Pension Fund

Annual Report and Accounts

For the year ended 31 March 2011

The Durham County Council Pension Fund is registered with the Pension Schemes Registry No. 10079166

CONTENTS

Annual Report

INTRODUCTION

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31 March 2011.

These are the key issues;

- Contributing members decreased by 4.53% to 18,526
- Market value of the Fund's assets increased from £1,682m to £1,794m (+6.6%)

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 for 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

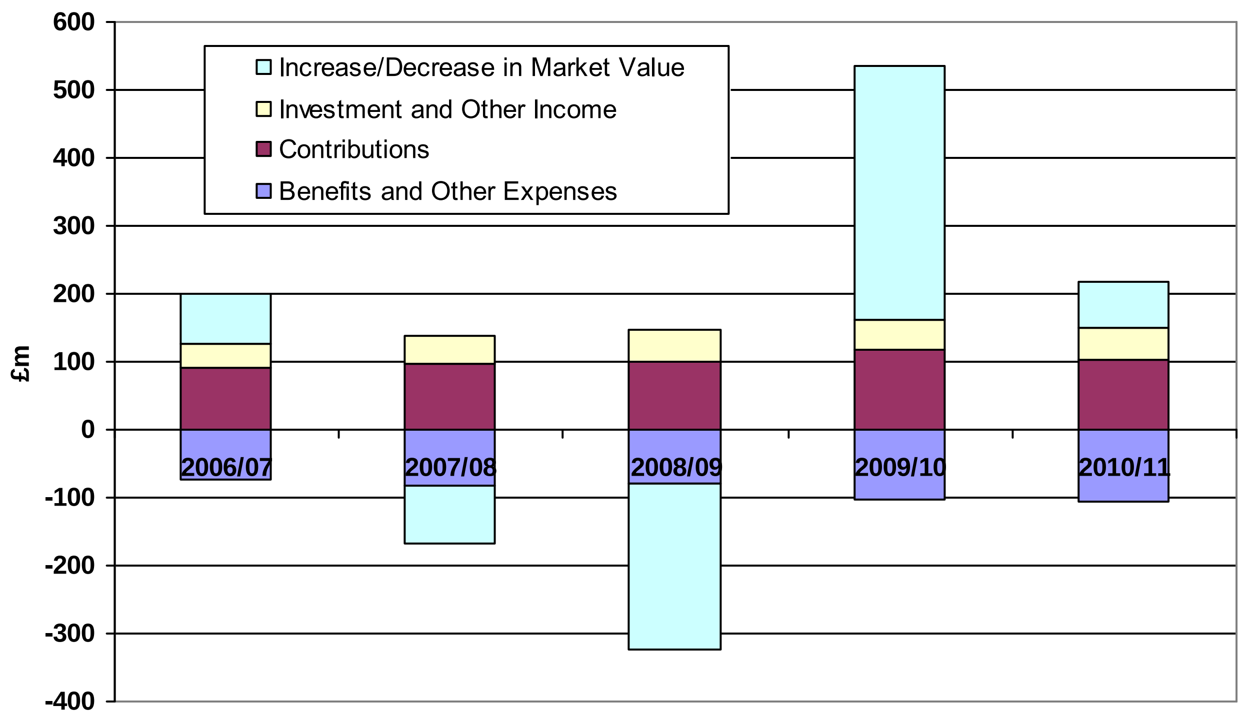
MANAGEMENT STRUCTURE (AS AT 31 MARCH 2011)

ADMINISTERING AUTHORITY:	Durham County Council	County Hall, Durham DH1 5UE
PENSION FUND COMMITTEE:	Durham County Council Members:	Councillor Andrew Turner (Chairman) Councillor Nigel Martin (Vice Chairman) Councillor John Bailey Councillor Colin Carr Councillor Jean Chaplow Councillor Amanda Hopgood Councillor John Lethbridge Councillor Peter May Councillor Dennis Morgan Councillor Reg Ord Councillor Robin Todd
	Darlington Borough Council Members:	Councillor C P McEwan Councillor I. G. Haszeldine
	Scheduled Body Representative	Mr D. Sanders
	Admitted Body Representative	Mr K. Tallentire
	Pensioner Representative	Mrs O. Brown
	Active Members	(Vacancy)
	Representative	(Vacancy)
	Further Education Colleges Representative	
COUNTY COUNCIL OFFICERS:	G Garlick C Longbottom, LLB D Mc Lure	Chief Executive Head of Legal and Democratic Services Corporate Director – Resources
STAFF OBSERVERS:	N. Hancock	UNISON GMB

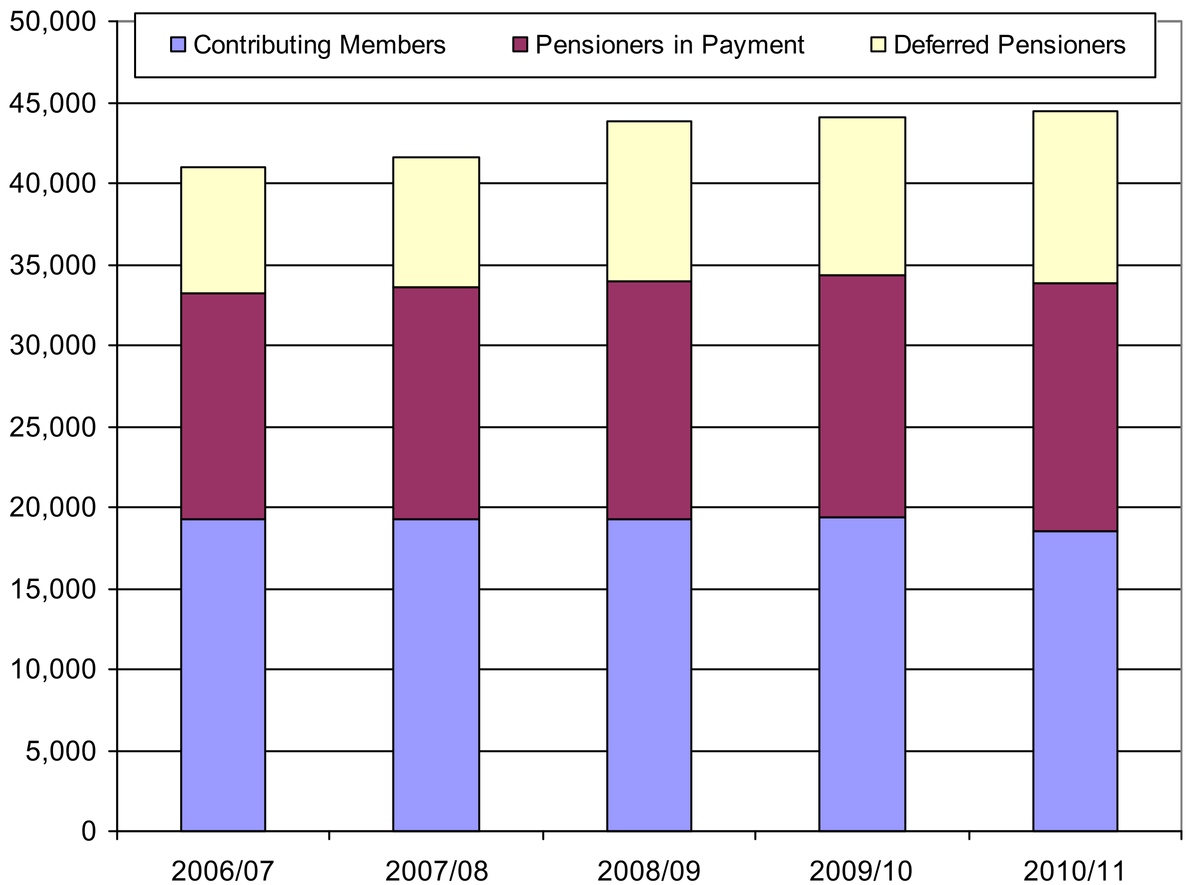
INVESTMENT MANAGERS:	AllianceBernstein Limited	Berkeley Street, London
	Baring Asset Management	Bishopsgate, London.
	BlackRock Investment Management (UK) Limited	King William Street, London
	CB Richard Ellis Collective Investors Limited	Bryanston Street, London
	Edinburgh Partners Limited	Charlotte Square, Edinburgh
	Royal London Asset Management Limited	Gracechurch Street, London
GLOBAL CUSTODIAN	J P Morgan Europe Limited	Embankment, London
INDEPENDENT ADVISERS:	P. J. Williams PSolve Asset Solutions	AllenbridgeEPIC, London. Jermyn Street, London
ACTUARY TO THE FUND:	AonHewitt	40 Queen Square Bristol BS1 4QP
AUDITORS TO THE FUND:	Audit Commission	Nickalls House Metro Centre Gateshead, NE11 9NH

FINANCIAL SUMMARY

(1)	2006/07 (2)	2007/08 (3)	2008/09 (4)	2009/10 (5)	2010/11 (6)
	£000	£000	£000	£000	£000
INCOME					
Contributions	91,705	96,686	100,740	118,041	101,633
Investment and other income	33,854	41,884	46,405	42,564	47,282
TOTAL INCOME	125,559	138,570	147,145	160,605	148,915
LESS:					
Benefits and other expenses	74,908	81,393	84,785	103,685	106,999
Net income (a)	50,651	57,177	62,360	56,920	41,916
***ADD*:**					
Increase/decrease(-) in market value of investments (b)	74,823	-85,250	-243,712	375,300	69,702
Increase/decrease(-) in Fund during year (a + b)	125,474	-28,073	-181,352	432,220	111,618
Net assets at 31 March *(Investments included at market value)*	**1,459,174**	**1,431,101**	**1,249,749**	**1,681,969**	**1,793,587**



(1)	2006/07 (3)	2007/08 (4)	2008/09 (5)	2009/10 (6)	2010/11 (2)
Contributing Members	19,199	19,249	19,303	19,405	18,526
Pensioners in Payment	14,035	14,353	14,641	14,922	15,341
Pensioners Deferred	7,797	7,997	9,823	9,715	10,595



MANAGEMENT REPORT

THE SCHEME

The Local Government Pension Scheme, a statutory scheme, is governed by the Local Government Pension Scheme Regulations 1997 and subsequent amendment regulations.

MEMBERSHIP

The Durham County Council Pension Fund is administered by Durham County Council. It was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and the 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 and civilian staff from the Police and Fire Authorities. Admitted Bodies are those which, under the Regulations, are able to apply for membership of the Scheme. If the Fund Committee agree to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Those organisations with employees currently participating in the Scheme are shown in Appendix 1.

During 2010/11 the number of contributing members within the Scheme decreased from 19,405 to 18,526 a decrease of 4.53%.

In summary, the number of members contributing to the Scheme is:

As at 31 March 2010		***As at 31 March 2011***
13,044	Durham County Council	12,694
2,702	Darlington Borough Council	2,570
215	Town/Parish Councils	212
129	Fire and Rescue Authority	112
970	Colleges	893
1,064	Police Authority	928
252	Probation Service	0
1,029	Others	1,117
19,405		18,526

The number of pensioners in receipt of payments from the Fund increased by 2.81% to 15,341. A further analysis of these figures is shown in Appendix 2.

ADMINISTRATION OF THE SCHEME

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

The Payroll and Pensions Group 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 services provided include:

- Administration of the affairs of the Durham County Council Pension Scheme and also the provision of services in connection with the pensions of uniformed Police and Fire Officers and Teachers.

The Pensions Group, is split into two groups, providing a wide range of services including: -

- Calculation of pensions and lump sums and gratuities 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, Police 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 reports for the Pensions Committee dealing with 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 supplied from Prudential, Standard Life and HECM.

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 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

PERFORMANCE MONITORING

The Fund is also a member of the CIPFA Benchmarking club and measures its performance and costs against similar sized funds.

POLICY STATEMENTS

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 [SI 2005/3199] require each administering authority in England and Wales, after consulting with such persons as they consider appropriate, to prepare, maintain and publish a governance policy statement setting out whether they delegate their function or part of their function in relation to the maintenance of the pension fund to a committee, sub-committee or an officer. Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 [SI 2008/239] requires that the current version of the governance compliance statement is included in the pension fund annual report. The governance report was reviewed in 2010/11.

The Statement was produced in line with guidance from the CIPFA Pensions Panel and was circulated to all employers on 23 March 2006. The Pension Fund's Governance Statement is included at Appendix 3.

