Northamptonshire Local Government Pension Scheme Annual Report & Statement of Accounts 2013-14

Contents

Director of Finance (Section 151 Officer) responsibilities

The Director of Finance (Section 151 Officer) is responsible for the preparation of the Northamptonshire 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.

In preparation of this Statement of Accounts, the Director of Finance (Section 151 officer) has:

- selected suitable accounting policies and then applied them consistently;
- made judgement which were reasonable and prudent;
- complied with the Code of Practice.

The Director of Finance (Section 151 Officer) has also:

- kept proper and up-to-date accounting records;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of the Director of Finance (Section 151 Officer)

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Northamptonshire Pensions Fund at the accounting date and the income and expenditure for the year ended 31 March 2014.

Mr M Bowmer

Director of Finance
(Section 151 Officer)

25 November 2014

Management and Financial Performance Report

Scheme Management and Advisers

Registered Pension Scheme Number: 00329946RE

Administering Authority

Northamptonshire County Council
P.O. Box 136
County Hall
Northampton
NN1 1AT

Administrator

Mr M Bowmer
Director of Finance
S151 Officer Northamptonshire County Council, LGSS

Pension Board and Investment Sub Committee:

County Council Members

Cllr Graham Lawman (Chairman)
Cllr Jim Hakewill (Vice Chairman) (From 3 May 2013)
Cllr Michael Brown (From 3 May 2013)
Cllr Matthew Golby (From 3 May 2013)
Cllr Dennis Meredith (From 3 May 2013)
Cllr Russell Roberts (From 3 May 2013)
Cllr Bob Scott (From 3 May 2013)
Cllr Mick Scrimshaw (Substitute Member) (From 3 May 2013)
Cllr Bill Parker (Substitute Member)

Cllr Sue Homer (Vice Chairman) (Resigned 2 May 2013)
Cllr Michael Tye (Resigned 2 May 2013)
Cllr Chris Long (Resigned 2 May 2013)
Cllr Chris Stanbra (Resigned 2 May 2013)
Cllr Andrew Langley (Substitute Member) (Resigned 2 May 2013)

District/Borough Councils' Representatives

Cllr Malcolm Ward (Wellingborough Borough Council)
Cllr Martin Wilson (South Northants Council) (From 3 May 2013)
Cllr Richard Lewis (East Northants District Council) (Substitute Member) (From 3 May 2013)

Universities and Colleges Representative

Roger Morris

Other Employers' Representatives

Alicia Bruce (From 3 May 2013)
Robert Austin (Substitute Member) (From 3 May 2013)

Employees' Representatives	
	Peter Borley-Cox Josie Mason Andy Langford (Substitute Representative)
Key Officers supporting the Fund	
Head of Pensions LGSS	Steve Dainty
Deputy Head of Pensions LGSS	Mark Whitby
Governance & Funding Manager	Paul Tysoe
Operations Manager	Akhtar Pepper
Fund Principal Accountants	Anthony Olaniyi John Hopwood
Fund Governance Officer	Joanne Walton
Investment Advisors	John Harrison Mercer Investment Consulting
Investment Managers	UBS Majedie Asset Management Newton Investment Management CBRE Global Multi Wellington Management International Baillie Gifford & Co. (Investment) Skagen Investment Catapult
Custodian	Northern Trust
AVC Providers	Prudential Assurance Standard Life
Fund Actuary	Hymans Robertson LLP
Auditor	KPMG LLP
Legal Advisor	LGSS Legal Services
Performance reporting	WM Company
Banker	Barclays Bank

Contacts

Further information regarding the accounts and investments can be obtained from:

Paul Tysoe, Funding and Governance Manager
E-mail: phtysoe@northamptonshire.gov.uk
Telephone: 01604 368671

Enquiries relating to benefits and administration should be directed to:

Mark Whitby, Deputy Head of Pensions, LGSS
E-mail: MWhitby@northamptonshire.gov.uk
Telephone: 01604 367030

Risk Management

This section sets out the key aspects of risk management within the scheme. This section should also be read in conjunction with the Governance arrangements section on page 9.

Governance Risk

The Governance arrangements explain the legal framework of the scheme, the make up of the Pension Fund Board and Investment Sub Committee and how the Scheme manages investment asset allocation and the management of external fund managers. In addition the role of the Custodian which is fundamental, covering accounting and pricing of assets risk is covered.

Investment Risk

Investment Risk is covered in detail in the scheme's Statement of Investment Principles which is available on the Northamptonshire County Council website. See link below

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Key Risks and Controls

The scheme considers all types of operational risk through risk audits, working with the County Council risk manager. Some of the current key risks with actions to mitigate include:-

Risk	Mitigation
Inappropriate long-term investment strategy	Fund specific benchmark informed through regular asset liability modelling with support of the scheme's Actuary.
Investment manager under performance	Pension Committee and Investment Advisory Panel monitoring of Fund manager performance at least once every three months. (This may be via officers of the Fund as well as formal Panel scrutiny).
Pensioners living longer than previous valuation assumptions	Triennial valuations to review and update longevity expectations.
Regulatory change	Members of the Pension Fund Board and officers of the Fund regularly attend seminars and training sessions to maintain knowledge and understanding, to ensure regulatory changes are fully understood and implemented.
Administering Authority not advised of an employer closing to new entrants.	The Fund has an effective Communication policy with all employer bodies to inform on the importance and impact of such changes.

Scheme Framework

The Local Government Pension Scheme is a statutory, funded pension scheme. It is "contracted-out" of the state scheme and is termed a defined benefit scheme. The operation of the Northamptonshire Local Government Pension Scheme is governed principally by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 [as amended] and the Local Government Pension Scheme (Administration) Regulations 2008 [as amended]. The scheme covers eligible employees of the County Council, the Police Authority, District and Borough Councils within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 29 and 30.

This defined benefit scheme provides benefits related to salary for its members and is unaffected by the investment return achieved on the scheme's assets. Pensions paid to retired employees, their dependents, and deferred benefits are subject to mandatory reviews and, where applicable, increases in accordance with annual pension increase legislation. The amount is determined by the Secretary of State and is based on the Consumer Price Index (CPI).

Contributions

The Scheme is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits being paid is invested.

The contributions from employees are prescribed by statute and are banded ranging from 5.5% for members on a full time annual pay rate of up to £13,500 to 12.5% for a full-time pay rate of more than £150,000 as at 31 March 2014.

Employers' contribution rates are set following the actuarial valuation which takes place every three years. The contribution rate reflects the Fund deficit or surplus and is the rate at which employers need to contribute to achieve a 100% funding level. Employer contribution rates for 2013-14 were assessed by the Fund's Actuary based on the completed valuation of the Scheme's financial position as at 31 March 2010. These rates assume that the Fund recovers deficits over a maximum period of 20 years commencing April 2011, as set out in the 2011 Funding Strategy Statement.

The latest actuarial valuation was undertaken in 2013, based on data as at 31 March 2013. Changes in contribution rates, as a result of this valuation, will take effect from 1 April 2014.

Governance Arrangements

Pension Fund Board

The investment activities of the Fund are controlled by the County Council's Pensions Fund Board, supported by an Investment Sub Committee.

The Pension Fund Board consists of:

- seven members nominated by the County Council;
- two district council representatives;
- two representatives of other employers;
- two employee representatives, nominated by the employees' union UNISON;
- substitute members nominated to provide cover where principle Pension Fund Board members are not available.

The members of the Pensions Fund Board as at 31 March 2014 are listed on page 4.

Since April 2001 the Fund has been advised by an independent adviser, most recently Mr. J Harrison from 1 April 2013. The independent adviser is not formally a member of the Pension Fund Board.

Fundamental Review of Pension Fund Board Arrangements

In August 2011 a fundamental review of the governance arrangements of the Fund commenced, culminating in July 2012 in Full Council approval of revised terms and conditions and where necessary specific standing orders. The new arrangements are detailed in the Governance Policy and Compliance Statement at the following link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

New legislation resulting from the Public Service Pensions Act 2013 requires the introduction of a further Pensions Board with a remit of oversight. The new Board will be established from 1 April 2014 and will consist of equal number of employer and scheme member representatives.

Management of Investments

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – (Management and Investment of Funds) Regulations 2009. These seek to ensure that the Fund:

- is suitably invested and has taken appropriate advice;
- has suitably diversified investments;
- has an appropriate number of investment managers who invest fund monies on its behalf;
- has not exceeded the relevant investment limits;
- investments and investment arrangements are regularly monitored and reviewed;
- has an appropriate Statement of Investment Principles;
- understands its powers to borrow;
- operates a separate bank account.

Investment Asset Allocation and the role of Fund Managers

Asset Allocation is determined by the Pension Fund Board and Investment Sub Committee who are informed by officers and professional investment advisors on the categories of investment that the Fund should seek to invest in. This is done through regular assessments of the asset types that best serve the current and future demands of the Fund. Typical categories are equities, fixed interest instruments, property and cash.

Following determination of the categories of investment, external investment managers are appointed to implement the investment strategy. Operational “day to day” investment decisions are taken by external investment managers, appointed by the Pension Fund Board to optimise returns, as determined within the Fund’s asset allocation.

With the exception of a passive global equities mandate, all external investment managers have been given “active” briefs to outperform the benchmark, which means they must determine which stocks to hold and which not to hold, in order to out perform the investment benchmark they are instructed to trade in.

External investment managers:

- are given specific briefs in a defined asset class, therefore have little or no flexibility between asset classes;
- have limited sums to invest and are therefore less disruptive to replace should the need arise;
- have competitive performance targets to reflect the intensity of their limited specialist investment brief;
- are sometimes limited in which country they can invest, for example we have investment managers who can only invest in UK equities.

Performance

Fund manager performance is undertaken by the Investment Sub Committee of the County Council, where fund managers are required to report investment performance on a quarterly basis. They are subject to challenge in these meetings from the committee members and the committee's well respected and informed independent investment adviser.

Custodian Services

Northern Trust has been the Fund's appointed Global Custodian since September 2000.

The responsibilities of the Global Custodian are:

- arranging for the custody of the scheme's assets in compliance with the custody agreement;
- ensuring that all holdings have been registered as assets of the Fund;
- manage the settlement of all deals entered into by the fund managers, collect all dividends and coupons accruing to the Fund and to hold all cash;
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the quarter;
- providing details in a timely manner to the WM Company for performance reporting.

Asset Liability Study

The Fund is required to undertake a full actuarial valuation of its assets and liabilities every three years. The valuation which impacted on the financial period covered in the report came into effect from 1 April 2010, for a three year period ending on 31 March 2013.

The valuation process considers current and future liabilities and the degree to which these liabilities are provided for in the current value of assets, anticipated future investment return and the level of ongoing employer funding.

It is best practice following a valuation to review the asset allocation of the Fund and consider changes to the Fund's investment strategy. The Fund has undertaken a review of its asset allocation which has resulted in a change to the Fund's assets and the Fund's manager mix. These changes are highlighted in the Investment Policy and Performance Report below.

Key Policies and Strategies of the Fund.

The key policies of the Fund are briefly described below; the full latest version of these policies can be accessed through the following link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

These policies and statement's are:

- Governance Policy and Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Communications Policy
- Administration Strategy
- Knowledge Management Policy

Governance Policy and Compliance Statement

CIPFA published a guide to "Delivering Good Governance in Local Government: Framework (2007)" the purpose of which was to guide LGPS Funds in raising standards and awareness of what good governance constitutes and standards and quality sought by the Department for Communities and Local Government (DCLG). This resulted in funds producing their governance standards in a policy and a compliance statement, measuring against the good governance framework.
In March 2011 Lord Hutton published his final report on the future of public sector pensions, which contained 27 recommendations on improving standards, 8 of which related to governance.

