395	4.75%	1.33	2.38	(1.05)	0.05
CBRE2	28,018,503	1.66%	(16.57)	2.38	(18.96)	(0.32)

Manager Allocation



Portfolio Comparison for Year to Date, 2011

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	1,683,164,172	100.00%	(3.09)	(0.81)	(2.28)	
Edinburgh Partners	432,141,528	25.67%	(12.94)	(10.81)	(2.13)	(3.62)
Blackrock	312,755,979	18.58%	(9.98)	(8.77)	(1.21)	(1.88)
Royal London	404,103,960	24.01%	12.58	12.99	(0.41)	2.56
Alliance Bernstein	260,118,855	15.45%	0.78	2.86	(2.08)	0.09
Re Alliance Bernstein PPIP	23,381,265	1.39%	(6.11)	2.86	(8.97)	(0.08)
Barings	142,647,687	8.47%	(0.36)	3.61	(3.97)	(0.04)
CBRE1	79,996,395	4.75%	5.98	8.02	(2.04)	0.22
CBRE2	28,018,503	1.66%	(15.34)	8.02	(23.36)	(0.29)

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Pension Fund Committee

6 December 2011

Pension Fund Investments

Don McLure, Corporate Director Resources

Purpose of the Report

1. To inform the Committee of the overall value of the Pension Fund as at 30 September 2011 of the additional sums available to the Managers for further investment and of the result of the latest Fund Rebalancing.

Value of the Fund

2. Reports from the six appointed Managers AllianceBernstein, Barings, BlackRock, CBRE, Edinburgh Partners and Royal London have been sent out with the papers but for information the Value of the Fund as at 30 September 2011 was £1,683,160,000.

Allocation of New Money

3. Table 1 details the cash position of the Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 31 December 2011.
4. In determining the amount of cash to be allocated to Managers at the quarter ended 31 December 2011, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. The amount allocated to each Manager is subject to the need to retain money to meet the Fund's net cash outflow. After taking these issues into account it was decided that £15,000,000 be recovered from the sums to be allocated to the Managers for investment in the quarter.

Fund Rebalancing

5. Table 2 showing the Cash Rebalancing matrix. The rebalancing will reflect the figures shown in the "Rebalanced" column and will take place, as agreed previously on 12 January 2012.

Recommendation

6. Members are asked to note the information contained in this report.

Contact: Hilary Appleton Tel: 0191 3833544

TABLE 1

<i>Quarter Ended</i> (1)	31.12.10		31.03.11		30.06.11		30.09.11		31.12.11
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	
Contributions - DCC	17,500,000	17,738,724	17,400,000	18,610,070	18,000,000	18,944,056	19,000,000	16,901,541	16,653,000
- Other	7,400,000	7,191,370	7,300,000	10,702,319	7,300,000	7,268,047	7,300,000	6,241,530	6,500,000
Pensions Increase	1,200,000	1,136,723	1,100,000	1,196,199	1,100,000	1,197,002	1,200,000	1,135,903	1,130,000
Transfer Values	2,000,000	1,854,135	2,000,000	3,651,384	2,700,000	1,448,215	1,200,000	3,674,295	1,500,000
Miscellaneous	1,000,000	1,029,707	500,000	969,306	500,000	11,016,068	300,000	280,367	300,000
Gross Dividend & Interest	0	0	0	0	0	43,395	51,000	51,389	40,000
Total Income	29,100,000	28,950,659	28,300,000	35,190,684	29,640,000	39,916,783	29,051,000	28,285,025	26,123,000
Payroll Paysheets	17,500,000	17,728,137	18,000,000	17,824,676	18,000,000	18,683,588	18,000,000	18,998,613	19,000,000
Payables Paysheets (incl. Managers' fees)	10,000,000	8,100,045	8,500,000	12,775,665	11,000,000	15,843,630	11,000,000	11,181,760	10,000,000
Total Expenditure	27,500,000	25,828,182	26,500,000	30,600,341	29,000,000	34,527,218	29,000,000	30,180,373	29,000,000
Surplus / (Deficit)	1,600,000	3,122,477	1,800,000	4,590,343	640,000	5,389,565	51,000	(1,895,348)	(2,877,000)
Net Capital payments/(receipts)		3,670,489		0		5,289,382		7,705,584	
Balance at Bank (opening)		25,087,188		22,235,857		26,176,601		25,206,084	
Balance at Bank (closing)		22,235,857		26,176,601		25,206,084		14,341,669	
Money paid/(recovered) to/(from Manager)		0		0		0		0	