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 [SI 2005/3199] required each administering authority in England and Wales to prepare, maintain and publish a statement setting out their policy on communicating with members, members' representatives, prospective members and employers participating in the Fund. The statement must be revised and re-published following any material change to the pension fund's policy. The Communications Policy is attached at Appendix 4.

How the Scheme Works

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

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 28.

From 1 April 2008 contributors to the scheme are required to pay between 5.5% and 7.5% of their pensionable wage or salary to the Fund. The rate they pay depends on which of seven different salary bands their whole-time equivalent pay falls into. Some individuals who were paying lower contributions before April 2008 paid at a rate of 5.25% during 2008/09. Their contribution rate increased to 5.5% in 2009/10 and equalised with the new banded contribution rates in 2010/11. Employee contributions qualify for income tax relief. Since April 1988 a member may have additional voluntary contributions (AVC) deducted from pay (subject to certain limits) and paid into a personal fund.

Employees can invest their AVCs with any of the following companies:-

- Standard Life
- Prudential or
- HECM (providing funds through Clerical Medical and Equitable Life) – closed for new investors.

Members who leave may transfer their accrued benefits to other approved schemes.

Members who leave with less than three months membership may alternatively take a refund of their contributions (less income tax and a payment to the State Second Pension).

New members may transfer benefits accrued with other schemes into the Fund.

The Local Government Pension Scheme is classified as a "*Final Salary Scheme*" which means that the annual pension and retirement grant are paid based on the period of membership and, usually, the final twelve months pay.

Details of the benefits payable from the Scheme to former employees are shown in Appendix 5.

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 effective from April each year was based on the Retail Price Index (RPI) as at the previous September until 2010. In June 2010, the Government announced that future increases would be linked to the Consumer Price Index (CPI), this has been applied for 2011. The table below shows the pension increases over the last six years:

Effective Date	*Increase*
	%
10 April 2006	2.7
9 April 2007	3.9
7 April 2008	3.9
6 April 2009	5.0
12 April 2010	0.0
11 April 2011	3.1

The 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.

REVIEW OF LEGISLATION ETC.

REGULATION CHANGES

This was the third year that the 'new-look' Local Government Pension Scheme (LGPS) had been in place. The on-going benefit structure of the 'new-look' LGPS remained unchanged during the year and it continues to provide a pension of 1/60th of final salary for each year of membership from 1 April 2008 onwards with no automatic separate lump sum.

During the year two sets of amending regulations were issued that made minor changes to the regulations governing the Loc al Government Pension Scheme (LGPS). These were the Local Government Pension Scheme (Miscellaneous)

Regulations 2010 and the Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011

The most significant changes were as follows:

- Individuals who are awarded a pension in the LGPS following pension sharing on divorce will now be able to choose to draw an actuarially reduced pension from age 60 (previously they had to wait until age 65 to draw benefits from the scheme).
- It was confirmed that anyone drawing pension benefits after age 65 (including individuals who join the scheme after age 65) will have those benefits actuarially increased to take into account the fact they are coming into payment after the Scheme's normal retirement age (65).

The position for members who have been awarded the 'third tier' of ill-health pension from the Scheme was clarified. This pension can only be paid for a maximum of three years after which it will either be converted to a second tier pension (if the member is judged to meet the criteria for this) or stopped completely. Where a third-tier pension has stopped the member becomes a 'pensioner with deferred benefits' – these benefits can be drawn without reduction from age 65 but can be drawn earlier – from age 55 with the consent of the previous employer, or from age 60 onwards without former employer consent.

- If the benefits are drawn before age 65 full early retirement reductions, even if the member has enough service to have qualified for lower reductions if they had been a 'normal' retirement from deferred status.
- Allowing scheme members to combine any previous LGPS membership with their current period of membership provided they elect to do so within one year of joining their new employment or such longer period as their employer may allow. Previously only the most recent LGPS employment could be combined. At the same time current members were given until 1 October 2011 to choose to combine previous LGPS membership.

PENSION INCREASES

The Government announced in its June 2010 budget that future increases to pensions and deferred pensions from the LGPS and other public sector pension schemes would be linked to the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI). CPI is typically around 0.5% lower than RPI so this change will reduce the cost and value of benefits from the Scheme, so reducing employer contributions.

HUTTON REPORT

During the year Lord Hutton published his final report on the future of public service pensions. The main recommendation of the report is that final salary public service pension schemes should be replaced by new schemes where an employee's pension entitlement is linked to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.

The report suggests that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.

Other key recommendations in the report include:

- Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;
- Introducing a Normal Pension Age of 60 for those members of the uniformed services – armed forces, police and firefighters – who currently have a NPA of less than 60;
- Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees' pensions – with automatic stabilisers to keep future costs under more effective control;
- Honouring, in full, the pension promises that have been earned by scheme members (their "accrued rights") and maintaining the final salary link for past service for current members;
- Introducing more independent oversight and much stronger governance of all public service pension schemes;
- Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and
- Overhauling the current legal framework for public service pensions to make it simpler.

Cost-saving changes to the LGPS are also expected in advance of 2015.

INVESTMENTS

INTRODUCTION

The County Council, as Administering Authority is responsible for the investments of the Pension Fund, this responsibility is delegated to the Corporate Director - Resources. The Pension Fund Committee meets quarterly to review investment performance taking advice from the Corporate Director - Resources and investment advisors. In addition, an Annual Meeting considers the full-year performance of the Pension Fund's investments. The Committee also reviews the performance of the investment managers.

INVESTMENT POWERS AND DUTIES

The principal powers to invest are contained within the Local Government Pension Scheme Regulations 1997 which permit a wide range of investments, including equities, fixed interest and other bonds, and property, in the UK and overseas markets.

The 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 to the advice of appropriately qualified advisers.

INVESTMENT MANAGEMENT

During 2010/11 the Durham County Council Fund's investments were managed by six specialist external investment managers as set out in the following table.

Investment Manager	***%***	***Asset Classes***	***Investment Style***
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

Statement of Investment Principles

With effect from 4 January 2000 there is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. This is a document which provides details of the principles that govern a pension fund's decision about investment. 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 revised Statement of Investment Principles is attached in Appendix 6.

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 (FSS). It was approved by Pension Fund Committee on 31 January 2005 has been reviewed in 2010/11.

The FSS provides a means of managing ongoing employers' pension costs and the decision processes of administering authorities. It raises the level of transparency and accountability, and provides a helpful context for adopting higher levels of communication with scheme employers. A copy of the FSS is included at Appendix 7.

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.

For the year ended 31 March 2011 the following tables show the performance of the Fund compared to the Fund's specific benchmark adopted in February 2008.

	Performance (%)	
	2010/11	**Since February 2008**
Total Plan	**6.5**	**6.2**
Total Plan Benchmark	9.0	8.0
Relative Performance	*-2.5*	*-1.8*
WMLA Average	8.2	

The figures show overall performance below the benchmark for the 12 month period. 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.

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

The first table shows the performance of the global equity portfolio, managed by Edinburgh Partners Asset Management (EPAM).

	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
Edinburgh Partners	-0.9	5.9
MSCI World Index (Gross) +3% pa	11.7	10.9
Relative Performance	*-12.6*	*-5.0*

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 underperformance versus the target and against the Index. Without the out performance target, the returns are 2% p.a. below the index.

The next table shows the performance of the UK equity portfolio, managed by BlackRock.

	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
BlackRock	14.8	6.6
FTSE All Share (Gross) +3% pa	12.0	7.7
Relative Performance	*2.8*	*-1.1*

BlackRock's 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. The twelve month performance remains significantly ahead of the target.

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.

The next table shows the performance of the global bonds portfolio, managed by AllianceBernstein. 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	**2010/11**	**Since February 2008**
Alliance Bernstein	4.8	4.8
GBP Libor +3% pa	3.7	5.2
Relative Performance	*1.1*	*-0.4*
Alliance Bernstein-PPIP	26.4	25.2
GBP Libor +3% pa	3.8	3.7
Relative Performance	*22.6*	*21.5*

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 up to 10% of the portfolio's assets in distressed US assets under the US authorities' Term Asset Backed Loan Facility. The performance of this part of the portfolio is shown separately. As can be seen this allocation has been very successful, though we can deduce the main benefit from holding these assets came in the early part of the period and that progress is likely to be sedate in the future.

The next table shows the performance of the liability matching bonds portfolio, managed by Royal London Asset Management (RLAM).

	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
Royal London	7.3	6.0
FTSE index Linked >5 years +0.5% pa	7.2	5.6
Relative Performance	*0.1*	*0.4*

This is the lowest risk element, relative to liabilities, of the Fund's strategy and is so far delivering what is required of it. And performance remains satisfactory.

The next table below shows the performance of the Dynamic Asset Allocation portfolio, managed by Barings Asset Management (BAM). This is a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities.

	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
Barings	7.5	8.8
GBP Libor +4% pa	4.8	6.2
Relative Performance	*2.7*	*2.6*

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.

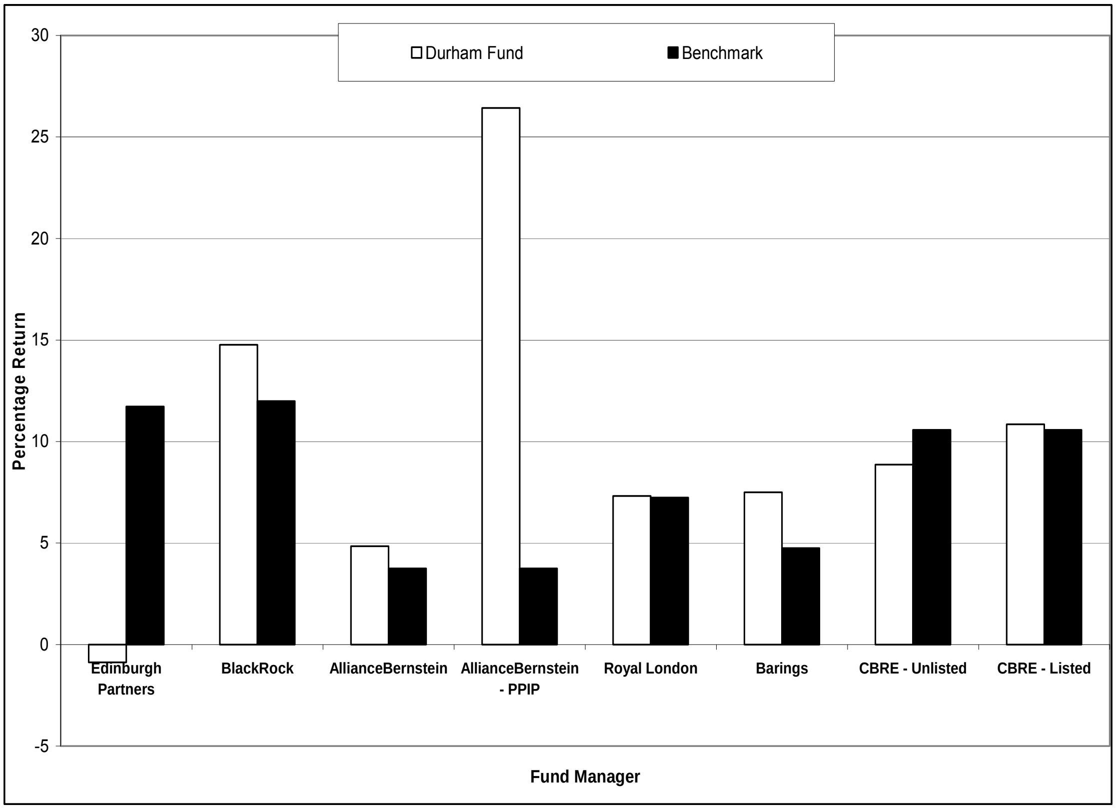
The final table shows the performance of the global real estate portfolio managed by CB Richard Ellis Investors (CBRE). The mandate is subdivided into listed and unlisted holdings. CBRE have now completed their "weeding out" of holdings inherited from the previous managers, so now present amalgamated figures for the unlisted holdings.

Investments

	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
CBRE -Unlisted	8.9	-6.2
Headline RPI +5% pa	10.6	8.3
Relative Performance	*-1.7*	*-14.5*
CBRE -Listed	10.9	3.3
Headline RPI +5% pa	10.6	8.3
Relative Performance	*0.3*	*-5.0*

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. Asia is showing the best fundamentals, consistent with economic developments.