Following the Hutton Review, the Fund undertook a fundamental review of the Pension Fund Board's operations including its terms of reference, powers, structure and special standing orders, which resulted in a Full Council approved change to the County Council constitution in respect of its Pension Fund Board governance arrangements.

The Governance Compliance Statement has been reviewed to incorporate these changes, which further strengthens its compliance standards. This was submitted for approval the newly formed Pension Fund Board in October 2012. The Governance Policy and Compliance Statement is available at the following link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Statement of Investment Principles (SIP)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an administering authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written Statement of Investment Principles governing its decisions about the investment of scheme money. The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply and the reasons for not complying.

The statement must be reviewed and if necessary, revised, by the administering authority from time to time and in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement, the Pension Fund Board reviews the SIP in its annual effectiveness review meeting held in July every year.

The Northamptonshire Pension Fund has historically followed best practice and has maintained a Statement of Investment Principles since 1999.

The purpose of this document is to satisfy the requirements of these regulations. In addition Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring administering authorities to publish a Funding Strategy Statement (FSS). The FSS must have regard to the Statement of Investment Principles (SIP). This document contains reference to the FSS for information.

The statement is required to state the extent to which the administering authority is compliant with the guidance given by the Secretary of State and also the extent the authority does not comply and if so, the reasons for non compliance. Currently, the SIP compliance rating is deemed "fully compliant".

The latest version of the SIP is available at the following link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Funding Strategy Statement

The Fund is required to ensure that sufficient funds are available not only to meet its current liabilities, but also to make advance provision of accruing future liabilities. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, in addition to the need to ensure sufficient funds are available for its current liabilities.

Although the regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the administering authority, acting on the professional advice provided by the Actuary.

The purpose of this Funding Strategy Statement 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.

This strategy is both cohesive and comprehensive for the scheme as a whole, recognising that there will 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.

The Funding Strategy Statement is reviewed in line with the valuation cycle to ensure that the strategy is appropriate and relevant.

The Funding Strategy Statement was updated in March 2014 and is available at the following link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Communications Policy

The Communications Policy is guided by the standards set out in Regulation 106B of the Local Government Pension Scheme Regulations 1997 and Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008.

These regulations require administering authorities to:

- prepare, maintain and publish a written statement setting out their policy concerning communications with:
    - scheme members
    - representatives of scheme members
    - prospective scheme members
    - employing authorities

- set out our policy on:
    - the provision of information and publicity about the scheme to members, representatives of members and employing authorities;
    - the format, frequency and method of distributing such information or publicity;
    - the promotion of the scheme to prospective members and their employing authorities;

- keep the statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters mentioned below and if revisions are made, publish a revised statement.

This communications policy has been jointly adopted by Northamptonshire Local Government Pension Fund and Cambridgeshire Local Government Pension Fund, for which Northamptonshire County Council and Cambridgeshire County Council, respectively, are the administering authorities. The driver for the joint approach is because the administration of these Funds is carried out by LGSS, a shared service arrangement, owned jointly by Northamptonshire and Cambridgeshire County Councils, whereby a single team has been created to deliver pension services to both Funds, driving efficiency and improved standards.

The full Communications Policy and Plan are available at the following the link:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Administration Strategy

Development of an administration strategy, as allowed for by the regulations governing the Local Government Pension Scheme, is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. Delivery of a high quality administration service is not the responsibility of one person or organisation, but is rather the joint working of a number of different parties.

An administration strategy has been developed in consultation with employers; the strategy sets out the quality and performance standards expected of the administering authority and each scheme employer within the Fund. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

Regulatory framework

This statement is being produced in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008. The regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its employing authorities must then have regard to that strategy when carrying out their functions.

The regulations also require that the administering authority should consult with its employing authorities (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 43 of the administration regulations allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

This administration strategy sets out the information as required by the regulations mentioned above.

This administration strategy is being jointly developed by both Northamptonshire Local Government Pension Fund and Cambridgeshire Local Government Pension Fund managed by Northamptonshire County Council and Cambridgeshire County Council. The driver for the joint approach is because the administration of these Funds is carried out by Northamptonshire and Cambridgeshire County Councils LGSS, a shared service arrangement whereby a single team has been created to deliver pension services to both Funds, driving efficiency and improved standards.

The administration strategy is found at the link below:

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Knowledge Management Policy

Governance standards recognise the need for effective decision making and a key requisite for this is effective training. The industry has recognised this, which is embedded in best practice and the various regulations in regard to pensions.

In 2010, CIPFA, working through the CIPFA Pensions Network of member authorities, produced a skills and knowledge framework aimed at setting standards for Funds to achieve. Funds are required to report in their annual reports the compliance with the framework.

The Northamptonshire Pension Fund adopted the framework in November 2010 and implemented a series of training sessions to cover the six key skill areas, being:

- Pensions Legislation and Governance;
- Pensions Accounting and Auditing Standards;
- Financial Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial Markets and Products Knowledge;
- Actuarial Methods, Standards and Practices.

The Fund has recognised the need to review the delivery of the training programme, for which a Knowledge Management Policy was presented to the Pension Fund Board in July 2013. This facilitated joint training opportunities with the members of the Cambridgeshire Pension Fund to make the training plan as efficient as possible and focus on the six segments shown above.

The policy recognises the need for members of the Investment Sub Committee to achieve a higher degree of training and awareness due to the increased complexity and importance of delivering a focussed and effective investment strategy for the Fund.

Each participant, both Pension Fund Board members and officers, are required to complete a training assessment questionnaire to establish future training requirements on an individual basis. Regular reviews of this training assessment by participants facilitate the measurement of progress of the training plan.

The joint training days were held on the 21 June 2013, 22 October 2013 and 10 June 2014 covering the 6 key skill areas with both members and officers from Cambridgeshire and Northamptonshire as well as from Bedfordshire and Lincolnshire.

The Knowledge Management policy is available on the link shown below;

http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/

Legislation Report 2013-14

During this year there has been a single Statutory Instrument made and laid before Parliament that made amendments directly to the Local Government Pension Scheme provisions that applied up to 31 March 2014:

The Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2014

These regulations made amendments to the following sets of regulations:

LGPS (Benefits, Membership and Contributions) Regulations 2007	To clarify an issue over commutation of small pensions,
LGPS (Administration) Regulations 2008	In consequence of automatic enrolment requirements, to allow the Housing Ombudsman access to the Scheme and;
	To set out action to be taken when an employer ceases to participate in the LGPS, or the administering authority consider it likely that they will at some point
LGPS Regulations 2013	To allow the Housing Ombudsman access to the Scheme.

Two Statutory Instruments laid before Parliament introduced the reformed LGPS from 1 April 2014:

The Local Government Pension Scheme Regulations 2013	These regulations set out the provisions for the reformed LGPS in respect of membership from 1 April 2014 onwards
The Local Government Pension Scheme (LGPS) (Transitional Provisions, Savings and Amendment) Regulations 2014	These regulations set out the provisions and protections for those that have membership of the LGPS before and after introduction of the reformed scheme on 1 April 2014,
	Provided that Councillors would no longer be able to join the scheme after 31 March 2014, and clarified that existing active councillor members as at 31 March 2014 could remain active members only until the end of their term of office.

The following new legislation issued during 2013-14 had an impact on the Local Government Pension Scheme:

The Pensions Increase (Review) Order 2013	This provided that the rate of increase applied to public sector deferred benefits, and pensions in payment, was to be 2.2% from 8 April 2013.
The Guaranteed Minimum Pensions Increase Order 2013	This provided that Guaranteed Minimum Pensions in payment that accrued, post 5 April 1988 were to be increased by 2.2% from 6 April 2013.
The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2013	This provided increases to values used in the operation of automatic enrolment.
Public Service Pensions Act 2013 The Act provides the framework for the changes to public sector pension schemes, such as the LGPS. It:	Provides for scheme regulations to be made within a common framework
	Establishes new Career Average Revalued Earning schemes across public sector schemes
	Links the normal retirement age to State Pension age
	Develops a new governance framework
	Requires a cost control mechanism to keep the ongoing cost of the schemes within defined margins.
Finance Act 2013	The Act includes a wide range of taxation measures and these include the reduction of the Lifetime Allowance from £1.5 million to £1.25 million from tax year 2014-15 onwards, the reduction of the annual allowance from £50,000 to £40,000 from tax year 2014-15 onwards and various transitional provisions.
Marriage (Same Sex Couples) Act 2013	The Act includes a Section, 16, which provides that the Secretary of State must arrange for a review of the relevant differences in survivor benefits, reviewing the costs, and other effects, of securing that relevant differences in survivor benefits are eliminated by the equalisation of survivor benefits. The outcome of the review should be published before 1 July 2014.

The Registered Pension Schemes and Overseas Pension Schemes (Miscellaneous Amendments) Regulations 2013	These regulations relating to ‘qualifying recognised overseas pension schemes’ (QROPS) were introduced to strengthen the QROPS regime. They include an increase in the specific information a QROPS must provide and a requirement that a QROPS must re-notify HM Revenue and Customs every five years that it meets the QROPS criteria.
The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013	These regulations consolidate and update requirements on pension schemes relating to the provision of information. They replace earlier, separate, regulations that applied to Personal Pension Schemes and Occupational Pension Schemes.
The Public Service Pensions Act 2013 (Commencement No.2 and Transitional Provisions) Order 2013	These Orders brings into force provisions of the Public Service Pensions Act 2013.
The Public Service Pensions Act 2013 (Commencement No.3) Order 2014	
Public Service Pensions Act 2013 (Commencement No.4) Order 2014	
The Public Service Pensions (Employer Cost Cap) Regulations 2014	These regulations provide that the specified margins in which scheme costs must remain, before corrective action is taken to rebalance the costs of the scheme, are set at 2 percentage points above and below the employer cost cap. They further provide that the target cost of a scheme, for cases where the cost would otherwise go beyond these margins, is the same as the employer cost cap. The target cost is the rate to which the costs of the scheme must return as a result of any corrective action.

New or revised guidance received

In addition to the above legislation, there have also been documents issued from central government that are referenced when administering the scheme:

Secretary of State for Education, Michael Gove - Written Ministerial Statement on Academies and LGPS Liabilities	This statement set out details of a guarantee that any outstanding LGPS liabilities on academy closure will be met by the Department for Education. This guarantee came into force on 18 July 2013.

HM Treasury – Directions: The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014	Set out details of when valuations are to take place, the methodology and assumptions to be used and contents to be included in the Valuation Report.
The Public Service Pensions (Information about Benefits) Directions 2014	Set out information to be included in, and manner in which benefit information Statements are to be provided to scheme members.
Government Actuary's Department	In relation to LGPS up to 31 March 2014: Lifetime Allowance and Additional Cash Commutation Limit on Total Amount of Benefits – Lifetime Allowance Correction to Table A in GAD guidance on "Application of a Pension Debit for Divorced Members - dated 4 March 2013" Correction to Table B1 of Section 4 in GAD guidance on "Annual Allowance Charges: Calculation of Scheme Pays Offset - dated 6 September 2012"
	In relation to the reformed scheme from 1 April 2014: Transfers; AVC conversion to Additional Pension, Trivial Commutation; Purchase of Additional Pension; Pension Credits on Divorce; Limits on Additional Cash Commutation Late Retirements

Scheme Administration Report

This financial year has seen the Pensions Service continue to develop and expand on all of the advancements made in 2012-13, with convergence, streamlining and best practice being the driving force throughout.

The creation of a single LGSS Pensions Service for the Northamptonshire Pension Fund and Cambridgeshire Pension Fund completed in 2013-14 with converged processes being implemented very early on in the year eradicating duplication and creating efficient and streamlined processes.