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REBALANCING OF Durham P/F ASSETS

Strategic Fund	Benchmark Proportion	Mandate Type
Matching Fund	20%	Government Bonds
Investment Fund	80%	Various

After Rebalancing	
20.0%	333.62
80.0%	1334.48
100.0%	1668.10

	30-Sep-11 Value	%	Target	Allocation +/- £m	Rebalanced £m	%	Min %	Max %	5% Tolerance £m	Outside Limit
Matching Bond Manager										
RLAM	404.10	24.2%	20.0%	-64.9	339.15	20.3%	19.0%	21.0%	350.30	0.00
Matching Fund sub-total	404.10	24.2%	20.0%	-64.9	339.15	20.3%	19.0%	21.0%	350.30	0.00
UK Equity Manager										
Blackrock	312.80	18.8%	20.0%	26.4	339.15	20.3%	19.0%	21.0%	350.30	4.14
Broad Bond Manager										
AllianceBernstein	283.50	17.0%	16.0%	-12.2	271.32	16.3%	15.2%	16.8%	280.24	0.00
Global Equity Manager										
Edinburgh Partners	432.10	25.9%	28.0%	42.7	474.81	28.5%	26.6%	29.4%	490.42	11.61
DAA Manager										
Barings	142.60	8.5%	8.0%	-6.9	135.66	8.1%	7.6%	8.4%	140.12	0.00
Global Property Manager										
CBRE 1		0.0%								
CBRE 2		0.0%								
Allocated undrawn cash					25.4					
Sub-Total	108.00	6.5%	8.0%	0.0	108.00	6.5%	7.6%	8.4%	140.12	18.78
Investment Fund sub-total	1279.00	76.7%	80.0%	49.95	1328.95	79.7%	76.0%	84.0%	1401.20	0.00
Investments sub-total	1683.10	100.9%	100.0%	-15.00	432.43	100.0%	95.0%	95.2%	1588.67	0.00
Cash										
Internal Cash	-15.00			0.0						
Cash at Custodian	0.00			0.0						
Cash sub-total	-15.00	-0.9%	0.0%	-15.0	0.00	0.0%	0.0%	0.0%	0.00	15.00
Fund Total	1668.10	100.0%	100.0%	-30.00	1668.10	100.0%				45.39

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Pension Fund Committee

6 December 2011

Government Consultation on Changes to the Local Government Pension Scheme



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with information on the Government's consultation on changes to the Local Government Pension Scheme (LGPS), including details of recently published plans for longer term reform.

Background

- 2 As part of the Government's Spending Review the following savings are required public sector pension schemes:

2012/13	£1.2 billion
2013/14	£2.3 billion
2014/15	£2.8 billion

This is equivalent to an average contribution rate increase for contributing members of 3.2% of pensionable pay.

- 3 The LGPS has been tasked with delivering £900 million of savings by 2015. In recognition of the LGPS's unique position as the only major public sector pension scheme that is funded, the Government allowed the representatives of the LGPS employers and LGPS scheme members to negotiate and agree a way to deliver these savings. Unfortunately, as it was not possible for the employer representatives and scheme member representatives to reach a consensus, the Government has issued its own proposals set out in the current consultation.

Consultation Document

- 4 On 6th October 2011 the Government issued a consultation document which set out two options for achieving the £900 million saving by 2015. These were as follows:

Option 1

- Employee contributions to increase from 1 April 2012, with different increases applying dependent on what full-time equivalent rate of pay in individual is getting, and with increases phased in over three years :