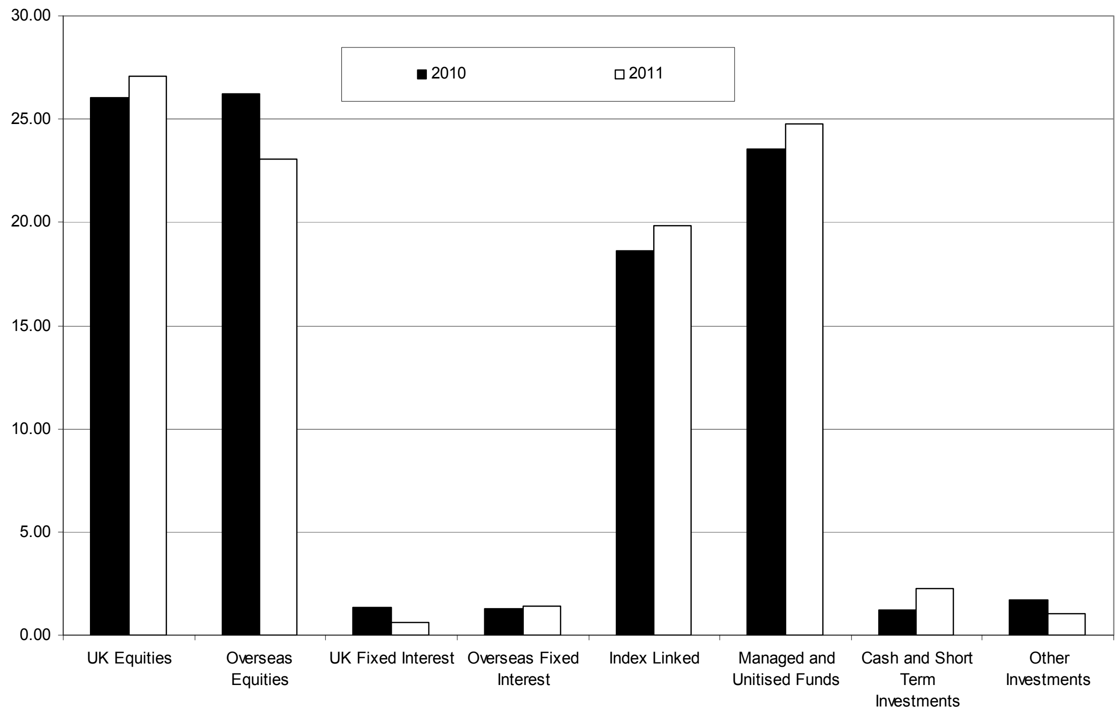
TOTAL PLAN PERFORMANCE RETURNS AS AT 31 MARCH 2011



	Performance (%)	
Currency GBP	**2010/11**	**Since February 2008**
Total Plan	6.5	6.2
Total Plan Benchmark	9.0	8.0
Relative Performance	*-2.5*	*-1.8*

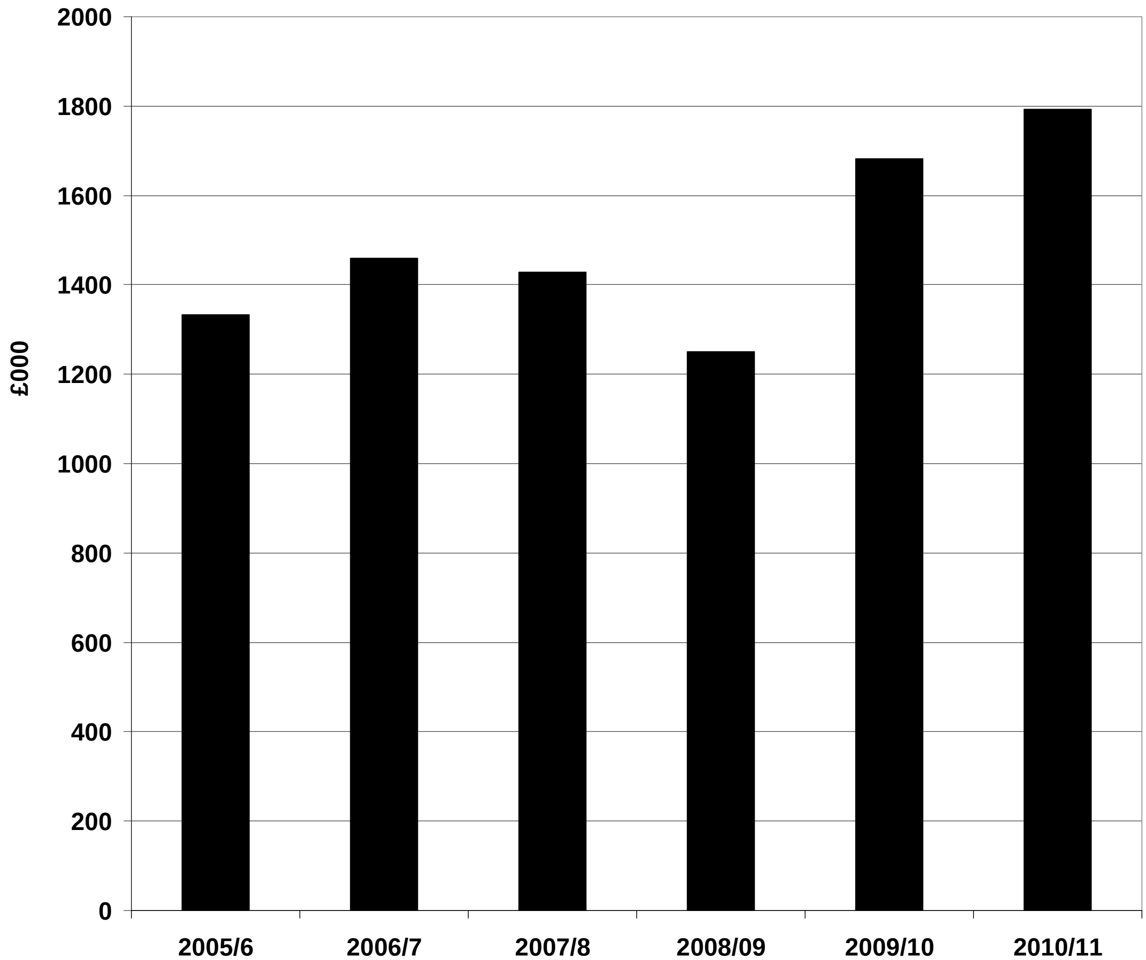
DISTRIBUTION OF INVESTMENTS

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 8.



NET ASSETS OF THE FUND

Net Assets are defined as Investments, current assets less current liabilities. The graph below shows how the net assets of the Fund have changed over the last six years:



DURHAM COUNTY COUNCIL

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2011

INTRODUCTION

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.

2. 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.

3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:

   - 13.1% of pensionable pay 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 and £28.4m in 2012/13, increasing broadly by 5.3% p.a. thereafter.

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30

March 2011 which is appended to our report of the same date on the actuarial valuation.

6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.80% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.30% a year
Rate of increases to pensions in payment (in excess of GMP)	3.30% a year
Valuation of assets	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.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of Durham County Council. It provides a summary of the results of the 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, in respect of this statement.

Aon Hewitt Limited

7 June 2011

Pension Fund Accounts

Independent Auditor's Report to the Members of Durham County Council

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Durham County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 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 Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and 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 accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Durham County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 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 Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

CONCLUSION

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

CERTIFICATE

I certify that I have completed the audit of the Authority and Group accounts of Durham County Council and Durham County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Cameron Waddell
Officer of the Audit Commission
Audit Commission

31 October 2011

Pension Fund Accounts

FUND ACCOUNT

2009-10 £000	£000		2010-11 £000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME		
118,041		Contributions receivable (see note 13)	101,633	
11,186		Transfers in from other pension funds	9,057	
-		Other income	4	
	129,227			110,694
-85,473		Benefits (see note 14)	-86,533	
-13,121		Payments to and on account of leavers (see note 15)	-11,164	
-1,132		Administrative expenses	-1,247	
-		Other payments	-1,545	
	-99,726			-100,489
	29,501	**Net additions from dealings with members**		**10,205**
		RETURN ON INVESTMENTS		
31,378		Investment income (see note 16)	38,221	
375,300		Change in market value of investments (see note 6)	69,702	
		Taxation (see note 8)		
-3,959		Investment management fees (see note 12)	-6,510	
	402,719	**Net returns on investments**		**101,413**
	432,220	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS**		**111,618**
	1,249,749	**NET ASSETS OF THE FUND AT 1ST APRIL**		1,681,969
	1,681,969	**NET ASSETS OF THE FUND AT 31ST MARCH**		1,793,587

NET ASSETS STATEMENT

2009-10 £000	£000		2010-11 £000	£000
		Investment assets		
43,820		Fixed interest securities (see note 5 & 6)	35,717	
879,152		Equities (see note 5 & 6)	898,953	
313,638		Index linked securities (see note 5 & 6)	356,100	
395,887		Pooled investment vehicles (see note 5 & 6)	444,319	
466		Loans (see note 5 & 6)	441	
20,490		Other cash deposits (see note 5 & 6)	39,649	
229		Derivative contracts (see note 9)	608	
		Other investment balances (see note 17)		
6,619		Dividend accruals	7,089	
593		Tax recovery	566	
1,265		Other investment balances	2,637	
	1,662,159			1,786,079
		Investment liabilities (see note 18)		
-1,246		Derivative contracts (see note 9)	-1,920	
-3,730		Other investment balances	-6,112	
	-4,976			-8,032
		Current assets (see note 17)		
27,313		Contributions due from employers	18,718	
2,598		Other current assets	2,438	
	29,911			21,156
		Current liabilities (see note 18)		
-465		Unpaid benefits	-694	
-4,660		Other current liabilities	-4,922	
	-5,125			-5,616
	1,681,969	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND**		**1,793,587**

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period.

The actuarial position of the scheme, which does take account of such obligations, is disclosed in Note 3 along with the actuarial statement. These accounts should be read in conjunction with them.

1. FUND OPERATION AND MEMBERSHIP

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The Local Government Pension Scheme is a statutory scheme governed by the Local Government Pension Scheme Regulations 1997 and subsequent amendment regulations. The County Council administers the Scheme on behalf of 68 contributing employers including Borough, Parish and Town Councils, Statutory Bodies and Colleges. Contributing bodies include:

Local Authorities -

Durham County Council
Darlington Borough Council

Parish Councils -

Brandon and Byshottles
Chilton
Easington Colliery
Easington Village
Esh
Fishburn
Framwellgate Moor
Horden
Hutton Henry
Lanchester
Monk Hesleden
Murton
North Lodge
Shotton
South Hetton
Thornley
Trimdon
Trimdon Foundry
Wheatley Hill
Wingate

Town Councils -

Ferryhill
Great Aycliffe
Peterlee
Seaham
Sedgefield
Shildon
Spennymoor
Stanley
Barnard Castle

Statutory Bodies -

Durham Police Authority
Valuation Tribunal Service
Central Durham Joint Crematorium Committee
County Durham and Darlington Fire and Rescue Authority
St Aidan's Academy
North East Fire Control
Sedgefield Borough Homes

Colleges -

Bishop Auckland College
Darlington College
Queen Elizabeth Sixth Form College
Derwentside College
New College, Durham
East Durham & Houghall Community College

Admitted Bodies -

Cestria Community Housing Association
Dale and Valley Homes
Derwentside Homes
East Durham Homes
North Star Housing
Three Rivers Housing
Barnard Castle School
Bowes Museum
Leisureworks
Murton Welfare Association
Hobson Golf Club
Peterlee Fire Company
Compass Group UK
The Forge
Mitie Cleaning
Mitie PFI Ltd
Mears Limited
Kier East Durham
Creative Management Services
Morrisons Facility Services Ltd
Taylor Shaw (Longfield)
Taylor Shaw (Primaries)
KGB Cleaning and Support Services
Shotton Hall Academy

Apart from teachers, who have their own unfunded arrangements, membership of the Local Government Pension Scheme (LGPS) is open to all County Council employees. Membership is automatic for staff with a contract of employment of at least three months. Employees can opt not to join the Scheme. The County Council is not required to administer a Stakeholder Scheme, so employees have to make their own arrangements with an appropriate provider.