The combined LGSS Pension Service saw a reduction of staff from 75.5 FTE to 60 FTE, delivering significant cost savings. LGSS Pension Services have continued to develop the single site operation which has secured efficiencies and adheres to one of the founding principles of LGSS – the development of Centres of Excellence. A LGSS Pensions Service presence for Cambridgeshire Pension Fund at Shire Hall to service visitors (both scheme members and employers) who would benefit from having individual face-face meetings. During 2014-15 the presence at Shire Hall will be scaled down to being staffed on a rota basis to further drive through efficiencies but without impacting on the quality of service we deliver to our Cambridgeshire Pension Fund stakeholders.

Other significant developments this year have been:

Pension Fund Website

The continued development of the joint Pension Fund website. The website contains detailed information for all the Fund's stakeholders. The content also includes a comprehensive suite of forms and factsheets for both members, prospective members and employers.

Employer Self Service

Employer self service gives employers access to our pensions database remotely and securely, allowing them to view, create and amend their members' data, run reports and perform benefit calculations. This has continued to reduce the administrative burden on the Pensions Service. Employer Self Service continues to be promoted to employers to generate further efficiencies.

Member Self Service

Member self service, like employer self service, allows members to access their records held on our pensions database to enable them view the information we hold and run certain calculations. During 2013-14 a programme of inviting members to access the self service facility began. This is due to be completed in 2014-15 with every member having access to their details. This initiative, like Employer Self Service, is also expected to generate further efficiencies.

I-Connect

I-Connect allows employers to securely submit automatically payroll data to the pensions database ensuring accurate and timely record maintenance and is a solution to the demands of automatic enrolment. LGSS Pensions Service has been working with its largest employers to implement I-Connect. Full implementation will achieve significant efficiencies for both the Pension Funds and the employer.

Administration Strategy

The Administration Strategy and Service Level Agreements have been consulted on and launched with our employers. We see the take up of these as one of the main tools to aid the delivery of a high quality administration service to all stakeholders. The Admission Agreement for new Admitted Bodies to the Pension Fund now includes a clause which leads to automatic sign up to the Administration Strategy.

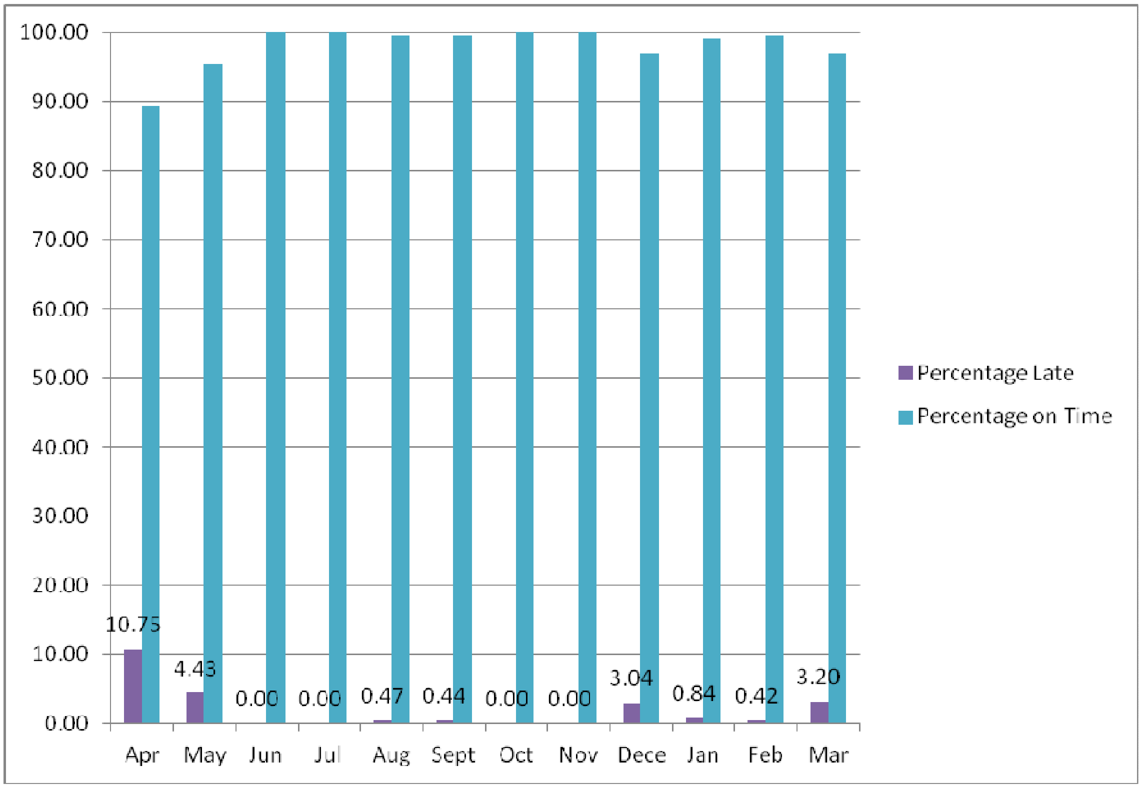
Steve Dainty
Head of Pensions

Graham Lawman
Chairman
Northamptonshire Pension Fund Board

Financial Performance

Contributions

The chart shows the timeliness of contributions received on or before the due date and shows the improvements has been maintained in reducing late contribution payments during 2013-14



The above table identifies that the payment of employer contributions to this Fund were received within the deadline (19th of month following deduction) on an average of 98.03% of cases.

Management Performance

Membership

Members are made up of three main groups:-

- Contributors – those who are still working and paying money into the Fund;
- Pensioners – those who are in receipt of a pension and;
- Deferred Pensioners - those who have left their employment with a future entitlement to a pension.

The table below provides the composition of the Fund's membership at the end of each of the five years 2009-10 to 2013-14.

Contributing Members

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Northamptonshire County Council	12,631	11,416	10,267	8,648	8,077
Probation	225	207	201	181	174
Northamptonshire Police Authority	1,202	1,135	935	863	862
District Councils					
Corby	374	352	326	314	334
Daventry	264	253	204	163	167
East Northamptonshire	194	183	173	165	161
Kettering	431	415	397	405	414
Northampton	1,100	1,041	875	714	486
South Northamptonshire	210	199	186	201	201
Wellingborough	301	263	187	121	121
University/Colleges					
University of Northampton	580	572	496	478	559
Moulton College	204	215	227	258	264
Northampton College	309	296	301	312	297
Tresham Institute	220	165	169	165	226
Admitted Bodies					
Daventry District Housing	70	58	53	44	41
Northamptonshire Connexions	151	105	96	86	73
Shaw Healthcare	80	68	55	51	51
South Northants Homes	72	73	74	84	78
Other bodies*	691	1,131	1,548	4,024	5,748
Total Contributors	**19,309**	**18,147**	**16,770**	**17,277**	**18,334**

Deferred Members

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Northamptonshire County Council	7,300	10,437	11,088	13,236	13,039
Probation	99	127	145	156	174
Northamptonshire Police Authority	547	578	775	840	879
District Councils					
Corby	308	336	367	382	385
Daventry	216	240	310	323	323
East Northamptonshire	109	121	152	163	161
Kettering	259	273	308	317	328
Northampton	809	837	949	985	1,026
South Northamptonshire	209	217	231	240	245
Wellingborough	216	218	262	266	270
University/Colleges					
University of Northampton	400	422	536	605	664
Moulton College	121	166	227	275	303
Northampton College	155	173	217	282	322
Tresham Institute	211	216	283	308	327
Admitted Bodies					
Daventry District Housing	2	6	21	28	29
Northamptonshire Connexions	116	120	155	162	172
Shaw Healthcare	48	62	71	77	74
South Northants Homes	0	6	12	14	15
Other bodies*	336	1,401	918	1,470	2,151
Total Contributors	**11,461**	**15,956**	**17,027**	**20,129**	**20,887**

Pensioner and Dependant Members

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Northamptonshire County Council	6,284	6,687	7,079	7,447	7,412
Probation	132	139	140	155	157
Northamptonshire Police Authority	421	455	518	559	580
District Councils					
Corby	510	519	543	557	568
Daventry	272	276	289	298	299
East Northamptonshire	213	204	205	213	217
Kettering	465	474	493	496	504
Northampton	1,544	1,554	1,522	1,545	1,576
South Northamptonshire	276	282	284	293	296
Wellingborough	403	409	444	443	442
University/Colleges					
University of Northampton	300	325	334	361	381
Moulton College	53	64	72	83	89
Northampton College	112	132	129	136	154
Tresham Institute	130	152	160	172	187
Admitted Bodies					
Daventry District Housing	2	15	20	23	25
Northamptonshire Connexions	36	55	62	67	70
Shaw Healthcare	49	58	67	71	73
South Northants Homes	9	14	17	21	26
Other bodies*	437	446	615	752	1,099
Total Contributors	**11,648**	**12,260**	**12,993**	**13,692**	**14,155**

Membership Movements

	2011-12	2012-13	2013-14
No. of new starters throughout the year	871	1,927	2,700
No. of new pensioners throughout the year	955	880	711
No. of new deferred beneficiaries throughout the year	1,313	1,986	1,715
No. of refunds and transfers out throughout the year	197	111	82

Membership Analysis

The membership analysis below shows the age profile of membership.

	31 March 2014	31 March 2014	31 March 2014
Members in LGPS	**Actives**	**Deferred**	**Pensioners**
Age 0 Up to and including 20	246	79	138
Age 21 Up to and including 25	837	755	16
Age 26 Up to and including 30	1,069	1,590	4
Age 31 Up to and including 35	1,625	2,053	4
Age 36 up to and including 40	2,143	2,198	14
Age 41 Up to and including 45	3,114	3,501	43
Age 46 up to and including 50	3,308	4,123	79
Age 51 Up to and including 55	2,835	3,486	156
Age 56 Up to and including 60	2,076	2,455	948
Age 61 Up to and including 65	890	549	3,378
Age 66 Up to and including 70	169	78	3,595
Age 71 Up to and including 75	22	18	2,225
Age 76 Up to and including 80	-	1	1,535
Age 81 Up to and including 85	-	1	1,121
Age 86 Up to and including 90	-	-	582
Age 91 Up to and including 95	-	-	263
Age 96 Up to and including 100	-	-	54
Age over 100	-	-	-
Totals	**18,334**	**20,887**	**14,155**

Contributing Employers of Northamptonshire Pension Fund

Major Scheduled Bodies
Borough Council of Wellingborough
Corby Borough Council
Daventry District Council
East Northants Council
Kettering Borough Council
Northampton Borough Council
Northamptonshire County Council
Police and Crime Commissioner for Northamptonshire
Northamptonshire Probation Trust
South Northants Council
Other Scheduled Bodies
Moulton College
Northampton College
Tresham Institute
University of Northampton
Other Scheduled Bodies - Academies
Abbeyfield School
Abington Vale Primary School
Beanfield Primary School
Billingbrook Academy
Bishop Stopford CE Academy
Blackthorn Primary School
Briar Hill Primary Academy
Boddington C of E Primary

Brooke Weston Academy
Boughton Primary Academy
Campion Academy
Caroline Chisholm Academy
Cedar Road Academy
Chacombe CEVA Primary Academy
Chenderit Academy
Chipping Warden Academy
Complementary Education Academy
Corby Business Academy
Corby Primary Academy
Corby Technical School
Culworth C of E Primary School
Danetre & Southbrook Learning Village Academy
Daventry Abbey Junior School Academy
Daventry UTC
Eastfield Academy
Ecton Brook Primary Academy
Education Fellowship
Elizabeth Woodville Academy
Exeter A Learning Community
Freemans Endowed C of E Junior School
Friars Academy
Green Oaks Academy
Greenfields Primary Academy