<i>Whole-time equivalent pay</i>	<i>Rate Now</i>	<i>April 2012</i>	<i>April 2013</i>	<i>April 2014</i>	<i>Overall increase</i>
£0 - £12,900	5.5%	5.5%	5.5%	5.5%	0.0%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%	0.0%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%	0.1%
£19,401 to £21,000	6.5%	6.7%	7.2%	7.7%	1.2%
£21,001 to £32,400	6.5%	7.2%	8.0%	8.3%	1.8%
£32,401 to £43,300	6.8%	7.5%	8.3%	8.7%	1.9%
£43,301 to £60,000	7.2%	8.2%	8.7%	9.0%	1.8%
£60,001 to £81,100	7.2%	8.7%	9.2%	10.0%	2.8%
£81,101 to £100,000	7.5%	9.0%	9.8%	11.0%	3.5%
£100,001 to £150,000	7.5%	9.5%	11.0%	12.0%	4.5%
£150,001+	7.5%	10.0%	12.0%	12.5%	5.0%

- Change rate pension is earned from 1/60th pay to 1/64th from April 2013 and 1/65th from April 2014

Option 2

- Employee contributions to increase (by slightly less) from 1 April 2012, with different increases applying dependent on what full-time equivalent rate of pay in individual is getting, and with increases phased in over three years :

<i>Whole-time equivalent pay</i>	<i>Rate Now</i>	<i>April 2012</i>	<i>April 2013</i>	<i>April 2014</i>	<i>Overall increase</i>
£0 - £12,900	5.5%	5.5%	5.5%	5.5%	0.0%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%	0.0%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%	0.1%
£19,401 to £21,000	6.5%	6.5%	6.8%	6.8%	0.3%
£21,001 to £32,400	6.5%	6.8%	7.2%	7.5%	1.0%
£32,401 to £43,300	6.8%	7.1%	7.8%	8.2%	1.4%
£43,301 to £60,000	7.2%	7.8%	8.4%	8.8%	1.6%
£60,001 to £81,100	7.2%	8.7%	8.8%	9.5%	2.3%
£81,101 to £100,000	7.5%	9.0%	9.8%	10.5%	3.0%
£100,001 to £150,000	7.5%	9.3%	10.8%	11.5%	4.0%
£150,001+	7.5%	9.5%	11.8%	12.5%	5.0%

- Change rate pension is earned from 1/60th pay to 1/67th from April 2014
- The consultation document also included as an annex a copy of the (employer representatives) Local Government Group's proposals for achieving the savings. These were more complex and involve an increase to the LGPS normal retirement age from 65 to 66 for service earned after April 2014, an increase to contribution rates and the option for employees to choose a lower accrual rate for service from April 2014 instead of paying higher contributions.
 - The consultation document sets out the forecast savings from options 1 and 2. Interestingly, while both options achieve a saving of £900 million a year by 2015, the total savings over the three year period are significantly different, with option 1 saving a total of £1.8 billion and option 2 saving £1.26 billion.
 - The consultation closes on 6 January 2012, with changes expected to take effect from April 2012 onwards.

Future of the LGPS from 2015 onwards

- 8 The Government published a paper entitled “Public Service Pensions: good pensions that last” on 2 November 2011. This reiterated the case for reform and set out an improved offer on the future design for public sector pension schemes (to take effect from 2015).
- 9 The paper highlights three main reasons that reform is needed:
 - **Longevity** – People are living much longer making current public sector pension provision unaffordable and unsustainable in the long term
 - **Flexibility** – Pension provision no longer reflects the way the modern labour force lives and works
 - **Fairness** – Final salary schemes result in the lower-paid subsidising the pensions of the highest paid
- 10 The paper goes on to set out features of the Government’s preferred future scheme design as follows:
 - A Career Average Revalued Earnings (CARE) pension scheme
 - Benefits to be earned at a rate of 1/60ths of pensionable earnings each year
 - Benefits for active members (employees) to increase each year in line with earnings revaluation
 - Normal Pension Age linked to State Pension Age (or 65, whichever is higher)
 - Pensions in payment and benefits in deferment to increase in line with the Consumer Prices Index (CPI)
 - Average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the current proposed increases have been applied
 - Members given the option at retirement to convert £1 of annual pension into a £12 one-off lump sum payment in accordance with HMRC limits and regulations
 - Ill-health, death and survivors benefits (ancillary benefits) to match those currently provided by schemes
 - Members who leave the scheme and rejoin within 5 years to be able to link their new service with previous service, as if they had always been an active member
 - Members transferring between public service schemes to be treated as having continuous active service (which would include those transferring between schemes who had rejoined public service after a gap of less than 5 years)
 - An employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks.