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. 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.

In 2010/11, the number of pensionable employees in the Fund was 18,449 (19,405 in 2009/10), and the number of pensioners was 15,334 (14,922 in 2009/10).

Contributions represent the total amounts receivable from employing authorities in respect of their own contributions which are at a rate determined by the Fund's Actuary and those made by pensionable employees which are set by statute. The benefits and contributions are analysed as follows:

2009-10			2010-11	
Benefits £000	**Contributions £000**		**Benefits £000**	**Contributions £000**
79,103	92,970	Administering Authority	77,989	83,933
5,590	19,894	Scheduled Bodies	7,365	12,006
780	5,177	Admitted Bodies	1,179	5,694
85,473	**118,041**		**86,533**	**101,633**

The Corporate Director Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions Division and Strategic Finance in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively. The Pension Fund Committee meet quarterly to assess investment performance and annually to consider wider matters. The Committee is comprised of Durham County Council and Darlington Borough Council members. Durham County Council officers, staff observers and other stakeholders are also present.

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director Resources, County Hall, Durham, DH1 5UE and is available on the County Council's website: www.durham.gov.uk.

2. STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION AND MEASUREMENT

The Pension Fund accounts have been prepared in accordance with:

- International Financial Reporting Standards (IFRSs)
- CIPFA Code of Practice on Local Authority Accounting
- Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996
- Financial Reports of Pension Schemes Section 2: A Statement of Recommended Practice 2007

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

The accounts were authorised for issue by the Corporate Director Resources on 30 September 2011.

The financial statements summarise the transactions and the net assets of the Pension Fund available to the trustees. 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 has undertaken a valuation during 2010/11, the results of which will determine the contribution rates from 1 April 2011 to 31 March 2014. The previous valuation was undertaken as at 31 March 2007, and set contribution rates from 1 April 2008 to 31 March 2011. Details of the latest valuation are included in Note 3.

Significant Accounting Policies adopted are included later in this note. The following policies are significant to the statements:

- The Pension Fund has its own bank account which held the Fund's cash balance at 31 March 2011. This is in compliance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- Contributions, benefits and investment income due at 31 March are included on an accruals basis.
- Investments are included in the accounts at fair value, usually bid price or mid-market value.
- Debtors and creditors are raised for all amounts outstanding at 31 March.
- Transfer values received and paid out, and lump sum payments, have been accounted for on a cash basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.

- Investment management expenses are shown separately from scheme administration in the Fund Account and include the fees paid and due to the fund managers and custodian, actuarial fees, performance measurement and investment consultant fees.
- Acquisition costs of investments include all direct transaction costs. Property acquisition costs are capitalised and become part of the book cost.
- Derivative contracts outstanding at the year end are stated at fair value as both investment assets and liabilities.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

In applying the policies, the Pension Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the Fund will continue in operational existence for the foreseeable future as a going concern;
- no investments are impaired.

The Pension Fund Accounts contain estimated figures which take into account historical experience, current trends and other relevant factors. As balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual differs from assumptions
Market value of investments	Valuations depend on market forces which impact on the current prices of stocks, shares and other investment instruments. The Pension Fund is susceptible to equity markets falling or bond yields falling.	Every 1% increase in market value will lead to an increase in the value of the fund of approximately £17m. A 1% decrease in market value would have the opposite effect.
Pension Liabilities	Under IFRS the Pension Fund is required to disclose the actuarial present value of promised retirement benefits. This is disclosed as a note to the accounts (Note 4).	The Actuarial Valuation of the Pension Fund at 31 March 2010 calculated the funding level to be 80%. Assumptions were used to enable this

	Significant judgement and estimates are used in formulating this information. Assumptions such as mortality expectations, future inflation, returns on investments and the rate of pay increases are estimated for this note and the Actuarial Valuation. Note 3 summarises the results of this valuation.	calculation. The effects on the funding level of changes in individual assumptions can be measured. A 3 year increase in life expectance 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%.
Change in indexation of pensions	The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits as disclosed in Note 3. This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.	The Fund's actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £292m. i.e. the actuarial present value of promised retirement benefits would have been £2,541m.

Fair Value of investments	The Accounts are as at 31 March 2011 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed below in 'Significant Accounting Policies - Valuation of Investments'	The use of estimates for investment values is greatest for those assets without active and open markets, unquoted or pooled investments, property, and alternatives. The Pension Fund Committee, at their quarterly meetings, consider the Fund Managers' Investment Reports, and discuss with Fund Managers the nature of the investments and associated risks, valuations of underlying holdings, and investment performance. Officers also maintain an on-going review of valuations on a monthly basis. Further detail on the procedures for managing investment risk is given in Note 11

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.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these accounts and have been applied.

The accounts have been prepared on the normal accruals basis of accounting.

PLAN ASSETS

VALUATION OF INVESTMENTS

Investments are included in the accounts at their fair value, 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. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. The accounting policies used for specific material types of investment follow:

Quoted equity securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value, where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

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.

Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager's valuation report; otherwise the mid-market, or average price as reported is used. For single priced unitised securities these are valued at the reported price.

Fixed interest securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

The Public-Private Investment Plan (PPIP), an unquoted pooled investment vehicle, is valued at 'fair Market Value' as determined by the Valuation Agent, the Bank of New York Mellon. The process for the determination of the value of the portfolio investments forms part of the investment agreement for the PPIP.

Index linked securities are valued at mid-market value.

All prices in foreign currency are translated into sterling at the prevailing rate on the 31 March.

Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31 March. Fair value on forward foreign currency contracts are determined by the gain or loss that would arise at the 31 March from entering into an equal and opposite contract at that date.

INVESTMENT INCOME

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March where amounts were still outstanding at the year-end.

INVESTMENT TRANSACTIONS

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts.

INVESTMENT MANAGEMENT EXPENSES

The fees relating to the managers are described in Note 12.

ACQUISITIONS COSTS OF INVESTMENTS

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

INTEREST ON PROPERTY DEVELOPMENT

The Fund holds no direct property investments; all property investment is made through Pooled Investment Vehicles.

ADMINISTRATIVE EXPENSES

A proportion of relevant officers' salaries have been charged to the Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

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.

CONTRIBUTION INCOME

Contribution income is categorised and recognised accordingly:

Member contributions are recognised in the period they are deducted from salary.

Employers' normal contributions are also recognised in the period the employee's normal contributions are deducted from salary.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are being paid. Where no agreement exists, they are accounted for in the year in which they become due.

Employer's other contributions are accounted for on the terms of the arrangement.

TRANSFER VALUES

Transfer values 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.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Deductions from employees salary Additional Voluntary Contributions (AVCs) and their subsequent investment in insurance policies are not recognised as income or assets in the Pension Fund Accounts. The investments held outside the scheme can be found in Note 20.

However when these AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Accounts on an accruals basis. Amounts received in this way can be found in Note 13 as additional contributions from members.

PENSION BENEFITS

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. [PF SORP 2.187]

3. ACTUARIAL POSITION OF THE FUND

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 Scheme Regulations 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 (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

- ❖ Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
- ❖ 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.

- 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 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 and £28.4m in 2012/13, increasing broadly by 5.3% p.a. thereafter.

- The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
- The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011.
- The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
- The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.80% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.30% a year
Rate of increases to pensions in payment (in excess of GMP)	3.30% a year
Valuation of assets	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.

- ❖ Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
- ❖ This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of Durham County Council. It provides a summary of the results of the 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, in respect of this statement.

4. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The Code of Practice indicates that the Fund accounts for the year ending 31 March should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on the funding assumptions.

CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits:

- ❖ Option A – disclosure in the Net Assets Statement
- ❖ Option B – disclosure in the Notes to the Pension Fund Accounts
- ❖ Option C – disclosure in an accompanying Actuarial Report

The Administering Authority has chosen "Option B". Option B requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2010. CIPFA have indicated that comparator figures are also required from the previous valuation date, 31 March 2007.

During the accounting period, there has been a change from the use of RPI to CPI for the price indexation of benefits. In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the

majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits as disclosed in Note 3.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will give rise to a reduction in the actuarial present value of the promised retirement benefits.

For the purpose of the calculations under IAS 26, the switch to CPI indexation is assumed to have occurred on 31 March 2010.

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA has also indicated that comparator values at the 2007 valuation should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £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

Notes to the Pension Fund Accounts

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2010 (% p.a.)	31 March 2007 (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	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 measurement date.

PRINCIPAL 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

	31 March 2010	31 March 2007
Commutation	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.

5. VALUATION OF INVESTMENTS

The Pension Fund has 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 its assets.

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	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes	Active

The market values of investments in the hands of each manager were as follows:

2009-10 £000	%		2010-11 £000	%
492,935	30.20	Edinburgh Partners	496,286	28.60
346,118	21.20	Blackrock	362,841	20.91
265,212	16.25	Alliance Bernstein	287,166	16.55
325,628	19.95	RLAM	352,594	20.32
75,019	4.60	CBRE	94,551	5.45
127,388	7.80	Baring Asset Management	141,499	8.16
197	-	Other	152	0.01
1,632,497	**100.00**		**1,735,089**	**100.00**

6. ANALYSIS OF INVESTMENTS

Investment category	Value at 31 March 2010 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2011 £000
Fixed interest securities	43,820	134,462	-144,057	1,492	35,717
Equities	879,152	257,295	-246,652	9,158	898,953
Index linked securities	313,638	1,136,594	-1,112,928	18,796	356,100
Pooled investment vehicles	395,887	106,657	-99,947	41,722	444,319
Cash and short term investments	20,956	20,305		-1,171	40,090
Derivative contracts	-1,017			-295	-1,312
	1,652,436	1,655,313	-1,603,584	69,702	1,773,867

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.

2009-10 £000		2010-11 £000
	Fixed interest securities	
11,751	UK - Public sector	32
10,540	UK - other	11,044
21,529	Overseas - Public sector	24,641
-	Overseas - other	-
43,820		**35,717**
	Equities	
438,211	UK quoted	485,517
197	UK unquoted	151
440,744	Overseas quoted	413,285
879,152		**898,953**
	Index linked securities	
309,975	UK quoted - Public sector	345,140
3,663	Overseas quoted -Public sector	10,960
313,638		**356,100**
	Managed and unitised funds	
250,124	Managed funds - non property - UK - quoted	261,827
52,174	Managed funds - non property - Overseas - quoted	55,322
15,089	Managed funds - non property - UK - unquoted	25,339
30,462	Unit Trusts - property - UK	33,645
48,038	Unit Trusts - property - Overseas	68,186
395,887		**444,319**
	Loans	
466	Loans - long term - local authorities	441
466		441
	Cash and Short Term Investments	
5,441	Loans - short term - money market	25,220
15,049	Managers' cash	14,429
-	Cash in Hand	-
20,490		**39,649**
	Derivative Contracts	
229	Forward foreign exchange contracts - assets	608
-1,246	Forward foreign exchange contracts - liabilities	-1,920
-1,017		**-1,312**

7. CURRENCY HEDGING

All investment managers have agreement to enter into foreign exchange contracts in order to hedge against adverse movements in foreign exchange rates. Several forward foreign currency contracts were open at the period end as shown in Note 9. This agreement was subject to prior consultation with the Corporate Director Resources.

8. TAXATION

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

- United Kingdom Tax

  The Fund is an exempt approved Fund under the Finance Act 1970 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.

9. DERIVATIVES

2009-10 £000		2010-11 £000
229	Forward foreign exchange contracts - assets	608
-1,246	Forward foreign exchange contracts - liabilties	-1,920
-1,017	**Market value of derivative contracts**	**-1,312**

Currency is bought and sold by fund managers for future settlement at a pre determined exchange rate. Fund managers use these contracts to hedge against the risk of adverse currency movement on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, Euros and Sterling.

10. INVESTMENTS EXCEEDING 5% OF THE MARKET VALUE OF THE FUND

The Pension Fund invests in a pooled fund of Broad Bonds through AllianceBernstein, the Diversified Yield Plus fund. The value of this investment at 31 March 2011 is £261.827m (£251.123m at 31 March 2010) and exceeds 5% of the Fund’s total investments.

11. DISCLOSURE OF NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

KEY RISKS

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

- **CREDIT RISK** the possibility that other parties might fail to pay amounts due to the Pension Fund;
- **LIQUIDITY RISK** the possibility that the Pension Fund might not have funds available to meet its commitments to make payments;

- **MARKET RISK** the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates movements.