Greenfields School and Sports College
Gretton Primary Academy
Guilsborough Academy
Hardingstone Academy
Hartwell CoE Academy
Havelock Infants
Havelock Junior
Headlands Primary Academy
Huxlow Science Academy
Kettering Kingsley Academy
Kettering Science Academy
Kettering Buccleuch Academy
Kings Sutton Primary Academy
Kingsthorpe College Academy
Kingswood Primary Academy
Latimer Arts College
Lings Primary Academy
Loatlands Primary Academy
Lodge Park Academy
Lumbertubs Primary Academy
Magdalen College Academy
Malcolm Arnold Academy
Manor Academy
Maplefields School Academy
Middleton Cheney Academy
Montsaye Academy
Moulton Academy
Naseby Academy

Newnham Primary Academy
Nicholas Hawksmoor Academy
Northampton Academy
Northampton School for Boys
Northampton School for Girls
Northgate Academy
Oakley Vale
Olympic Primary School
Preston Hedges Primary Academy
Queen Eleanor Primary Academy
Risedene Academy
Rockingham Primary Academy
Rothwell Junior School
Rothwell Victoria Infants School
Rushden Community Academy
Rushton Primary Academy
Ruskin Junior Academy
Silverstone UTC
Sir Christopher Hatton Academy
Southfield Academy
Southfield Primary Academy (Brackley)
Sponne Academy
Spring Lane Primary Academy

St Loy C of E Primary Academy
St Mary's C of E Kettering
St Mary's Primary, Burton Latimer
St Peter's C of E Academy
Stimpson Avenue Primary Academy
Sunnyside Primary Academy
The Arbours Primary Academy
The Castle Primary Academy
The Duston School Academy
The Ferrers School Academy
The Parker E-Act Academy
Thorplands Primary Academy
Warwick Primary Academy
Waynflete Infants Academy
Weavers Academy
Welton CofE Primary Academy
Weston Favell Academy
Weston Favell Primary Academy
Wilbarston Primary Academy
Windmill Primary School Academy
Woodland View Academy
Woodnewton A Learning Community
Woodvale Primary Academy
Wootton Primary Academy
Wrenn School Academy

Resolution Bodies
Barby Parish Council
Billing Parish Council
Brackley Town Council
Brixworth Parish Council
Creaton Parish Council
Deanshanger Parish Council
Duston Parish Council
Grange Park Parish Council
Higham Ferrers Town Council
Irthlingborough Town Council
Moulton Parish Council
Oundle Town Council
Raunds Town Council
Rushden Town Council
Spratton Parish Council
Stanwick Parish Council
Towcester Town Council
Wollaston Parish Council
Wootton & East Hunsbury Parish Council
Admitted Bodies
Age Concern
Amey plc
Balfour Beatty – Street Lighting
Caterlink Limited
Caterlink – Denfield Primary
Churchill Services
Community Spaces
Daventry & District Housing
DC Leisure
East Northants Cultural Trust
Easy Clean Contractors

Limited
EMLC
emPSN
Enterprise Managed Services (Waste Management)
May Gurney Fleet and Passenger
May Gurney Limited
May Gurney (Nordis)
North Northants Development Corporation
Northampton High School
Northamptonshire Carers
Northamptonshire Connexions
Northamptonshire Enterprise Ltd
Northamptonshire Music and Performing Arts Trust
Northamptonshire Theatres Trust
Northants Healthcare NHS Foundation Trust
NHS Arden Commissioning Support
NSL Ltd
Olympus Care Services
Rockingham Forest Trust
Service 6
Shaw Healthcare
South Northants Homes
Spire Homes Limited
The Castle (Wellingborough) Limited

Unity Leisure
University of Northampton Enterprises Ltd
Wellingborough Homes Ltd
Wellingborough Norse
WSP
Employers that ceased during 2013/14
Leisure and Community Partnership Ltd
Sport & Leisure Management
Warwickshire Primary Care Trust

Investment Policy and Performance Report

March 2013 Benchmark and Indices

The asset allocation and benchmarks applied during the 2012-13 financial year are shown below. This can be compared to the asset allocation and benchmarks revised as at 31 March 2014 for the 2013-14 financial year.

Asset Class	Weighting (%)		Market Benchmark Adopted
UK Equities		23.00	FTSE All-Share
Global Equity		41.00	
	21.00		MSCI World All Countries
	20.00		FTSE All World (inc Emerging Markets) [Passive]
Other – Diversified Growth Fund		5.00	UK Base rate.
Bonds		20.00	
	3.33		Bank of America Merrill Lynch Index Linked Gilts Index
	6.67		Bank of America Merrill Lynch Sterling Broad Market
	5.00		Bank of America Merrill Lynch T-Bill Index
	5.00		Barclays Global Aggregate Credit 1-5yr (GBP Hedged) Index
Property		8.00	IPD UK All Balanced Property Fund Index
Hedge Funds		3.00	Sterling 3 month LIBOR.
Total		**100.00**	

March 2014 Benchmark & Indices

Asset Class	Weighting (%)		Market Benchmark Adopted
UK Equities		23.00	FTSE All-Share
Global Equity		41.00	
	20.30		MSCI World All Countries
	20.70		FTSE All World (inc EM) [Passive]
Other – Diversified Growth Fund		8.00	UK Base rate.
Bonds		20.00	
	3.33		Bank of America Merrill Lynch Index Linked Gilts Index
	6.67		Bank of America Merrill Lynch Sterling Broad Market
	5.00		Bank of America Merrill Lynch T-Bill Index
	5.00		Barclays Global Aggregate Credit 1-5yr (GBP Hedged) Index
Property		8.00	IPD UK All Balanced Property Fund Index
Total		**100.00**	

What's changed?

Hedge Fund of Funds

Following a review of the hedge fund of funds mandate, the mandate with Fauchier was terminated with the whole 3% allocation moving to the Diversified Growth Fund managed by Baillie Gifford. Baillie Gifford now manages 8% of the Fund.

Equities

Following a review of the manager allocation, 0.7% of the global equity component has reallocated between the existing global equity managers, transferring from Newton to UBS. UBS now manage 20.7% of the global equity mandate and Newton 15.3%.

Fund Manager Profiles

The fund manager profile at the start of the financial year 1 April 2013:

Investment Manager	Asset Class	Individual Target above Benchmark
UBS	Multi-Asset	1.25%
Wellington	UK Fixed Interest	1.00%
	Global Strategic Credit	n/a
	Global Total Return	5.00%
Majedie	UK Equities	2.00%
Skagen	Global Equities	n/a (assumed 3% as guide)
Newton	Global Equities	2.00%
UBS	Passive Global Equities	n/a
Fauchier	Hedge Fund of Funds	5.00%
Baillie Gifford	Diversified Growth	3.50%
CBRE	Property	1.00%
Overall Fund Target		**1.60%**

The fund manager profile at the end of the financial year 31st March 2014:

Investment Manager	Asset Class	Individual Target above Benchmark
UBS	UK Equity	2.00%
Wellington	UK Fixed Interest	1.00%
	Global Strategic Credit	n/a
	Global Total Return	5.00%
Majedie	UK Equities	2.00%
Skagen	Global Equities	n/a (assumed 3% as guide)
Newton	Global Equities	2.00%
UBS	Passive Global Equities	n/a
Baillie Gifford	Diversified Growth	3.50%
CBRE	Property	1.00%
Overall Fund Target		**1.60%**

Key Changes

The key changes reflect the termination of the Fauchier Hedge Fund of Funds mandate and the allocation of the assets to the diversified growth mandate at Baillie Gifford and the reallocation of 0.7% of the global equity component of the equity mandate between the existing global equity managers, transferring from Newton to UBS. UBS now manage 20.7% of the global equity mandate and Newton 15.3%. These mandates have all been implemented and were in place by the end of Quarter 3 2013.

Asset Allocation Strategic Review

The Fund has a policy to review its asset allocation on an annual basis and to conduct a full review following the triennial valuation process. A full review was conducted in 2013-14 following the valuation.

The Fund considers its existing strategy to be robust; however a regular review and challenge process is considered good governance. The last review focussed on assessing whether making changes to the asset allocation could either drive improvements in the funding level or provide more downside protection.

The Fund has a long-term investment horizon. Following the triennial actuarial review in March 2013 the Fund expects to remain cash flow positive for many years to come. The investment priority therefore remains long-term return generation rather than short-term risk mitigation.

The current investment strategy seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities at 64% is broadly similar to the average Local Authority pension fund. A further 16% is invested in growth assets offering strategic diversification, split equally between property and a diversified growth fund. This leaves 20% invested in bonds, with half in UK bond and half in mandates that are less exposed to rising interest rates, such as total return and multi-strategy credit.

During the year we terminated a hedge fund mandate and redirected the money into a diversified growth fund. We also trimmed back the exposure to equities into market strength to finance additional investment in property.

It is likely that two key themes will shape the development of the Fund’s investment strategy in the coming year.

The first is the desire to improve long-term returns on a cost effective basis. The Pension Fund Board is considering whether changing the choice of equity benchmarks might enable the passive equity mandate to achieve better long-term returns. There is substantial academic evidence to support the view that market capitalisation-based indices are sub-optimal, although the choice and timing of adopting alternative indices requires careful analysis.

The second theme is the desire to make sure the Fund’s risk profile in respect of its liabilities remains appropriate. The Fund’s funding level has improved quite significantly in the period since the latest triennial review, reflecting large swings between equity markets (which drive the asset value) and long dated bonds (which drive the liability value). Further improvements in funding level may enable the Pension Fund Board to reduce the Fund's risk profile relative to its liabilities.

Overall it has been an encouraging year. The Fund has achieved above average returns and has seen a substantial improvement in its funding level. The Pension Fund has a well-diversified strategic asset allocation with an appropriate bias to long-term return generation.

Asset Allocation and Fund Specific Benchmark by Fund Manager for 2013-14

The table below shows the asset allocation and associated specific benchmarks (indices) by fund manager as at 31 March 2014.

Asset Class	**Weighting (%)**		**Market Benchmark Adopted**
UK Equity		**23.00**	
Majedie		11.50	FTSE All-Share index
UBS		11.50	FTSE All-Share index
Global Equity		**41.00**	
Skagen		5.00	Benchmark agnostic (but MSCI World AC can be used as a guide for performance monitoring purposes)
Newton		15.30	MSCI World AC
UBS		20.70	FTSE All World (inc EM)* Passive
Property		**8.00**	
CBRE		8.00	IPD UK All Balanced Property Fund Index
Diversified Growth		**8.00**	
Baillie Gifford		8.00	UK base rate
Bonds		**20.00**	
Wellington UK Fixed Income		10.00	
	6.67		Merrill Lynch Sterling Broad Market
	3.33		Merrill Lynch Index Linked Gilts Index
Global Total Return		5.00	Bank of America Merrill Lynch T-Bill Index
Global Strategic Credit		5.00	No specific benchmark (but Barclays Global Aggregate Credit 1-5y GBP Hedged Index can be used for performance monitoring purposes)
Total		**100.00**	

* In practice may include separate regional equity and bonds for rebalancing purposes.

The table below shows the asset class and value of holdings as at 31 March 2014.

Asset Class	**Manager**	**Market Value as at 31 March 2014 (£m)**	**Holding (%)**
UK Equity	UBS	205.3	12.4
	Majedie	236.2	14.2
Global Equity	Skagen	83.2	5.0
	Newton	257.6	15.5
Passive Global Equity	UBS	327.7	19.8
Fixed Income	Wellington (Core Plus)	137.5	8.3
	Wellington (Global Total Return)	76.7	4.6
	Wellington (Global Strategic Credit)	89.1	5.4
Property	CBRE	113.4	6.8
Diversified Growth	Baillie Gifford	131.5	7.9
Private equity	Catapult	1.5	0.1
Cash	Cash	0.1	0.0
Total		**1,659.8**	**100.0**

Annual Investment Review 2013-14

Economic background

The recovery in developed market economies that financial markets had been anticipating for some while finally started to take root in the financial year 2013-14.