- 11 Individual schemes may vary from this design provided the overall cost remains the same.
- 12 The paper sets out various protections for existing scheme members:
 - All accrued rights in the existing schemes will be honoured
 - Final salary benefits will continue to be linked to the final salary someone has on leaving the scheme or retiring
 - For those with 10 years of less to their normal pension age on 1 April 2012, the Government's objective is to ensure they see no change in when they can retire, nor any decrease in the amount of pension they receive at normal pension age
- 13 The paper concludes by stating that "The Government's offer is conditional on the trades unions and the Government reaching agreement on the reforms. If agreement has not been reached by the end of the year, the Government may need to revisit its current proposals." Given the imminent strike action by most of the public sector unions, agreement currently seems to be further away than the end of the year.

Recommendation

- 14 Members are asked to note this report.
- 15 The full consultation document can be found at <http://www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf>. The Government's November paper can be found at http://cdn.hm-treasury.gov.uk/pensions_publicservice_021111.pdf. Copies of both documents have been placed in the Members' library.

Contact: Nick Orton Tel: 0191 383 4429

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Pension Fund Committee

6 December 2011

Academy Schools in the Pension Fund



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 The purpose of the report is to provide Members with information on the way Pension Fund assets and liabilities are allocated and employer pension contribution rates are set for Academy Trusts when schools convert to academy status.

Background

- 2 The Department for Education's policy encourages schools to pursue academy status and since the beginning of the year eighteen academies have been established that have employees in the Pension Fund. Nine of these are from schools formerly maintained by Darlington Borough Council and nine from schools formerly maintained by Durham County Council.
- 3 Academy Trusts are 'scheduled body' employers in the Pension Fund, meaning they are automatically entitled to participate in the Fund. Academy Trusts need to be set up with their own separately identifiable Pension Fund assets and liabilities and their own employer contribution rate.
- 4 There is no national guidance on how assets and liabilities should be apportioned. The Local Government Employers organisation raised this issue with Communities and Local Government and the Department for Education earlier this year and has recently met with them to discuss the issue. As yet no guidance has been issued and different Pension Fund administering authorities are dealing with this issue in different ways.

Scheduled Body Status

- 5 Previously, 'scheduled body' status in the LGPS has almost exclusively been reserved for public sector or quasi-public sector bodies that could not become insolvent. Academy Trusts are different in that they *can* become insolvent or can be closed down at short notice. This means academies technically have a weaker employer covenant than local authority controlled schools.

- 6 There is a potential risk to all other employers in the Pension Fund if an academy becomes insolvent and leaves a pension deficit which is not taken on by any other organisation. In this situation any outstanding deficit would effectively be shared between the remaining contributing Pension Fund employers.
- 7 The Department for Education has written to the Council to emphasise its commitment to academy schools, to confirm that academy funding agreements are open-ended and to express the view that any insolvency risk is minimal.
- 8 Academy Trusts will be treated in the same way as other 'scheduled body' employers in the Pension Fund, using the same assumptions to value their liabilities and using the same 19 year deficit correction recovery period.

Summary of treatment of Academy Trusts within the Durham County Council Pension Fund

- 9 The Council, working with the actuary, has considered a range of possible options for dealing with Academy Trusts within the Pension Fund and has decided on the following approach:
 - From the date of conversion a new academy will be established as a separate employer in the Pension Fund with (notional) separate assets and liabilities.
 - The (notional) asset transfer to a new academy will be determined after initially ensuring the original Council's non-active liabilities are 'fully funded' as at the last valuation date (31 March 2010) and applying an adjustment to take account of changes to the overall funding level of the Pension Fund since the last valuation.
 - The transfer of pension liabilities to the new academy will be based solely on the pension liabilities of the transferring employees.
 - The assumptions used in setting the new academy's employer contribution rate will be the same as those used for other Scheduled Body employers in the Fund.
 - The deficit recovery period used for the new academy will be nineteen years.
 - The method set out above will be subject to review at the next valuation (due as at 31 March 2013, with any contribution changes applying from 1 April 2014).

Recommendation

- 10 Members are asked to note this report.

Contact: Nick Orton Tel: 0191 383 4429

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