OVERALL PROCEDURES FOR MANAGING RISK

The investment policy of the Pension Fund 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.

The Pension Fund's assets are managed by six Investment Managers. The division of 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 Local Government Pension Fund Regulations (Management and Investment of Funds) 2009 require the Pension Fund to describe how it measures and manages risk.

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%	28%
Dynamic Asset Allocation	All major asset classes with derivative overlay	UK 3-month LIBOR +4.0%	8%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

* Excluding in-house managed funds

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.

The Pension 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 Pension Fund assets are completed. The Custodian has stringent risk management processes and controls. They have strictly segregated client accounts that ensure that the Pension Fund assets are separately identifiable. They have customised guidelines and for those instances where they may invest cash collateral; conservative investment practices are ensured by them.

The Broad Bond mandate's assets are excluded from the Fund's Global Custodian's custody. A separate custodial is responsible for this part of the Pension Fund and the Public Private Investment Plan (PPIP).

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

Durham County Council 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.

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 County 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. Overall, these procedures require the County Council to manage risk in the following ways:

- ❖ by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- ❖ by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- ❖ by approving annually in advance prudential and treasury indicators for the following three years limiting:

- The County Council's overall borrowing;
- Its maximum and minimum exposures to fixed and variable rates;
- Its maximum and minimum exposures to the maturity structure of its debt;
- Its maximum annual exposures to investments maturing beyond a year.

❖ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance;

These are required to be reported and approved at or before the County Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the County Council's financial instrument exposure.

These policies are implemented by the Strategic Finance Treasury Management team. The County Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

i) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Pension Fund's customers.

a) Conventional Bonds

The Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Investment Manager minimises concentration of credit risk by undertaking transactions with a large number of counterparties.

The credit risk of the Fund's investments is summarised as follows:

Portfolio by rating category Rating	2011 %
Investment grade	99.3
Below investment grade	0.7
Not rated	0.0
Total	100.0

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered low due to the short settlement period involved and the high credit quality of the brokers used. The Manager monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

b) BROAD BONDS

The Pension Fund invests in a pooled fund which has the following proportions of investments:

Portfolio by rating category	**2011**
Rating	**%**
AAA	46.8
AA	7.0
A	13.3
BBB	27.1
BB	3.6
B	1.8
CCC	0.5
CC	0.2
C	0.0
>C	0.4
Non Credit	-0.7
Total	**100.0**

Bonds are ranked on the basis of the degree of risk associated with timely payment of their interest and principle. Bond rating agencies (such as Standard & Poor's) use a grading system as follows

AAA: highest quality (called 'gilt edged').

AA: high quality.

A: upper medium grade.

BBB: medium grade.

BB: has speculative elements.

B: speculative.

CCC: speculative with possibility of default.

CC: most speculative.

C: lowest gradable quality.

DDD: in default with possibility of recovery.

DD: in default and arrears.

D: in default, with little or no value.

Bonds rated 'BBB' or higher are considered investment grade suitable for financial institutions with fiduciary responsibilities. Bonds rated below 'B' are considered speculative grade and are called high yield or junk bonds which, due to greater likelihood of their default, must pay higher interest rates to attract investors.

Government bonds, or Treasuries, are not subject to credit quality ratings. These securities are considered to be of the very highest credit quality. In the case of municipal and corporate bond funds, fund company literature, such as the fund prospectus and independent investment research reports will report an "average credit quality" for the fund's portfolio as a whole.

c) UK EQUITY

Equities are affected by many risk factors, but the credit risk associated with this portfolio is not generally quantifiable.

As at 31 March 2011, the total absolute risk of the portfolio was measured as 19.2%. This is a standard deviation measure of risk, and suggests broadly that in two years out of three, the portfolio return could be expected to be in a range from -19.2% to +19.2%. For comparison, the absolute risk of the benchmark, the FTSE All-Share Index, on that day was 19.0%.

The Fund is actively managed, and the estimated tracking error of the portfolio at 31 March was 5.3%. This suggests that in two years out of three, the portfolio return could be expected to be within a range of -5.3% to +5.3% around the index return. This therefore quantifies the risk of this active management process.

d) GLOBAL EQUITIES

In the period under review and as at 31 March 2011 this part of the fund was solely invested by one manager in equity instruments listed in regulated exchanges or markets. As a result, the fund is not exposed to any direct credit risk other than the custodian of the assets of the fund and to those in relation to transactions with counterparties that the manager enters into on behalf of the fund.

The Manager has adopted procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager, or its affiliates, 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.

Investment transactions currently take place “on-exchange” rather than over the counter (OTC) and are also on a delivery-versus-payment (DVP) basis; both these factors contribute to limiting the counterparty exposure.

The actual amount of exposure to counterparties is generally limited to unsettled investment transactions and varies in line with the pattern of investment transactions within the fund. No stock lending programmes are operated by the Manager. As at 31 March 2011, there were no unsettled investment transactions.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Un-invested 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 Pension Fund are held in a strictly segregated client account. As at 31 March 2011 the level of exposure to the custodian is 1.2% of the total value of the portfolio.

The recent IFRS 7 update published in November 2010 has clarified that credit risk disclosures are only required in relation to instruments where the maximum credit exposure is not the carrying value, and so only apply to certain derivatives. If this update is adopted, the Manager believes that there are no positions in the portfolio for the Pension Fund that would require such disclosures.

e) DYNAMIC ASSET ALLOCATION

The part of this portfolio invested in UK Corporate Bonds at 31 March 2011 was £9.5m. All the exposure was to investment grade rated corporate bonds (AAA to BBB- ratings). The largest holding was rated AAA, at 4.2%. The top 10 holdings accounted for 31% of the UK credit portion of the Pension Fund.

In the region of 39% of the holdings were issued by financial institutions (excluding supranational banks) as opposed to corporate issuers. The modified duration of the UK credit portion of the portfolio was 7.4. About 24% of the holdings had a maturity of less than 5 years and about 16% greater than 20 years.

f) GLOBAL PROPERTY

This portfolio consists of unlisted property funds and 28.4% is invested in listed securities. The Manager is compliant with all restrictions applied to this portfolio by the Pension Fund.

The closing Net Asset Value of these unlisted property funds are the best evidence of fair value. The funds have been categorised as Level 2 within the Fair Value Hierarchy, given that pricing sources are supported by observable inputs.

The credit risk associated with this portfolio is the cash accounts amounting to £1.519m and the unrealised hedging position of -£0.619m, both of which are held by the Pension Fund's custodian. The risk is that a counterparty or issuer is unable to pay the amounts in full when they are due.

g) CASH

Cash is invested by Durham County Council and the credit risk associated with this is minimised by the County Council's Treasury Management procedures, including the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criterion is applied. Details of the Investment Strategy can be found on the County Council's website: www.durham.gov.uk

The Pension Fund's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Pension Fund's deposits, but there was no evidence at 31 March 2011 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the Pension Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

ii) Liquidity Risk

Liquidity risk arises from the possibility that the Pension Fund will be unable to raise funds to meet its commitments associated with financial instruments.

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.

a) Conventional Bonds

The liquidity risk is minimised through holding cash and readily realisable securities which can meet the usual requirements of the Pension Fund.

b) Broad Bonds

The Manager monitors liquidity in the fixed income portfolios regularly in a variety of ways and for different purposes:

i) **Trading** – the Manager's Fixed Income Trading Desks regularly monitor market liquidity using their extensive market networks, and provide feedback to the Portfolio Management teams. This is particularly important in the fixed income markets where trading markets in certain specialized or structured instruments trade with significantly less frequency than in the equity markets.

ii) **Portfolio Management** - the Manager’s Portfolio Management teams monitor liquidity within portfolios, taking into account factors such as the type of instrument, maturity of the instrument, trading volume, the total amount outstanding and the portion of the outstanding amount that is held. Liquidity is also discussed within the fixed income investment policy group and related internal management process. Liquidity is evaluated based upon a variety of relevant factors, including investable market capitalization; the breadth, depth and number of investable issuers; trading volumes; transaction costs; settlement costs, and bid/ask spreads. There are internal concentration limits at the issue and issuer level that are adhered to. If it is difficult and expensive to invest due to constrained liquidity, the Portfolio Management teams will require extra expected return to compensate for additional costs arising from limited liquidity. Product capacity is regularly assessed and access to products will be closed or restricted as deemed appropriate to ensure that the Manager has confidence it can achieve the relevant investment objectives and liquidity expectations of the Pension Fund.

iii) **Risk Management** - the Manager’s Risk Management team monitors liquidity on a macro level, looking at liquidity of all holdings in the aggregate. Where particular positions start to approach internal limits, the risk management team discuss these with the affected portfolio managers. Liquidity is a prominent theme which is discussed and reviewed at the Manager's senior risk governance committee.

c) UK EQUITY

Equities are affected by many risk factors, but the liquidity risk associated with this portfolio is not generally quantifiable.

d) GLOBAL EQUITIES

i) **Maturity analysis of financial liabilities** - there are no financial liabilities within the portfolio other than those that arise from the trading of investments. Such liabilities follow the standard settlement cycle of the local market which varies between 2 and 3 days.

ii) **Maturity analysis of derivatives liabilities** – there are no such instruments held within the portfolio.

Overall liquidity is managed in line with parameters set out in the Investment Management Agreement (cash to remain between 0 and 5% of fund).

Within the portfolio, prior to any purchase, each stock is analysed on a free float basis and discussed in detail at the Manager's research meeting. Assuming approval, the purchase order would normally be placed in the market with a limit on the maximum daily volume permitted. The liquidity of each stock, in terms of the number of days taken to trade to both the benchmark and cash, is subsequently measured monthly at a stock and aggregate portfolio level.

Portfolio liquidity provisions are monitored and controlled as part of the Manager's normal portfolio review process, which includes a monthly meeting that is attended by the entire investment team. The Manager's Style Research system is used to generate monthly reports that include details of liquidity, as well as portfolio volatility and other risk characteristics.

e) DYNAMIC ASSET ALLOCATION

Liquidity analysis of the current holdings in the portfolio is shown in the following table:

Timescale	% of Fund Liquidated
1 day	78.99
2 days	79.78
3 days	81.29
4 days	81.59
5 days	85.33
5 to 10 days	92.94
10 to 30 days	97.82
30 to 53 days	100

The table shows that in the region of 85% of the holdings can be liquidated in 5 days and that in the region of 93% can be liquidated within 10 days. There are some funds held in the portfolio which only deal on a weekly or monthly basis, taking these into account about 98% of the portfolio can be liquidated in 30 days. The remaining 2% of the portfolio represents a holding where available volume data shows that 53 days are required to liquidate the position. However, it should be noted that the Manager is confident that, if necessary, the holding could be placed with other existing investors in a much shorter timeframe.

In terms of derivatives positions in the portfolio, the futures and foreign exchange positions can be liquidated in one day.

Liquidity risk is monitored at an overall Manager level where all holdings in the same stock are consolidated. The % of the company held is monitored together with analysis on the days required to liquidate the position.

f) GLOBAL PROPERTY

There are no financial liabilities within this portfolio at 31 March 2011. The derivatives liabilities relate to unrealised hedging of -£0.619m and have a maturity profile of less than one year.

Certain securities held by the Manager may be difficult to sell at the time and at the price that the manager would like. The Manager may have to lower the price to affect a secondary marker sale, sell other securities instead or forego an investment opportunity. The manager monitors the underlying funds' liquidity risk on a daily basis and also any material events. There have been no changes to the policies and processes for managing liquidity risk and the methods used to measure risk during 2010/11.

g) CASH

Durham County Council, as administering authority, invests the cash balances of the Pension Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee.

The County Council manages its liquidity position through the risk management procedures as set out in the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives Durham County Council as administering authority a limited power to borrow on behalf of the Pension Fund for up to 90 days. The power is for cash flow management in specified circumstances, which in practice should be exceptional. Occasionally, unexpected pressures can occur and, in these circumstances, the power would enable administering authorities to avoid becoming forced sellers of fund assets at the wrong time in the market cycle because of a need for cash flow.