In the UK the cumulative impact of several years of low interest rates, expansionary monetary policy (Quantitative Easing, or QE) and government measures targeted at stimulating the housing market have underpinned an initially patchy and then more broadly based economic recovery. Unemployment is falling towards 7%, consumer confidence improving and house prices rising strongly, at least in the South East. The Bank of England now expects the economy to grow by more than 3% in 2014. There has been sufficient progress that investor focus is now on when rather than whether base rates will be increased.

In the US growth also appeared to be on a steady recovery path, although extreme weather in January and February 2014 caused a temporary stumble in the improving economic picture. As with the UK the exceptionally low interest rates required during the emergency of the financial crisis no longer appear appropriate. As economic activity returns to a more normal level, monetary policy should also become more normal, which implies setting base rates a little higher than inflation. The pace of interest rate rises is likely to be slow, but the trend over the coming years is now clearly upwards.

Elsewhere improvements in economic growth are less clear-cut. Whereas in the UK and US the central banks are indicating to markets that they will soon begin unwinding QE, central banks in Europe and Japan are considering expanding their programmes in the response to disappointing growth.

In Europe growth remains sluggish with inflation worryingly close to zero and unemployment stubbornly high at close to 12%. This is uncomfortable territory for policymakers. If an economic shock, such as an escalation of the conflict in the Ukraine or disruption to oil production in the Middle East, were to tilt economies into deflation, it would be very difficult to reverse and might prompt renewed concern about the sustainability of the euro. For the time being, however, investors have taken comfort from the European Central Bank stated commitment to doing “whatever it takes” to stimulate growth through interest rates at or below zero and aggressive QE programmes.

In Japan the optimism prompted last year by the election of a new government with an expansionary policy agenda has waned a little. The Yen has fallen significantly relative to other major currencies and the resultant improvement in competitiveness has improved industrial activity and enabled unemployment to fall. However, the need to raise consumption taxes to address a growing debt mountain may choke off the recovery too soon.

In emerging markets the picture is also less buoyant. The prospect of the US reining back its QE programme caused a withdrawal of capital that exposed imbalances in economies with high budget deficits and high levels of debt. Social unrest in Turkey and political tension in Russia also undermined confidence. The economies that had been powerhouses of global growth in previous years, such as China, India and Brazil, all experienced a slowdown albeit to levels that developed economies would still envy. The outlook for China is perhaps the most important and least predictable. There is concern that the financial system within China may be vulnerable following excessive credit expansion since 2008, as evidenced by the first significant corporate bond default. However, the Chinese economy is more heavily controlled than most and it is possible that the central authorities will be able to engineer a managed economic slowdown while avoiding a serious financial crisis.

Market returns

Financial market returns were more modest and more mixed than in the previous year. Once again developed markets provided better returns than emerging markets, although for sterling investors some of the gains were eroded by the strength of sterling as investors anticipated the UK leading the economic recovery.

UK equities provided a return of 9% and overseas equities 7%. In local currency terms US equities returned 22%, with Europe and Japan just behind on about 18% each. However, after adjusting for the fall in the US dollar by 10%, the euro by 2% and the Yen by 20% the sterling returns were 11% for the US, 16% for Europe and -2% for Japan. Emerging markets, by contrast, fell with returns for sterling investors of -11%.

Bond market returns were much less healthy than equities. Long dated gilts returned -3% and long index linked gilts -4%. Only corporate bonds were able to provide positive returns as credit spreads continued to narrow reflecting greater investor optimism. Long dated corporate bonds returned +2%.

The improving economic picture was helpful for commercial property, with a return of 13%. Hedge funds also benefited averaging a return of 9%. By contrast commodities suffered from lower growth in emerging markets and returned -8%.

Fund performance

The Fund performed well in 2013-14. The Fund's total return of 8.2% is well ahead of both the bespoke benchmark (5.4%) and the average local authority pension fund as measured by WM (6.4%). The overall Fund return is expected to be in the top quartile of local authority pension funds for the year.

The main reason for the outperformance in 2013-14 was the strong relative returns achieved by the Fund's active UK equity managers. The Fund's fixed interest manager also outperformed albeit by delivering less bad results than the bond benchmark. The relative gains from UK equities and bonds more than offset modest shortfalls in global equities and property.

The good results for 2013-14 mean the fund is also ahead of both its bespoke benchmark and the WM local authority pension fund average over the last 3 and 5 years.

Over the three years to end March 2014 the Fund return of 8.2% pa was ahead of both the bespoke benchmark (7.0% pa) and the average WM fund (7.5% pa). The pattern of returns was also similar, with good relative performance from UK equities and bonds and modest shortfalls in global equities and property.

Over the last five years the Fund return of 13.1% pa is ahead of both the bespoke benchmark (12.6% pa) and the average WM fund (12.7% pa).

Economic and market outlook

The period since the financial crisis in 2008-09 has been quite exceptional for financial markets. The collapse of the banking system globally led the world economy to the brink of an abyss and necessitated exceptional measures by policymakers. These measures succeeded in averting what might otherwise have been a depression similar to or perhaps even worse than the 1930s. While the policy steps taken proved successful, we are still working through the aftermath of the crisis.

Perhaps the biggest influence on markets during this period was the adoption of extremely lax monetary policy. We still see this policy in action in interest rates in most developed markets at close to zero and in massive QE programmes. The combination of high levels of liquidity and low returns on safe assets is a cocktail specifically intended to encourage buying of riskier assets to stimulate growth. This has resulted in the prices of most financial assets rising more rapidly than would have been justified purely on underlying fundamentals, such as profits or dividends.

The problem for investors as always is trying to work out what happens next. The next few years should see a gradual return to normality, with QE programmes at first scaled back and eventually unwound and interest rates slowly increased to a sustainable long-term level slightly above inflation. However, this process is unlikely to be smooth and policymakers will face challenges along the way.

In the meantime, many assets now appear quite highly rated. Developed market equities are more highly rated than average at a time when profits are also quite high relative to the size of the economy, especially in the US. Steady economic recovery will be required to justify such ratings. The rating of emerging market equities is not as high and expectations are less demanding, but the differentiation between individual markets is becoming more important.

The outlook for bonds is also uncertain. On a pure valuation basis bonds continue to appear unattractive for long-term investors, with long dated gilts offering a nominal yield of 3.4% pa and long dated index linked gilts offering a real yield of -0.1% pa. Investors may be willing to accept such poor yields when the return on cash is set well below inflation but as monetary policy returns to normal one would expect investors to demand rather higher returns from longer dated assets. This would imply bonds had further to fall.

However, QE is not the only distortion faced by bond markets. In index linked markets in particular a continuing mismatch between high investor demand from pension funds and low issuance of new index linked securities by the government may mean index linked yields remain low for many years to come. As a result it is likely that bonds will produce lacklustre trend returns but with rather more volatility than in recent years.

In an environment where investors are faced with significant economic uncertainty and few assets are cheap, there is likely to be continued interest both in diversification to smooth returns and in income generation to make returns more predictable. Property has benefited from this trend this year but still offers high yields relative to other asset types and some protection against long-term inflation.

Strategic asset allocation

The Pension Fund has a long-term investment horizon. Following the triennial actuarial review in March 2013 the Fund expects to remain cash flow positive for many years to come. The investment priority therefore remains long-term return generation rather than short-term risk mitigation.

The current investment strategy seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities at 64% is broadly similar to the average Local Authority pension fund. A further 16% is invested in growth assets offering strategic diversification, split equally between property and a diversified growth fund. This leaves 20% invested in bonds, with half in UK bond and half in mandates that are less exposed to rising interest rates, such as “Total Return” and “Multi-Strategy Credit”. During the year we terminated a hedge fund mandate and redirected the money into the diversified growth fund. We also trimmed back the exposure to equities into market strength to finance additional investment in property.

It is likely that two key themes will shape the development of the Fund’s investment strategy in the coming year.

The first is the desire to improve long-term returns on a cost effective basis. The Pension Fund Board is considering whether changing the choice of equity benchmarks might enable the passive equity mandate to achieve better long-term returns. There is substantial academic evidence to support the view that market capitalisation-based indices are sub-optimal, although the choice and timing of adopting alternative indices requires careful analysis.

The second theme is the desire to make sure the Fund’s risk profile in respect of its liabilities remains appropriate. The Fund’s funding level has improved quite significantly in the period since the latest triennial review, reflecting large swings between equity markets (which drive the asset value) and long dated bonds (which drive the liability value). Further improvements in funding level may enable the Pension Fund Board to reduce the Fund's risk profile relative to its liabilities.

Overall it has been an encouraging year. The Pension Fund has achieved above average returns and has seen a substantial improvement in its funding level. The Pension Fund has a well-diversified strategic asset allocation with an appropriate bias to long-term return generation.

John Harrison
10 July 2014

Investment Performance 2013-14

Further investment performance details comparing the Northamptonshire Pension Fund with other local authority funds and indices are shown in the table below:

% Returns per annum for the financial year ended 31 March 2014						
		Northamp-tonshire Pension Fund	The Benchmark	Retail Price Index	UK Average Weekly Earnings Index	Local Authority Average
2013-2014	**1 year**	8.2	5.4	2.5	2.2	6.4
2011-2014	**3 years**	8.2	7.0	3.1	1.0	7.5
2009-2014	**5 years**	13.1	12.6	3.8	2.3	12.7
2004-2014	**10 years**	7.2	7.8	3.3	3.2	7.8

Investment Manager Performance

This table sets out the investment manager performance for 2013-14.

		1 Year (%)			3 Years (% pa)		
Asset Class	**Manager**	**Return**	**Bench-mark**	**Var-iance**	**Return**	**Bench-mark**	**Var-iance**
UK Equity	Majedie	21.6	8.8	12.8	16.0	8.8	7.2
	UBS	16.0	8.3	7.7	12.7	9.2	3.5
Global Equity	Newton	5.3	6.7	(1.4)	9.0	7.7	1.3
	Skagen[1]	5.4	6.7	(1.3)	-	-	-
	UBS Passive	6.3	6.8	(0.5)	7.4	7.7	(0.3)
Fixed Income	Wellington	(2.7)	(2.1)	(0.6)	7.5	6.9	0.6
	Wellington (Global Total Return)[2]	0.6	0.3	0.3	-	-	-
	Wellington (Global Strategic Credit)[2]	3.9	2.2	1.7	-	-	-
Diversified Growth Fund	Baillie Gifford[1]	1.2	0.5	0.7	-	-	-
Property	CBRE	10.0	11.9	(1.9)	4.4	5.7	(1.3)

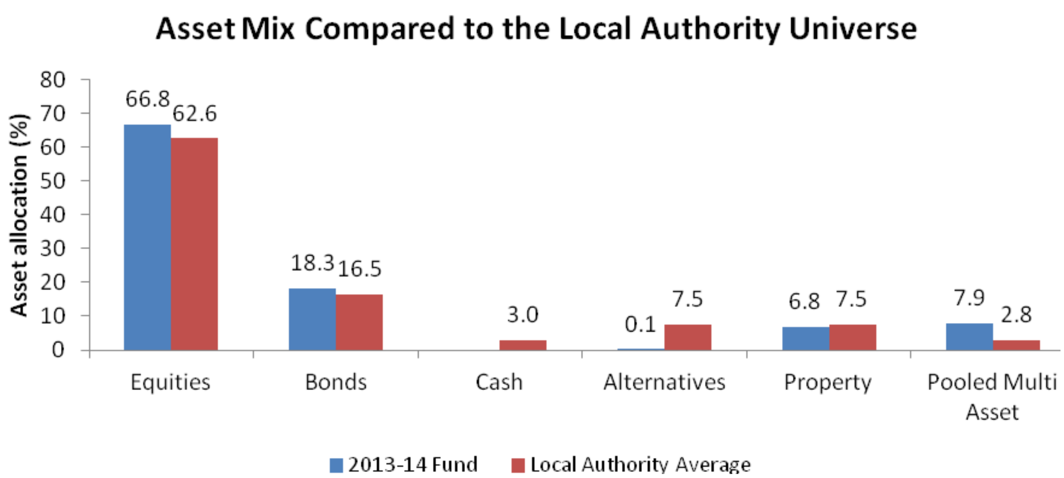
[1] Skagen and Baillie Gifford were appointed in 2012, therefore 3 year returns are not yet available.