The County Council has ready access to borrowings from the money markets to cover any day to day cash flow need.

iii) MARKET RISK

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk embodies potential for both loss and gains and includes market price risk, currency risk and interest rate risk.

a) CONVENTIONAL BONDS

i) **Market price risk** - market price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Investment Manager considers the asset allocation of the portfolio in order to manage the risk associated with particular countries or industry sectors, whilst continuing to follow the investment objective and criteria. As the portfolio is composed entirely of bonds and cash, market price risk for the fund is represented by interest rate and currency risk, both of which are dealt with below.

The Investment Manager does not use derivative instruments to hedge the investment portfolio against market price risk as in their opinion the cost of such a process would result in an unacceptable reduction in the potential for capital growth.

ii) **Currency risk** - a substantial portion of the assets of the Durham County Council Pension Fund are denominated in Sterling (which is the functional currency), and therefore has relatively low level exposure to currency risk. The currency exposure that would exist through the Pension Fund's holdings of non-UK denominated securities is all hedged back into Sterling through currency forwards. The Fund therefore has no unhedged currency risk at the year end.

iii) **Interest rate risk** - the financial assets of the Pension Fund are all interest-bearing. The Fund is subject to significant exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

iv) **Interest rate sensitivity**: At 31 March 2011, the average duration of the fund was 16.8 years. If a 25 basis point parallel shift in interest rates had occurred, with all other variables remaining constant, this would have had a monetary impact of £14,878,008 on the net assets of the fund, based on a valuation of £354,238,281.

b) BROAD BONDS

The table below details the maturity analysis of this portfolio.

Type of Investment	Years to Maturity	% of Portfolio
Non-derivatives	3	45.80
	3 to 5	9.80
	5 to 7	17.37
	7 to 10	10.66
	10	16.22
Derivatives	3	0.24
	7 to 10	-0.09
Total		**100.00**

c) UK Equity

The portfolio is invested 100% in UK equities, with a small proportion of frictional cash from time to time. Equities are affected by many risk factors, but the principal ones would typically be economic risk, inflation risk, interest rate risk, and credit risk, although these risks are not generally quantifiable for practical purposes.

d) Global Equities

This portfolio is exposed to the following types of market risk; equity risk, interest rate risk and currency risk.

The portfolio is not hedged and so the impact of any movement in relevant market prices and currency rates directly correlates to changes in the value of the portfolio. In relation to currency movements, the table below reflects the sensitivity of the fund value to changes in the exchange rate of the primary currencies to which it is exposed.

1% Change in Currency	% of Portfolio	% change in Market Value £
USD	28.76	0.29
JPY	23.17	0.23
EUR	20.24	0.20
GBP	18.31	0.18

In the period under review and as at 31 March 2011 this portion of the Pension Fund was solely invested in equity instruments. Therefore, the Pension Fund's only direct exposure to interest rate risk is on the uninvested cash. As at 31 March 2011 uninvested cash stood at £3,478,782. If interest rates had moved by 0.25% from those prevailing as at 31 March 2011, it would have the effect, with all other variables held constant, of either increasing deposit interest (in the case of an increase in rates) or decreasing deposit interest (in the case of a decrease in rates) on an annualised basis by £8,697.

e) Dynamic Asset Allocation

The monitoring of market risk is undertaken using volatility. The volatility of the fund is monitored to ensure that it does not exceed 70% of the volatility on the MSCI World index. For the Manager's internal purposes Value at Risk (VaR) is also monitored.

f) Global Property

The market allocation (risk exposures) of the portfolio is calculated on a quarterly basis using the latest available reporting provided by both the listed securities and private property funds. These are combined on an overall portfolio basis using the most recent valuations. Market exposures are calculated on a ‘look-through’ gross basis i.e. the impact of financial leverage to estimate the gross asset values are included and thus exposures of the underlying direct property portfolios.

The market exposures are managed in a number of ways; firstly, the portfolio is well diversified by geography, sector and holdings. The investment restrictions imposed ensure that the portfolio is not over concentrated, limiting exposure to a single geographic region and property type i.e. office, retail etc. The Manager’s Investment Committee, which comprises members external to the investment team, meet on a quarterly basis and review the portfolio’s performance and adherence to investment restrictions.

The Model Portfolio of the portfolio is reviewed every quarter and this reflects the Manager’s preferred market exposures. It incorporates the latest views on countries and sectors and takes into account any changes in market conditions. The quarterly reviews of this may result in changes in allocations to both countries and sectors.

The key tool utilized by the investment team for measuring risk and managing portfolios is the Target Portfolio spreadsheet. This incorporates the Manager’s latest House Views of expected returns, the risk and inter-correlations of underlying markets, and the impact upon overall portfolio risk of the individual holdings’ property strategies and leverage levels. The Target Portfolio shows the planned final shape of the portfolio, in terms of allocations to individual holdings, and the consequential structure of the portfolio on a look-through basis, showing allocations to market segments. This is constructed using current valuations and available capital to commit.

The Target Portfolio is modelled in a Target Portfolio Spreadsheet, which shows the current and planned portfolio by fund, and tracks the projected geographic and sector allocations, average leverage and position versus the Model Portfolio and investment restrictions. This is used as a basis for portfolio investment plan detailing any new acquisitions and/or dispositions and the consequential impact upon the portfolio’s future market exposures. This plan is reviewed by both the Chief Investment Officer and Regional Heads of the Manager, together with the designated portfolio manager.

Acquisitions of property related assets by way of trade can be difficult to realise and, as there may not be an available market for them, it may not be possible to establish their current value at any particular time. The portfolio’s investments in property related assets are subject to the general risks incidental to the ownership of real or heritable property, including changes in general economic or local conditions, changes in supply of, or demand for, competing properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and zoning or planning laws and credit risks of tenants and borrowers and environmental factors.

g) CASH

Interest rate risk - The Pension Fund is exposed to interest rate movements on its investments and any borrowings it may undertake.

The County Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together County Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Strategic Finance Treasury Management team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance 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.

PUBLIC-PRIVATE INVESTMENT PLAN

The Pension Fund has a £25.6m investment in a Public-Private Investment Plan (PPIP) Fund through its Broad Bonds Investment Manager. This was a plan designed to value and remove troubled assets from the balance sheet of troubled financial institutions in the United States. Essentially, the PPIP's goal was to create partnerships with private investors to buy toxic assets. The programme is designed to increase liquidity in the market and to serve as a price-discovery tool for valuing troubled assets. The Investment Manager competed with more than 90 other managers to work with the US Treasury in the PPIP.

Commercial Mortgage-Backed Securities and Non-Agency Residential Mortgage-Backed Securities in which the PPIP Fund may invest entail a number of risks, including but not limited to credit risk of both the underlying assets and the issuers, market risks from the cash flow characteristics of the security, interest rate risk from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to the holders of the securities, liquidity risks, including the lack of liquidity in the market due to real or perceived credit risk or credit quality of the underlying assets, and operational risks associated with the potential for misrepresentation of the underlying asset quality or terms of the issuance or inadequate servicing of the securities.

12. INVESTMENT MANAGEMENT FEES

The six 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. All fees are payable quarterly in arrears.

Included as 'Other advisory fees', are Independent Advisers' fees. These 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.

2009-10 £000		2010-11 £000
-3,923	Administration, management and custody	-6,370
-36	Other advisory fees	-140
-3,959		**-6,510**

13. Contributions Receivable

2009-10 £000		2010-11 £000
	Employer's contributions	
75,191	Normal	75,304
11,532	Augmentation	2,379
7,060	Deficit funding	-
	Members contributions	
24,053	Normal	23,773
205	Additional contributions	177
118,041		**101,633**
92,970	Local Authorities	83,933
19,894	Scheduled Bodies	12,006
5,177	Admitted Bodies	5,694
118,041		**101,633**

14. Benefits Payable

2009-10 £000		2010-11 £000
-68,734	Pensions	-70,793
-19,772	Commutations and lump sum retirement benefits	-19,393
-1,938	Lump sum death benefits	-1,340
4,971	Recharged benefits	4,993
-	Purchased annuities	-
-85,473		**-86,533**
-79,103	Local Authorities	-77,989
-5,590	Scheduled Bodies	-7,365
-780	Admitted Bodies	-1,179
-85,473		**-86,533**

15. Payments To And On Account Of Leavers

2009-10 £000		2010-11 £000
12	Refunds to members leaving service	6
-	Payments for members joining state scheme	1
-	Purchase of annuities	-
13,109	Individual transfers to other schemes	11,157
-	Group transfers to other schemes	-
13,121		**11,164**

16. INVESTMENT INCOME

2009-10 £000		2010-11 £000
1,804	Interest from fixed interest securities	1,838
4,801	Income from index-linked securities	5,957
21,250	Dividends from equities	24,655
555	Interest on cash deposits	123
2,968	Income from pooled investment vehicles	5,648
31,378		**38,221**

17. ANALYSIS OF DEBTORS

2009-10 £000		2010-11 £000
14	Central government bodies	3
29,543	Other local authorities	21,136
-	NHS bodies	-
-	Public corporations and trading funds	-
9060	Other entities and individuals	10,917
38,617	**Total debtors**	**32,056**

18. ANALYSIS OF CREDITORS

2009-10 £000		2010-11 £000
-606	Central government bodies	-623
-2,454	Other local authorities	-1,412
-	NHS bodies	-
-	Public corporations and trading funds	-
-7,041	Other entities and individuals	-11,613
-15,255	**Total creditors**	**-13,648**

19. RELATED PARTY TRANSACTIONS

Related party disclosures are required under IAS 24 to ‘ensure that accounts contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them’.

Related parties are therefore 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 either:

- ❖ 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.

Pension Fund related parties fall into three categories:

a) Employer related

b) Member related or

c) Officers and managers.

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees. Each participating employer is therefore considered a related party. The table below details the nature of related party relationships.

<table>
<tr><th>Transaction</th><th>Description of the Financial Effect</th></tr>
<tr><td>Contributions receivable (Note 13) - £101.633m</td><td>Amounts received from employers in respect of contributions to the Pension Fund.</td></tr>
<tr><td>Debtors - £18.718m</td><td>Amounts due in respect of employers and employee contributions</td></tr>
<tr><td>Creditors - £1.024m</td><td>Amounts due to the Administering Authority in respect of administration expenses.</td></tr>
<tr><td>Administration Expenses</td><td>The administration of the Pension Fund is undertaken by officers of the County Council. The cost of their time is charged to the Pension Fund as permitted by the Local Government Pension Scheme (Administration) Regulations 2008. The Council charged the fund £1.238m in 2010/11 (£1.132m in 2009/10) for expenses incurred in administering the Fund.</td></tr>
<tr><td>Long term loans</td><td>The Long-Term Loans referred to in note 6 are loans made to a number of the current and former participating employers of the Fund. The loans outstanding were made between March 1964 and May 1967, this being common practice at the time. No further loans have been granted since January 1974. The Pension Fund receives interest of between 5.75% and 9.875% of the outstanding balance per annum in addition to capital repayments. The maximum amount outstanding on these loans at any time during the year was the opening balance. The balance outstanding on these loans as at 31 March 2011 is £0.441m (£0.466m 2009/10).
<table>
<tr><th>Amount outstanding 31st March 2010 £000</th><th>Employer</th><th>Amount outstanding 31st March 2011 £000</th></tr>
<tr><td>310</td><td>Durham County Council</td><td>292</td></tr>
<tr><td>156</td><td>Sunderland City Council</td><td>149</td></tr>
<tr><td>466</td><td></td><td>441</td></tr>
</table>
</td></tr>
</table>

Durham County Council – Administering Authority	Durham County Council administers the Durham County Council Pension Fund on behalf of 68 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2010/11, the Pension Fund had an average balance of £18.005m (£66.793m in 2009/10) of surplus cash deposited with the County Council. In 2010/11 the County Council paid the fund a total of £0.105m (£0.536m in 2009/10) in interest on these deposits.

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.

Due to being the administering authority Durham County Council has 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. A table of their declarations along with non-Durham County Council Pension fund Committee members are detailed in the following table:

Member	**Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc**
John Bailey	Howden-le Wear Community Partnership and Community Centre
Colin Carr	Association of Labour Councillors, Chartered Institute of Waste Management, Beamish, County Durham and Darlington Fire and Rescue Authority, Ouston, Pelton, Roseberry Sports Community College, Institute of Licensing
Jean Chaplow	Save Deerness Sports Centre
Amanda J Hopgood	Newton Hall Community Association
John Lethbridge	Bishop Auckland Town Council, Bishop Auckland and Shildon AAP, Citizens Advice Bureau, King James I School, Aclet Nursery, Woodhouse Community School
Nigel Martin	City of Durham Charter Trust, Sherburn Hospital, County Durham Development Company
Peter H May	Beamish, Conservative Party, North Lodge Residents Association, North Lodge Property Owners Association.

Member	Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc
Dennis Morgan	Cassop-cum-Quarrington Parish Council, Durham Johnston, City of Durham Charter Trust, Bowburn Community Centre, East Durham AAP, Durham Villages Regeneration Company, DTVA, Friends of Beamish, Weardale Railway Trust
Reginald Ord	Nil Return
Robin J Todd	South Hetton Parish Council and South Hetton Community Association, Beamish
Andy Turner	West Auckland Parish Council, St Helens School
Keith Tallentire	Nil return
Dave Sanders	Nil return
Chris McEwan	Nil return

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

c) Officers and Managers

Related parties in this category include:

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

Senior Officer	Related Party Disclosure
Chief Executive	Nil
Corporate Director Resources (retired in 2010/11)	Nil
Corporate Director Resources (appointed in 2010/11)	Nil

There were no transactions between officers and managers of the Pension Fund and the Pension Fund.

20. Contingent Assets

a) Claims for Foreign Income Dividends And Withholding Tax

The Pension Fund is involved in claims for tax reclaims due to EC legislation. There is a likelihood that the Pension Fund will receive income in the region of £5m should these claims be successful. However, as the outcome of Court cases will determine the reclaim of taxes, neither the amount of income, nor the timing of the income is certain.

b) 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's accounts.

c) FOREIGN INCOME DIVIDENDS (FIDS)

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. Pension Funds which received dividends designated by UK companies as FIDs or dividends received from overseas companies however 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 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 less favourably UK Pension Funds which invested directly into overseas companies or UK companies paying FIDs as opposed to 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.

d) 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.

21. Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require the County Council to prepare and review a written statement of the investment policy of the Pension Fund. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 specifies additional content for the Statement and requires first publication of this revised document by 1 July 2010. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

A copy of the Annual Report can be obtained from the Corporate Director Resources, County Hall, Durham DH1 5UE and is available on the County Council's website: www.durham.gov.uk

22. 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 was reviewed by the Pension Fund Committee in 2011. It is to be revised whenever there is a material change in policy in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

The Funding Strategy Statement is available on the County Council's website: www.durham.gov.uk

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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; and
- Money purchase scheme, managed separately by HECM, 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 31/03/10 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31/03/11 £000
HECM	2,410	58	205	111	2,374
Prudential	2,770	790	844	(33)	2,683
Standard Life	1,401	65	192	99	1,373
Total	**6,581**	**913**	**1,241**	**177**	**6,430**

The financial statement above, relating to money purchase AVCs, are not audited by the Audit Commission as they do not form part of the Pension 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) Regulation 1998.

24. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As of the 1 April 2010 the Pension Fund has accounted under International Financial Reporting Standards (IFRS), as opposed to UK Generally Excepted Accounting Practices (UK GAAP). This was mandatory for all local authority entities and brings local authority accounting in line with that of other government bodies such as government departments and the NHS.

On assessment of transition there were no material changes to the way transactions and balances were accounted for. This assessment was initially conducted on the financial year ended 31 March 2010 as it was necessary to have IFRS compliant comparatives.

The following table shows the initial IFRS compliant Net Asset Statement for 1 April 2009 and shows the opening position for the 2009 to 2010 financial year that forms the comparatives for these annual accounts. It is identical to the closing Net Asset Statement for the year ended 31 March 2009.

	As at 1 April 2009	
	£000	£000
Investments		
Fixed interest securities	25,431	
Equities	529,019	
Index linked securities	284,293	
Managed and unitised funds	289,903	
Cash and short term investments	115,510	
Divident Accruals	5,329	
Tax Recovery	668	
Other Investment Balances	9,881	
		1,260,034
Investment Liabilities		
Other Investment Balances		-14,154
Current Assets		
Contributions due		12,771
Current Liabilities		
Unpaid benefits	-163	
Other	-8,739	
		-8,902
NET ASSETS OF THE FUND AT 1 APRIL		**1,249,749**

The IFRS compliant Net Asset Statement for the years ended 31 March 2011 with comparatives for the year ended 31 March 2010 are shown as one of the primary financial statements at the beginning of these annual accounts.

Appendices

PARTICIPATING BODIES AND THEIR CONTRIBUTION RATES

The contribution rates of participating bodies are shown below, expressed as a percentage of employees' pensionable pay:

Employer	***% Pay***	***Employer***	***% Pay***
Durham County Council	21.5	Durham Valuation Tribunals	19.7
Darlington Borough Council	18.5	Central Durham Joint Crematorium Committee	19.7
Brandon & Byshottle Parish Council	19.7	Bishop Auckland College	15.0
Chilton Parish Council	19.7	Darlington College	14.9
Easington Colliery Parish Council	19.7	Derwentside College	17.2
Easington Village Parish Council	19.7	East Durham College	14.3
Esh Parish Council	19.7	New College, Durham	17.4
Fishburn Parish Council	19.7	Queen Elizabeth Sixth Form College	15.9
Framwellgate Moor Parish Council	19.7	Barnard Castle School	28.5
Healeyfield Parish Council	19.7	County Durham & Darlington Fire & Rescue Service	17.6
Horden Parish Council	19.7	Durham County Police Authority	16.0
Hutton Henry Parish Council	19.7	Durham Probation Service	17.1
Lanchester Parish Council	19.7	Bowes Museum	45.0
Monk Hesledon Parish Council	19.7	Compass Group UK	18.7
Murton Parish Council	19.7	Dale and Valley Homes	15.2
North Lodge Parish Council	19.7	Derwentside Homes	19.9
Pelton Parish Council	19.7	East Durham Homes Ltd	15.0 plus £336,000
Shotton Parish Council	19.7	Hobson Golf Club	13.9
South Hetton Parish Council	19.7	MITIE Cleaning	21.3
Thornley Parish Council	19.7	MITIE PFI Ltd	23.8
Trimdon Foundry Parish Council	19.7	Murton Welfare Association	14.0
Trimdon Parish Council	19.7	Peterlee Fire Company	23.1 plus £3,200
Wheatley Hill Parish Council	19.7	Shildon & Darlington Training Ltd	36.7
Wingate Parish Council	19.7	Teesdale Housing Association	19.4
Ferryhill Town Council	19.7	The Forge	14.2
Great Aycliffe Town Council	19.7	Three Rivers Housing	9.4
Peterlee Town Council	19.7	Eastbourne Academy	18.5
Seaham Town Council	19.7	Cestria Community Housing Association	16.8
Sedgefield Town Council	19.7	Mears Limited	19.6
Shildon Town Council	19.7	Kier Support Services Ltd	23.1
Spennymoor Town Council	19.7	NE Fire Control Company	18.0
		Sedgefield Borough Homes	14.7

Appendix 2

MEMBERSHIP STATISTICS

	Summary of Pensionable Employees				Summary of Pensioners			
	Pension-able employees as at 31.3.10	ADD New-comers during year	LESS Leavers during year	Pension-able employees as at 31.3.11	Pensioners as at 31.3.10	ADD New pensioners during year	LESS Pensioner Deaths During Year	Pensioners as at 31.3.11
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Durham CC	13,044	827	1,177	12,694	12,344	639	404	12,579
Darlington BC	2,702	162	294	2,570	1,367	110	44	1,433
Town Councils	146	7	1	152	91	0	2	89
Parish Councils	62	2	4	60	32	3	0	35
Joint Crematoria Cttee								
Central Durham	7	0	2	5	7	3	1	9
Statutory Bodies:								
Local Valuation Panels	0	0	0	0	6	0	0	6
Durham Police Authority	1064	12	148	928	184	64	2	246
County Durham & Darlington Fire & Rescue Authority	129	2	19	112	8	7	0	25
Durham Probation Service	252	0	252	0	47	0	47	0
Magistrates Court	0	0	0	0	76	2	2	76
East Durham Homes	116	17	4	129	62	5	1	66
Dale & Valley Homes	48	17	6	59	0	1	0	1
Eastbourne Academy	39	7	1	45	0	0	0	0
Shotton Hall Academy	0	33	2	31	0	0	0	0
Colleges:								
Bishop Auckland	185	16	50	151	24	15	0	39
Darlington College	228	16	31	213	61	6	2	65
DarlingtonQE6^{th} Form	66	7	3	70	5	2	0	7
Derwentside	76	5	17	64	58	6	0	64
NewCollege Durham	235	23	19	239	95	5	2	98
East Durham & Houghall Comm. College	180	25	49	156	53	14	0	67
Admitted Bodies:								
Barnard Castle School	53	1	2	52	20	1	0	21
Shildon & Darlington Training Limited	1	0	1	0	4	0	0	4
Leisureworks	40	1	4	37	14	1	0	15
Bowes Museum	9	0	1	8	11	1	1	11
3 Rivers Housing	2	0	0	2	0	0	0	0
Hobson Golf Club	2	0	0	2	0	0	0	0
Murton Welfare Ass.	4	0	0	4	0	0	0	0
Peterlee Fire Co	2	0	0	2	0	0	0	0
Mitie PFI	2	0	1	1	1	1	0	2
Compass Group UK	9	0	1	8	1	0	0	1
The Forge	2	0	0	2	0	0	0	0
Teesdale Housing	9	0	1	8	1	1	0	2
Mitie Cleaning	1	0	0	1	1	0	0	1
Derwentside Homes	191	7	16	182	23	8	0	31
Cestria	120	16	17	119	8	8	0	16
Mears	92	0	4	88	7	4	0	11

(1)	Summary of Pensionable Employees: Pension-able employees as at 31.3.10 (2)	ADD New-comers during year (3)	LESS Leavers during year (4)	Pension-able employees as at 31.3.11 (5)	Summary of Pensioners: Pensioners as at 31.3.10 (6)	ADD New pensioners during year (7)	LESS Pensioner Deaths During Year (8)	Pensioners as at 31.3.11 (9)
Admitted Bodies (cont'd):								
Sedgefield Homes	152	17	15	154	1	5	0	6
North East Fire CC	4	0	1	3	0	0	0	0
Kier Support Services	36	0	2	34	1	1	0	2
Creative Management	4	0	1	3	0	0	0	0
Morrisons	91	0	3	88	0	2	0	2
Taylor Shaw	0	33	0	33	0	2	0	2
Childrens Links	0	1	0	1	0	0	0	0
KGB Cleaning	0	3	1	2	0	1	0	1
Carillion	0	15	1	14	0	0	0	0
Former Employers	0	0	0	0	294	9	0	303
Commission for New Towns	0	0	0	0	5	0	0	5
Total	**19,405**	**1,272**	**2,151**	**18,526**	**14,922**	**927**	**508**	**15,341**

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 - 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/ Probation / Town & Parish Councils etc.	1
Admitted Bodies	1
Member representatives	2
	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, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and 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 / 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

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

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 – AVAILABILITY AND WHEN PUBLISHED:

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

PENSION BENEFITS

The pension is paid at the rate of one-eightieth of pay for each year of membership before 1 April 2008, and one-sixtieth of pay for each year of membership on or after 1 April 2008.

Retirement grants are based on three-eightieths of pay for each year of membership before 1 April 2008. 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.

Widows' and children's pensions are paid in appropriate circumstances. The widow'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. Eligible children receive a pension of one-half of the widow's pension, subject to a maximum of half for two or more children. Widower's pensions are also payable (based on membership from April 1988 unless the employer has resolved to include all service).

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

(a) On reaching sixty-five years of age (both men and women).

(b) Between age sixty and sixty-five (if the employee was a Scheme member on 31 March 1998):

   (i) full benefits would be paid if the member had twenty-five years membership or more;

   (ii) reduced benefits may be paid if the member had at least three months but less than twenty-five years membership.

(c) At age 50 or over with at least three months membership if the member retires under the Rule of 85. The member will require employer consent if under age 60 years. The 85 year Rule means that if a member's age (in whole years) and membership (in completed years) equals or exceeds 85 in total, then full benefits would be paid. Otherwise reduced benefits may be paid. From 1 October 2006 the Rule of 85 has been removed for all new entrants and there are some protections against the removal of the Rule of 85 for individuals who were in the Scheme before October 2006.