[2] Appointed on the 30 September 2011, therefore 3 year returns are not yet available.

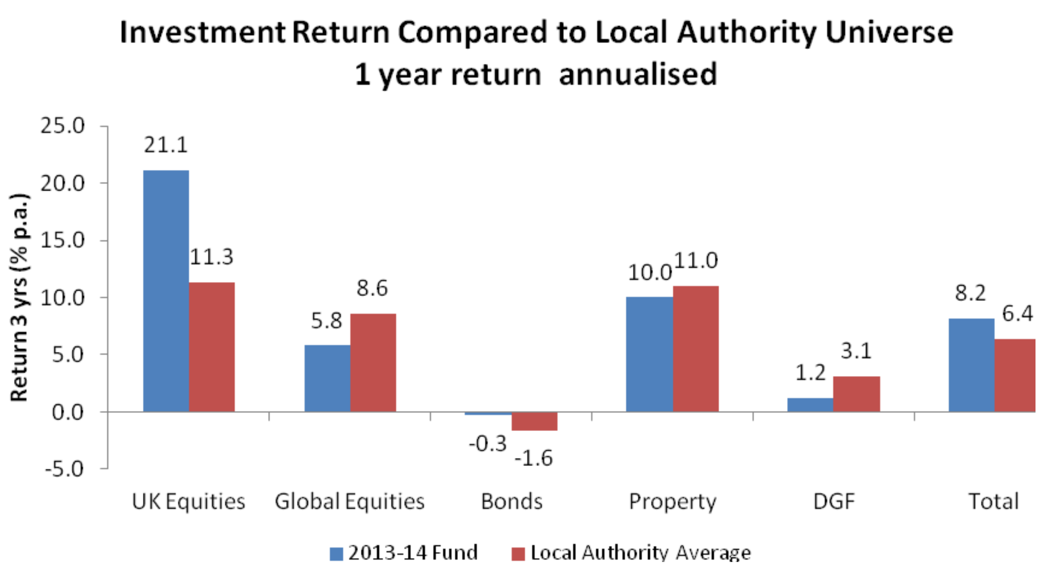
Performance in comparison with Local Authority Universe

The Local Authority Universe is a national scheme consisting of over 90 pension funds. This scheme compares many aspects of fund performance, the key areas of which are shown on the following pages.

The Fund participates in the WM Company's benchmarking of local authority investment performance, which provides useful information on how well the Fund has performed in comparison with other local authorities.

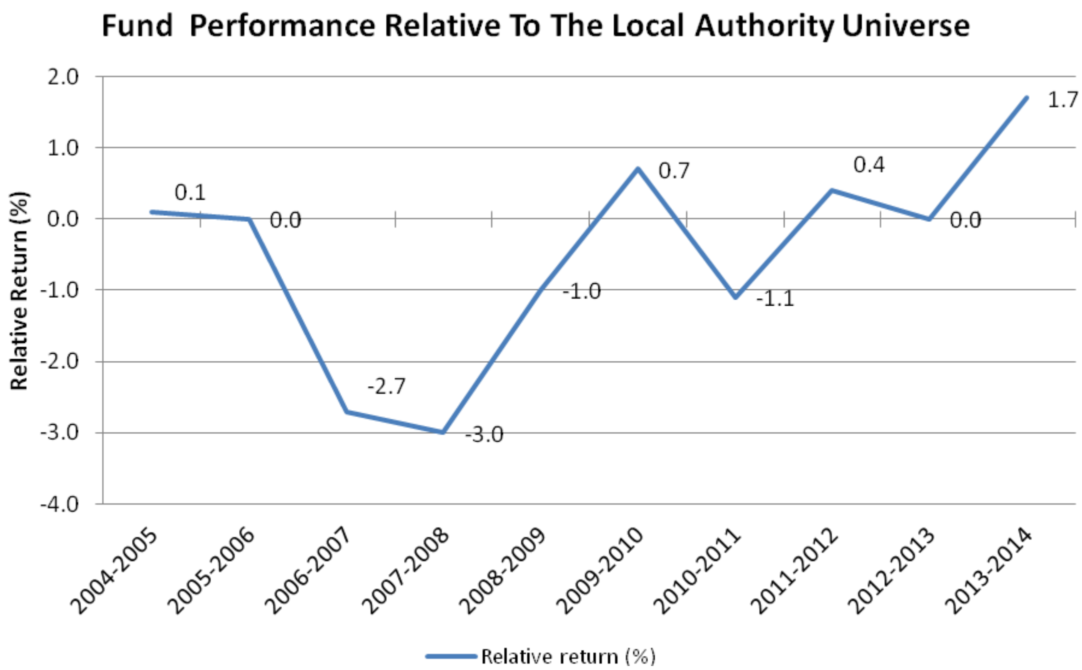


The graph shows that the Fund's asset mix is broadly comparable with the local authority average, the main variances indicating the Fund's preference for equity and bonds, but disfavour of alternatives.



Year Annual Return (%)	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Total Fund	11.8	24.9	4.1	(5.7)	(20.7)	36.1	7.2	3.0	13.8	8.2
WM Benchmark	11.7	24.9	7.0	(2.8)	(19.9)	35.2	8.2	2.6	13.8	6.4

The table above compares the Fund's performance with the local authority average for the ten years since 2004. This is shown graphically below where the relative returns are plotted.



The graph demonstrates the volatility of annual return comparisons of the Fund's performance against the Local Authority Universe.

Of the ten years shown, the Fund has outperformed the local authority average on four occasions, underperformed on four occasions and matched the average twice.

Actuarial Reports

Actuarial Statement for 2013-14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013-14.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy, which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,545m, were sufficient to meet 71% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £646m.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report issued 31 March 2014.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	**31 March 2013**	
	% p.a. Nominal	**% p.a. Real**
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/pension increases	2.50%	n/a/

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current pensioners	22.3 years	24.3 years
Future pensioners*	24.0 years	26.6 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Northamptonshire County Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been ahead of expectations, meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA
Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP
25 November 2014

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

FUND ACCOUNT AND NET ASSETS STATEMENT

Introduction to the accounts

The following comprises the Statement of Accounts for the Northamptonshire Local Government Pension Scheme (The Fund). The accounts cover the financial year from 1 April 2013 to 31 March 2014.

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2010 based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.

The accounts are set out in the following order:

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which gives supporting accounting policies, detail and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

2012/13 £000		Notes	2013/14 £000
	Dealings with members, employers and others directly involved in the fund		
(89,070)	Contributions	**7**	(96,757)
(2,363)	Transfers in from other pension funds	**8**	(3,180)
(91,433)			**(99,937)**
71,210	Benefits	**9**	79,218
4,875	Payments to and on account of leavers	**10**	3,540
2,645	Administration expenses	**11**	2,171
78,730			**84,929**
(12,703)	**Net additions from dealings with members**		**(15,008)**
	Returns on investments		
(27,926)	Investment income	**12**	(29,017)
1,001	Taxes on income	**13**	198
(161,605)	Profit and losses on disposal of investments and changes in the market value of investments	**15a**	(100,539)
4,830	Investment expenses	**14**	3,301
(183,700)	**Net return on investments**		**(126,057)**
(196,403)	**Net increase in the net assets available for benefits during the year**		**(141,065)**

NET ASSETS STATEMENT AS AT 31 MARCH 2014

2012/13 £000		Notes	2013/14 £000
1,491,567	Investment assets	**15**	1,633,127
31,035	Cash deposits	**15**	31,471
1,522,602			**1,664,598**
(1,232)	Investment liabilities	**15**	(4,751)
26,876	Current assets	**20**	27,829
(5,107)	Current liabilities	**21**	(3,472)
20,537	**Net Current Assets**		**19,606**
1,543,139	**Net assets of the fund available to fund benefits at the period end**		**1,684,204**
1,346,736	**Opening net assets as at 1 April**		**1,543,139**
196,403	Net increase/decrease in the net assets available for benefits during the year		141,065
1,543,139	**Closing net assets as at 31 March**		**1,684,204**

NOTES TO THE ACCOUNTS

NOTE 1: Description of the Fund

The Northamptonshire Pension Fund ("the Fund") is part of the Local Government Pension Scheme and is administered by Northamptonshire County Council. The County Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Northamptonshire Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

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

It is a contributory defined benefit pension scheme administered by Northamptonshire County Council to provide pensions and other benefits for pensionable employees of Northamptonshire County Council, the district councils in Northamptonshire County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Northamptonshire Pensions Fund Board which is a committee of Northamptonshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Northamptonshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 181 employer organisations within Northamptonshire Pension Fund including the County Council itself, as detailed over the page:

	31 March 2013	31 March 2014
Number of employers with active members	**131**	**181**
Number of employees in scheme		
County Council	8,343	8,077
Other Employers	8,984	10,257
Total	**17,327**	**18,334**
Number of Pensioners		
County Council	7,253	7,678
Other Employers	6,326	6,477
Total	**13,579**	**14,155**
Deferred Pensioners		
County Council	12,294	13,937
Other Employers	6,695	6,950
Total	**18,989**	**20,887**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 11% to 22.8% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x Salary. In addition, part of the annual pension can be exchanged for a one off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

e) Career Average Revalued Earnings Scheme (CARE)
A CARE Scheme is effective from April 2014 which replaces the previous Final Salary Scheme. The pension is worth $1/49^{th}$ of each year's pensionable pay which creates a pension pot which is revalued annually by CPI until retirement.

There is a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits.

For more details, please refer to the Northamptonshire Pension Fund scheme handbook available from Pension Services based at John Dryden House, Northampton.

Benefits are index linked in order to keep pace with inflation. With effect from 1 April 2011, the method of indexation changed from the Retail Prices Index to the Consumer Prices Index.

NOTE 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

NOTE 3: Summary of Significant Accounting Policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for on an accruals basis, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the coupon rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset. This process may vary according to the type of pooled funds.

iv) Property related income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment expenses

All investment expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Wellington
- Baillie Gifford
- Skagen
- CBRE
- Majedie
- Newton

Performance related fees were £1.6m in 2013/14 (2012/13: £1.0m)

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2013/14, £1.0m fees are based on such estimates (2012/13, £1.5m).

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the Council's in house fund management team are charged directly to the fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the fund.

Net Assets Statement

h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

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

- Market quoted investments

  The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- Fixed interest securities

  Fixed interest securities are recorded at net market value based on their current yields.

- Unquoted investments

  The fair value of investments for which market quotations are not readily available is determined as follows:

  - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind up, less estimated realisation costs.

- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

• Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

• Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

• Freehold and leasehold properties

The properties were valued at open market value at 31st March 2014 by independent external valuers in accordance with RICS Valuation. The Valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms length terms.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

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

m) Contingent Liabilities

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

o) Additional voluntary contributions

Northamptonshire Pension Fund provides an additional voluntary contributions (AVC) scheme option for scheme members, the assets of which are invested separately from those of the pension fund by the AVC provider. The Fund has appointed Prudential and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

NOTE 4: Critical Judgements in applying Accounting Policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2014 was £1.5m (£1.8m at 31 March 2013).

Pension fund liability

The pension fund liability is calculated every three years by the Fund’s appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

NOTE 5: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rates at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £185 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £25m, and a one year increase in assumed life expectancy would increase the liability by approximately £61m.
Private equity	Private equity and infrastructure and investments are valued at fair value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £1.5 million. There is a risk that this investment may be under or overstated in the accounts.
Overseas equity	Different pricing methods can be used by the Custodian compared to the Fund Manager which can result in different valuations of the assets.	The Custodian reconciles to the Fund Manager to 20 basis points.

NOTE 6: Events After the Balance Sheet Date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these accounts.

NOTE 7: Contributions Receivable

By category

2012/13 £000		2013/14 £000
71,226	Employers	76,606
17,844	Members	20,151
89,070	**Total**	**96,757**

By authority

2012/13 £000		2013/14 £000
30,201	Northamptonshire County Council	31,557
50,011	Scheduled Bodies *	54,130
8,858	Admitted Bodies	11,070
89,070	**Total**	**96,757**

* Schools included under Scheduled Bodies

NOTE 8: Transfers In From Other Pension Funds

2012/13 £000		2013/14 £000
-	Group transfers	-
2,363	Individual transfers	3,180
2,363	**Total**	**3,180**

Transfers in from other pension funds are contingent on positive transfer elections from new employees with previous pension rights available to transfer. In the current financial climate there is an ongoing restriction on new employees within public sector employers and therefore transfer applications. Significantly, LGSS also introduced a new Transfer In business process in the 2012-13 year with certain self service aspects, passing specific responsibilities from the administering authority to the member. This was predicted to reduce the volume of transfer in elections.

NOTE 9: Benefits Payable

By category

2012/13 £000		2013/14 £000
57,939	Pensions	60,197
12,129	Commutation and lump sum retirement benefits	17,104
1,142	Lump sum death benefits	1,917
71,210	**Total**	**79,218**

By authority

2012/13 £000		2013/14 £000
31,394	Northamptonshire County Council	32,560
35,877	Scheduled Bodies *	42,681
3,939	Admitted Bodies	3,977
71,210	**Total**	**79,218**

* Schools included under Scheduled Bodies

The increase in benefits payable in respect of Scheduled Bodies reflects the continuing process of academy conversion as well as the transfer of staff from Northamptonshire County Council to Olympus Care Services. The Admitted Bodies total, due to relative size, is always sensitive to small fluctuations in the ratio of leavers to new starters on the pension payroll.

NOTE 10: Payments To and On Account of Leavers

2012/13 £000		2013/14 £000
2	Refunds to members leaving service	11
0	Payments for members joining state scheme	0
0	Group transfers	0
4,873	Individual transfers	3,529
4,875	**Total**	**3,540**

Individual transfers are dependent on individuals having an approved pension arrangement to transfer their LGPS benefits to after leaving the Northamptonshire Fund and also the relative merits of that destination arrangement in comparison with the LGPS. The current financial climate reduces the opportunity for individuals to join secure pension schemes to which they may wish to transfer their accrued LGPS benefits.

Refunds to members leaving services are extremely sensitive to fluctuations as a result of the small relative value. A lack of new staff would contribute to a reduced figure as would the raising of general pensions awareness through the automatic enrolment campaign.

NOTE 11: Administration Expenses

2012/13 £000		2013/14 £000
1,258	Pension services costs	1,205
647	County Council recharges	600
415	Direct Fund recharges	366
325	Investment related costs	
2,645	**Total**	**2,171**

NOTE 12: Investment Income

2012/13 £000		2013/14 £000
3,467	Fixed interest securities	4,478
19,890	Equity dividends	20,574
4,019	Pooled property investments	3,495
327	Interest on cash deposits	154
65	Private equity income	
158	Other (includes stock lending and commission recapture)	316
27,926	**Total**	**29,017**

The increase in 2013/14 reflects the overall increase in the value of the Fund.

NOTE 13: Taxes on Income

2012/13 £000		2013/14 £000
567	Withholding tax – equities	198
434	Withholding tax - pooled	
1,001	**Total**	**198**

The reduction in taxes on income in 2013/14 is as a result of the backlog that was cleared due to monitoring of the situation.

NOTE 14: Investment Expenses

2012/13 £000		2013/14 £000
4,242	Management fees	3,058
588	Investment support costs	243
4,830	**Total**	**3,301**

With regard to investment support costs there was an agreement with the Custodian for no fees to be charged in 2013/14.

NOTE 15: Investments

Market value 31 March 2013 £000		Market value 31 March 2014 £000
	Investment assets	
88,220	Fixed interest securities	91,398
42,950	Index linked securities	45,679
595,072	Equities	646,422
680,386	Pooled investments	729,963
78,475	Pooled property investments	113,050
1,798	Private equity/infrastructure	1,523
	Derivative contracts:	
	• Futures	20
932	• Forward currency contracts	58
31,035	Cash deposits	31,471
2,855	Investment income due	2,787
879	Amounts receivable for sales	1,397
	Amounts receivable for pending spot FX	830
1,522,602	**Total investment assets**	**1,664,598**
	Investment liabilities	
	Derivative contracts:	
(44)	• Futures	
(114)	• Forward currency contracts	(7)
(1,074)	Amounts payable for purchases	(3,916)
	Amounts payable for pending spot FX	(828)
(1,232)	**Total investment liabilities**	**(4,751)**
1,521,370	**Net investment assets**	**1,659,847**

15a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2014 £000
Fixed interest securities	88,220	13,312	(7,514)	(2,620)	91,398
Index linked securities	42,950	11,102	(6,193)	(2,181)	45,678
Equities	595,072	222,842	(240,748)	69,256	646,422
Pooled investments	680,386	62,402	(43,124)	30,299	729,963
Pooled property investments	78,475	56,617	(29,023)	6,982	113,051
Private equity/infrastructure	1,798	60		(335)	1,523
	1,486,901	**366,335**	**(326,602)**	**101,401**	**1,628,035**
Derivative contracts:					
• Futures	(44)		(36)	100	20
• Forward currency contracts	818	2,720	(3,585)	99	51
	1,487,675	**369,055**	**(330,224)**	**101,600**	**1,628,106**
Other investment balances:					
• Cash deposits	31,035			(62)	31,471
• Amounts receivable for sales of investments	879			(3)	1,397
• Investment income due	2,855			(43)	2,787
• Amounts payable for purchases of investments	(1,074)			0	(3,914)
Net investment assets	**1,521,370**	**369,055**	**(330,224)**	**101,492**	**1,659,847**
Payments to managers:	54	111,317	(119,919)	(953)	(9,501)
	1,521,424	**480,372**	**(450,143)**	**100,539**	**1,650,346**

Transaction costs are included in the cost of purchases and in sale proceeds. They include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees.

Transaction costs incurred during the year total **£1,083k (£1,147k in 2012/13).** In addition to these costs, indirect costs are incurred through the bid offer spread on investments within pooled investments.

	Market value 1 April 2012 (Restated) £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2013 £000
Fixed interest securities	85,327	27,178	(31,792)	7,507	**88,220**
Index linked securities	46,820	9,967	(15,305)	1,468	**42,950**
Equities	668,969	220,625	(325,738)	31,216	**595,072**
Pooled investments	418,196	213,060	(17,676)	66,806	**680,386**
Pooled property investments	83,098	11,461	(10,925)	(5,159)	**78,475**
Private equity/infrastructure	3,438			(1,640)	**1,798**
	1,305,848	**482,291**	**(401,436)**	100,198	**1,486,901**
Derivative contracts:					
• Futures			(1,014)	970	**(44)**
• Forward currency contracts	(210)	3,146	(2,573)	455	**818**
	1,305,638	**485.437**	**(405,023)**	101,623	**1,487,675**
Other investment balances:					
• Cash deposits	28,034	8,288	(4,958)	(329)	**31,035**
• Amounts receivable for sales of investments	3,228	69	(2,423)	5	**879**
• Investment income due	3,205	277	(627)		**2,855**
• Amounts payable for purchases of investments	(6,566)	5,889	(391)	(6)	**(1,074)**
Net investment assets	**1,333,539**	**499,960**	(413,422)	101,293	**1,521,370**
Payments to managers:	9,771	58,880	(128,909)	60,312	**54**
	1,343,310	**558,840**	**(542,331)**	161.605	**1,521,424**

15b: Analysis of investments (excluding derivative contracts)

31 March 2013 £000		31 March 2014 £000
	Fixed interest securities	
	UK	
8,739	Public sector quoted	
	Corporate quoted	
	Overseas	
79,481	Corporate quoted	91,398
88,220		**91,398**
	Index linked securities	
	UK	
42,950	Public sector quoted	45,679
	Corporate quoted	
42,950		**45,679**
	Equities	
	UK	
345,284	Quoted	379,407
	Unquoted	
	Overseas	
249,788	Quoted	267,015
	Unquoted	
595,072		**646,422**
	Pooled funds – additional analysis	
	UK	
5,060	Fixed income unit trust	
200,017	Equity	262,707
205,077		**262,707**
	Overseas	
161,877	Fixed income unit trust	165,734
277,305	Equity	301,522
36,127	Hedge fund of funds	
475,309		**467,256**
78,475	Pooled Property Investments	113,050
1,798	Venture Capital	1,523
80,273		**114,573**
1,486,901	**Total**	**1,628,034**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a portion of the funds quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a passive currency programme in place managed by the fund managers.

There is no specified requirement to use currency hedging within the Fund's Investment Management Agreements. Instead, the fund managers use their discretion as to whether or not any currency hedging should be used to mitigate any potential risk.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
		000s		**000s**	**£**	**£**
Up to one month	GBP	3,899	EUR	(4,690)	21,486	
Up to one month	JPY	102,275	GBP	(600)	18	(3,827)
Up to one month	EUR	685	GBP	(567)	2,900	(3,607)
One to six months	GBP	3,724	EUR	(4,460)	34,409	
Total					**58,813**	**(7,434)**
Net forward currency contracts at 31st March 2014						**51,379**
Prior Year Comparative						
Open forward currency contracts at 31st March 2013					**932,091**	**(114,225)**
Net forward currency contracts at 31st March 2013						**(817,866)**

Futures

Type	Expires	Econonic Exposure	Market Value 31 March 2013	Economic Exposure	Market Value 31 March 2014
		£	**£**	**£**	**£**
Assets	Less than one year			3,402,620	20,280
Total Assets					**20,280**
Liabilities					
UK Equity Futures	Less than one year	5,652,390	(43,610)		
Total Liabilities			**(43,610)**		
Net Futures			**(43,610)**		**20,280**

Investments analysis by fund manager

Market value 31 March 2013			Market value 31 March 2014	
£000	%		£000	%
535,799	35.3%	UBS	532,943	32.2%
284,532	18.7%	Wellington	303,298	18.3%
244,463	16.1%	Newton	257,632	15.5%
202,487	13.3%	Majedie	236,176	14.2%
73,153	4.8%	Baillie Gifford	131,550	7.9%
64,015	4.2%	CBRE	113,417	6.8%
78,909	5.2%	Skagen	83,190	5.0%
1,798		Catapult	1,523	0.1%
36,186	2.4%	Fauchier		
142		Alliance Bernstein		
(113)		Aberdeen		
19		Cash	118	
1,521,390	**100.0%**		**1,659,847**	**100.0%**

All the above companies are registered in the United Kingdom. The relationship with Alliance Bernstein and Aberdeen ceased during the financial year.