(d) At any age with at least three months membership if the member retired on 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 three months. For death in service an additional period of membership is awarded under the Local Government Pension Scheme Regulations where membership is at least three months.

(e) At age fifty-five and over with at least three months membership if the member is made redundant, or retires under an employer's early retirement scheme. If the redundancy / efficiency retirement is before 31 March 2010 and the individual joined the Scheme before 1 April 2008, immediate access to pension benefits is given if the individual is age fifty or over at the date of leaving.

If a member leaves with at least three 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 are '*frozen*' 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. A table showing the Pension Increases applicable over the last 5 years is on Page 16 of this report.

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.
- The Fund is being wound up

ii. Capital North East

- Start up and development capital for businesses in the North East:
- £500,000 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%	28%
Dynamic Asset Allocation	All major asset classes with derivative overlay	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

Durham County Council Pension Fund

Compliance with the updated Myners Principles

Since the original Myners Review in 2001 established 10 principles of investment for defined benefit schemes, the Durham County Council Pension Fund has carried out a self-assessment of their position and implemented arrangements in order to comply with these principles.

In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into 6 new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers. The Investment Governance Group – LGPS Sub-Group has issued an adapted version for LGPS pension funds.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 [SI 2009/3093] require, inter alia, administering authorities to state in their Statement of Investment Principles, the extent to which they comply with the updated principles as contained in guidance issued by CIPFA. If an authority does not comply with that guidance in any respect, it should describe the relevant aspects of its practice and give the reasons for them.

Durham County Council Pension Fund maintains a high level of compliance with the updated principles and guidance, as shown in the following table.

Principle 1: Effective decision-making	**Mainly compliant**
Durham County Council Pension Fund has ensured that decisions are taken by those with the skills, knowledge, advice and resources necessary to make them effectively, that their implementation is regularly monitored, and that they have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. The fund is assessed as mainly compliant as it does not yet have an explicit strategy in place for employer relationships	

Principle 2: Clear objectives	Mainly compliant
Durham County Council Pension Fund has set overall aims and a purpose for the Fund that take account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these are clearly communicated to advisers and investment managers. The Fund is assessed as mainly compliant because an explicit investment objective has not been included in the SIP, asset/liability studies are not used, and transaction related costs are not reported.	

Principle 3: Risk and liabilities	Mainly compliant
In setting and reviewing their investment strategy, Durham County Council Pension Fund has taken full and proper account of the form and structure of liabilities, including the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. The Fund is assessed as mainly compliant because tolerance parameters are not set for underperformance, standards of internal control for the pension fund are not covered explicitly, and an overall risk assessment is not included in the annual report.	

Principle 4: Performance assessment	Mainly compliant
Durham County Council Pension Fund has made suitable arrangements for the formal measurement of performance of the investments, investment managers and advisers, but does not make a formal assessment of its own effectiveness as a decision-making body, reporting to scheme members each year.	

Principle 5: Responsible ownership	Partly compliant
Durham County Council Pension Fund has not ensured that their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the fund's policy on responsible ownership is included in the Statement of Investment Principles but the discharge of such responsibilities is not reported periodically to scheme members. Partial compliance is indicated because the Fund does not comply fully with the Principle and does not collaborate with other investors.	

Principle 6: Transparency and reporting	Fully compliant
Durham County Council Pension Fund acts in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and reports regularly to scheme members.	

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	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade 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.

Appendix 6

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

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.

ROYAL LONDON ASSET MANAGEMENT (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 – mainly index-linked securities with a specified range of +/- 2 years duration of the benchmark	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

C B RICHARD ELLIS INVESTORS (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 on at least 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:

Appendix 6

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.

Durham County Council

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 provide 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.

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 CIPFA guidance
    - o Its Statement of Investment Principles (SIP) published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
- The first statement must be published by 31 March 2005.
- 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 Regulations 1997 (the Regulations). Constraints on the levels of employee contributions are also specified in the Regulations.

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

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

3. 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 those 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) AIMS AND PURPOSE OF THE PENSION FUND

4. The aims of the fund are to:

- **Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies**

  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.

  The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return. 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.

There is a balance to be struck between the Fund's investment policy, actuarial smoothing adjustments and employer's contribution rates.

- **Manage employers' liabilities effectively**

  The Administering Authority seeks to manage employers' liabilities effectively. 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 and property. 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.

5. The purpose of the fund is to:

- Receive money in respect of contributions, transfer values and investment income, and

- Pay out money in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

(D) RESPONSIBILITIES OF THE KEY PARTIES

6. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the following are considered to be of particular relevance:

7. 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 Occupational Pensions Regulatory Authority (Opra).
- 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 Funding Strategy;
  - 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

  - o 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.

8. 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.

9. 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) SOLVENCY ISSUES AND TARGET FUNDING LEVELS

10. LGPS administering authorities prudentially seek to achieve full funding. The scheme regulations refer to each administering authority securing solvency by means of employer contribution rates established by mandatory valuation exercises and to the desirability of maintaining as nearly constant a rate as possible.

11. The LGPS however remains outside of the solvency arrangements established for private sector occupational pension schemes. It is not

therefore unreasonable for administering authorities to establish longer-term recovery periods than those in the private sector where this is considered to be prudentially appropriate and relevant to local circumstances, and linked to the scheme's triennial valuation exercise requirements.

12. The Administering Authority will prudentially seek to secure the solvency of the Fund. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, as measured by the Fund's Actuary. Solvency is not defined in the Regulations, and its definition is therefore the Administering Authority's interpretation. Funding can be interpreted differently depending on the assumptions used. The liabilities are measured on 'on-going' actuarial methods and assumptions where 'on-going' actuarial assumptions and methods are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for open, ongoing UK pension fund with a sponsoring employer of sound covenant.

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

14. 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 will be discussed at each valuation.

15. 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.

16. 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.

17. It is recognised that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. 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. There is however a risk involved in relying on long recovery periods and the Administering Authority 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

18. 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.

19. The Administering Authority will permit some employers to be treated as a group for the purposes of setting contribution rates. For smaller employers the contribution rate can be volatile due to the increased likelihood that demographic movements could have a material effect. 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 offered its own contribution rate. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time.

20. For employers whose participation is for a fixed period, grouping is unlikely to be permitted.

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

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

GENERAL PRINCIPLES AND DIVERSIFICATION

22. 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.

23. 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.

24. 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.

25. 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.

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

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

(G) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

28. 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:

29. 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

30. 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.

31. 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.

32. 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.

33. Solvency

These include:

- Allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise

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.

34. 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.

35. 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 to no longer than 30 years.

36. 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 to three annual steps or, in exceptional circumstances, to six annual steps.

(H) MONITORING AND REVIEW

37. The FSS should be reviewed formally at least every three years and in advance 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.

UK EQUITIES

The following twenty largest holdings account for 85.3% of the Fund's investment in UK equities and 23.9% of the total Fund investments:

Holding	***Market Value as at 31 March 2011***
	£000
B G Group	38,466
Rio Tinto	35,532
Standard Chartered	32,372
British American Tobacco	30,031
Compass Group	27,466
British Sky Broadcasting	25,080
Next	23,760
Reckitt Benckisser	21,167
Tullow Oil	19,446
Astrazenecca	18,323
Vodafone Group	17,312
Cairn Energy	17,147
John Wood	16,177
Wolseley	15,742
Royal Dutch Shell	14,406
HSBC Holdings	13,490
B H P Billiton	13,284
Glaxosmithkline	12,495
Tesco	11,712
MAN Group	10,712
	414,120

FIXED INTEREST HOLDINGS

The following ten largest holdings account for 75.6% of the Fund's fixed interest holdings and 17.1% of the total portfolio:

Holding	*Market Value as at 31 March 2011*
	£000
Treasury 1.25% Index Linked 22/11/55	41,374
Treasury 1.25% Index Linked 2211/32	40,787
Treasury 2.5% Index Linked 17/07/24	40,182
Treasury 1.875% Index Linked 22/11/22	36,620
Treasury 1.25% Index Linked 22/11/17	36,474
Treasury 2.5% Index Linked 23/08/11	24,729
Treasury 0.625% Index Linked 22/11/42	21,706
Treasury 1.25% Index Linked 22/11/27	20,070
Treasury 2.5% Index Linked 16/04/20	17,440
Treasury 4.125% Index Linked 22/07/30	16,653
	296,065

Funds and Units

The following ten holdings account for 74.5% of the Fund's holdings in Managed and Unitised Funds and 19.1% of the total Fund investments:

Holding	***Market Value as at 31 March 2011***
	£000
Alliance Bernstein Diversified Yield	261,827
PPIP	25,608
Source Physical Markets Security Gold Linked Notes	9,603
BAM Themed Equity Fund	7,021
BAM Hedge Select Class A Port	6,442
BAM Themed Fixed Income Fund	5,423
BAM Agriculture Fund	4,949
RWC Partners Ltd Global Cvt Bds	4,297
BAM Hong Kong and China Fund	2,926
BAM Global Emg Mkt Fund	2,906
	331,002

OVERSEAS HOLDINGS

The following ten largest overseas equity holdings account for 36.8% of the Fund's investment in overseas equities and 8.8% of the total portfolio:

Holding	***Market Value as at 31 March 2011***
	£000
Gazprom	20,823
Mitsubishi Corp	15,481
Yamaha Motor	15,141
Samsung	14,982
Telecom Italia	14,810
Sanofi	14,730
Heineken	14,323
Zimmer Holdings	14,293
Petrol Brasileiros	13,966
Bridgestone	13,524
	152,073

PROPERTY HOLDINGS

The following holdings in property comprise 44.4% of the Fund's investment in Property and 2.6% of the total portfolio:

Holding	***Market Value as at 31 March 2011***
	£000
C B Ellis Asia Alpha Fund	6,624
Henderson Outlet Mall Fund	5,812
Schroder PUT	5,699
Prime Property	5,507
Henderson Shopping Centre Fund	4,113
Hanover PUT	4,087
Prologis European Property Fund	4,075
ING Clarion Lion	3,288
IPIF Feeder Trust	3,124
Standard Life UK Retail Park	2,859
	45,188

Glossary of Terms

Accounting Policies

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

Accruals

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

Actuary

An actuary is an expert on pension scheme assets and liabilities, life expectancy and probabilities for insurance purposes. An actuary works out whether enough money is being paid into a pension scheme to pay the pensions when they are due.

Added Years

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

Additional Voluntary Contributions (AVCs)

An option available to individuals to secure additional pension benefits by making regular payments in addition to the contributions payable to the Pension Fund on basic earnings.

Admitted Bodies

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement.

Asset Allocation

The distribution of the Fund's assets between asset classes and or/ world markets.

Balanced Management

A type of multi-asset management where a manager is responsible for all asset classes. A fund using this style is a 'balanced' fund.

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

Corporate Bonds

Investments in certificates of debt issued by a company. When a bond is issued, the company promises to return the money on a specified date, paying a stated rate of interest.

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.

Glossary of Terms

Custody

Safe-keeping of securities by a financial institution. The Custodian keeps a record of client investments and may also collect income, manage cash, process tax claims and provide other services according to client instructions.

Deferred Pension

The inflation-linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before normal retirement age.

Derivative

Contracts that derive their value from an underlying financial asset. Often used as a hedge against changes in value.

Dividend

The part of a company's after tax earnings that is distributed to shareholders in the form of cash or shares.

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.

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.

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.

Futures

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

Gilts

The familiar name given to sterling, marketable, fixed interest securities or bonds issued by the British Government.

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.

Investments

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

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.

Market Value

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

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.

Net Book Value

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

Passive Management

A style of management that seeks to achieve performance equal to market or index returns.

Pooled Fund

A pooled fund pools investors' money and invests in a portfolio of shares, bonds and cash.

Return

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

Risk

Risk is the variability of returns. Investments with a greater risk usually promise higher investment returns.

Resolution Bodies

An organisation which must make a statutory resolution covering some or all of its employees, stating that they may be fund members.

Scheduled Bodies

County and Borough Councils and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Statements of Recommended Accounting Practice (SORP)

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts.

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.

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.

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**

or you can write to:

Corporate Director - Resources
Durham County Council
County Hall
DURHAM
DH1 5UE

or visit Durham County Council's website:

www.durham.gov.uk