The following investments represent more than 5% of the net assets of the scheme

Security	Market value 31 March 2013 £000	% of total fund	Market value 31 March 2014 £000	% of total fund
UBS GLOBAL AM LIFE WORLD EQUITY TRACKER A NAV	277,305	18.7%	301,522	18.2%
SKAGEN GLOBAL II	78,909	5.3%	83,190	5.0%
WELLINGTON MNGMT PORT (CAYMAN) - GLOBAL STRATEGIC CLASS GBP-A DIST (GBP)	85,717	5.8%	89,084	5.4%
WELLINGTON MGMNT GBL TOTAL RETURN IV CLASS T	76,160	5.1%	0	0%
WELLINGTON STERLING CORE BOND PLUS PORTFOLIO GT	79,480	5.4%	91,398	5.5%
BAILLIE GIFFORD DIVERSIFIED GROWTH	0	0%	131,550	7.9%

15c: Stock lending

The Fund Strategy Statement sets the parameters for the Fund’s stock lending programme. At the year end, the value of quoted equities on loan was £52.2m (31 March 2013; £44.8m) in exchange for which the Custodian held collateral at fair value of £55.7m (31 March 2013; £48.6m). Collateral consists of acceptable securities and Government debt.

NOTE 16: Financial Instruments

16a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Market value 31 March 2013			**Market value 31 March 2014**	
Designated as fair value through profit and loss £000	Loans and receivables £000		Designated as fair value through profit and loss £000	Loans and receivables £000
		Financial assets		
88,220		Fixed interest securities	91,398	
42,950		Index linked securities	45,679	
595,072		Equities	646,422	
680,386		Pooled investments	729,963	
78,475		Pooled property investments	113,050	
1,798		Private Equity/infrastructure	1,523	
932		Derivative contracts	78	
	31,035	Cash		31,471
879		Other investment balances	2,227	
	2,855	Debtors		2,787
1,488,712	**33,890**		**1,630,340**	**34,258**
		Financial Liabilities		
(158)		Derivative contracts	(7)	
(1,074)		Payables	(4,744)	
(1,232)			**(4,751)**	
1,487,480	**33,890**		**1,625,588**	**34,258**

16b: Net gains and losses on financial instruments

Market value 31 March 2013 £000		Market value 31 March 2014 £000
	Financial Assets	
100,198	Fair value through profit and loss	101,400
(323)	Loans and receivables	(108)
99,875		**101,292**
	Financial liabilities	
1,425	Fair value through profit and loss	199
(5)	Loans and receivables	
101,295	**Total**	**101,491**

16c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of financial assets and liabilities by class of instrument compared with their fair values.

Market value 31 March 2013			Market value 31 March 2014	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial Assets		
1,316,096	1,488,712	Fair value through profit and loss	1,630,339	1,630,339
33,890	33,890	Loans and receivables	34,259	34,259
1,349,986	**1,522,602**	**Total financial assets**	**1,664,598**	**1,664,598**
		Financial liabilities		
(1,232)	(1,232)	Loans and receivables	(4,751)	(4,751)
(1,232)	**(1,232)**	**Total financial liabilities**	**(4,751)**	**(4,751)**

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16d: Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise of quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Northamptonshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	765,844	753,905	120,707	1,640,456
Loans and receivables	32,869			32,869
Total financial assets	**798,713**	**753,905**	**120,707**	**1,673,325**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(13,478)			(13,478)
Financial liabilities at amortised cost				
Total financial liabilities	**(13,478)**			**(13,478)**
Net financial assets	**785,235**	**753,905**	**120,707**	**1,659,847**

Values at 31 March 2013	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	694,036	696,069	126,190	1,516,295
Loans and receivables	31,934			31,934
Total financial assets	**725,970**	**696,069**	**126,190**	**1,548,229**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(26,859)			(26,859)
Financial liabilities at amortised cost				
Total financial liabilities	**(26,859)**			**(26,859)**
Net financial assets	**699,111**	**696,069**	**126,190**	**1,521,370**

NOTE 17: Nature and Extent of Risks Arising From Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Board. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

The Fund manages these risks in two ways:

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

Equity futures contracts and exchanged traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

b) Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

c) Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	510,564	12.2	573,006	448,122
Global Equities	568,537	11.4	633,066	504,008
Bonds & Index-linked	302,810	3.6	313,590	292,030
Diversified Growth	131,550	4.5	137,470	125,630
Alternatives	1,523	7.1	1,631	1,415
Cash	31,471	0.0	31,477	31,465
Property	113,050	2.5	115,992	110,179
Total Assets	**1,659,505**	**7.8**	**1,788,946**	**1,530,064**

d) Currency risk

There are two approaches to determining potential currency risk.

The first method determines the potential volatility of the aggregate currency exposure within the Fund at the period end and applies this single outcome to all non UK assets. In order to calculate this, a currency basket is created based on the Fund's currency mix.

Repeating this for all of the months in our measurement period allows a measurement of the observed volatility of this unique currency basket's changes relative to GBP. In the Northamptonshire Fund, the result is 6.3% p.a. This change is applied to the Fund's overseas assets as follows;

Asset Type	Value £000	Percentage Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	568,537	6.3%	604,456	532,618
Overseas Fixed Interest	257,132	6.3%	273,377	240,887
Total overseas assets	**825,669**		**877,833**	**773,505**

e) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also cash to meet investment commitments.

The Council has immediate access to its pension fund cash holdings, with the exception of holdings that are fixed when the deposit is placed.

The Fund currently generates surplus cash from its normal activities and therefore does not have access to an overdraft facility. The surplus cash position of the Fund is reviewed periodically and a forecast is also provided as part of its cash management strategy.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash.

As at 31 March 2014 the value of illiquid assets was £113.4m, which represented 6.8% of the total Fund assets (31 March 2013: £80.1m, which represented 5.3% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's investment strategy.

All financial liabilities at 31 March 2014 are due within one year.

f) Refinancing risk

The key risk is that the Ccuncil will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

NOTE 18: Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will be based on Fund information as at 31 March 2016.

The objectives of the Fund's funding policy are:

- To ensure the long term solvency of the Fund as a whole and the solvency of each of the national sub funds allocated to each individual employer.
- To ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business;
- To minimise the degree of short term change in the level of each employer's contributions;
- Not to restrain unnecessary the investment strategy of the Fund so that the Administrating Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- To address the different characteristics of the disparate employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.
- To maintain the affordability of the Fund's employers as far as is reasonable over the long term.

The aim is to achieve 100% solvency over a period the next 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the March 2013 actuarial valuation the fund was assessed as 70.5% funded (73.0% at the March 2010 valuation), with a deficit of £646m (2010 valuation deficit of £445m).

Contribution increases are phased in over the three year duration of the valuation period with specific rates per employer, including a deficit cash figure to protect recovery of employer deficits. The Fund has a common contribution rate (i.e. the average Fund rate) which as at March 2013 is 32.1% (2010 24.7%).

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the funds website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Investment return (discount rate)	1.6%	Based on 25 year bond returns extrapolated to reflect the duration of the fund's liabilities
Inflation		Assumed to be RPI
Salary Increases	1.8% pa over CPI	
Pension Increases	In line with CPI	Assumed to be 0.8% less than RPI

Mortality assumptions

Future life expectancy based on the actuary's fund specific mortality review was:

Mortality assumptions at age of 65	Male	Female
Current Pensioners	22.3	24.3
Future Pensioners (assumed current age 45)	24.0	26.6

Historical mortality assumptions

Life expectancy for the year ended 31 March 2013 is based on PFA92 and PMA92 actuarial tables. The allowances for future life expectancy are:

Prospective Pensioners	Current Pensioners
Year of birth, medium cohort with 1% minimum improvements from 2007	Year of birth, medium cohort with 1% minimum improvements from 2007

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre April 2008 and 75% of the maximum for post April 2008 service.

NOTE 19: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2014 was £2.57bn (31 March 2013 £2.35bn). The Fund's accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of 2010 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

Inflation/pension increase rate assumption:		2.8%
Salary increase rate:	1.0% p.a. for the three years until 31 March 2016 then reverting to 4.6% p.a.	
Discount rate		4.3%

NOTE 20: Current Assets

31 March 2013 £000		31 March 2014 £000
	Debtors	
4,037	• Contributions due – employers	6,309
764	• Contributions due – employees	982
1,429	Others	721
20,646	Cash Balances	19,817
26,876	**Total**	**27,829**

NOTE 21: Current Liabilities

31 March 2013 £000		31 March 2014 £000
784	Benefits payable	364
1,991	Sundry creditors	2,529
2,332	Funds due to the County Council	579
5,107	**Total**	**3,472**

The reduction in current liabilities between 2013-14 and 2012-13 is predominantly due to a reduction in benefits payable and funds due to the County Council as at 31st March 2014. The £0.6m due to the County Council at 31st March 2014 represented the amount payable to the County Council for the administration of the Pension Fund; and was paid over in April 2014.

NOTE 22: Additional Voluntary Contributions

Market Value 31 March 2013 £000		Market value 31 March 2014 £000
2,285	Prudential	2,727
667	Standard Life	678
2,952	**Total**	**3,405**

Total contributions of £713k were paid directly to Prudential during the year (2012/13: £557k).

Total contributions of £26k were paid directly to Standard Life during the year (2012/13: £15k).

NOTE 23: Related Party Transactions

Northamptonshire County Council

The Northamptonshire Pension Fund is administered by Northamptonshire County Council.

The Council incurred costs of £2.2m (2012/13: £2.3m) in relation to the administration of the Fund and was consequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and paid employer's contributions of £27.8m to the Fund in 2013/14 (2012/13: £27.6m). All monies owing to and issued from the Fund were paid in year.

Governance

There is one member of the pension fund board who is in receipt of pension benefits from the Northamptonshire Pension Fund. In addition, there are six board members who are active members and one deferred member of the pension fund.

Pension Board and Investment Sub Committee:

County Council Members

Cllr Graham Lawman (Chairman)
Cllr Jim Hakewill (Vice Chairman) (From 3 May 2013)
Cllr Michael Brown (From 3 May 2013)
Cllr Matthew Golby (From 3 May 2013)
Cllr Dennis Meredith (From 3 May 2013)
Cllr Russell Roberts (From 3 May 2013)
Cllr Bob Scott (From 3 May 2013)
Cllr Mick Scrimshaw (Substitute Member) (From 3 May 2013)
Cllr Bill Parker (Substitute Member)

Cllr Sue Homer (Vice Chairman) (Resigned 2 May 2013)
Cllr Michael Tye (Resigned 2 May 2013)
Cllr Chris Long (Resigned 2 May 2013])
Cllr Chris Stanbra (Resigned 2 May 2013)
Cllr Andrew Langley (Substitute Member) (Resigned 2 May 2013)

District/Borough Councils' Representatives

Cllr Malcolm Ward (Wellingborough Borough Council)
Cllr Martin Wilson (South Northants District Council)
(From 3 May 201)
Richard Lewis (East Northants District Council)
(Substitute Member) (From 3 May 2013)

Universities and Colleges Representative

Roger Morris

Other Employers' Representatives

Alicia Bruce (From 3 May 2013)
Robert Austin (Substitute Member) (From 3 May 2013)

Employees' Representatives

Peter Borley-Cox
Josie Mason
Andy Langford (Substitute Representative)

County Council members have declared their interests in their register of members' interests. Other members of the Pension Fund Board are required to declare their interests at each meeting.

NOTE 24: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2014 totalled £0.4m (31 March 2013: £0.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between 10 and 12 years from the date of the original commitment.

NOTE 25: Contingent Assets

Four admitted body employers in the Northamptonshire Pension Fund hold insurance bonds to guard the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

KPMG

Independent auditor's report to the members of Northamptonshire County Council on the pension fund financial statements published with the Pension Scheme Annual Report and Statement of Accounts

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 49 to 83.

Respective responsibilities of the Director of Finance (Section 151 Officer) and the auditor

As explained more fully in the Statement of the Director of Finance (Section 151 Officer) Responsibilities, the Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Scheme Annual Report and Statement of Accounts with the pension fund financial statements included in the annual published statement of accounts of Northamptonshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Scheme Annual Report and Statement of Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Northamptonshire County Council for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Scheme Annual Report and Statement of Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Cardoza

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

25 September 2014