NORTHAMPTONSHIRE LOCAL GOVERNMENT PENSION SCHEME

Annual Report and Statement of Accounts 2010-2011

Contents

Introduction

This Annual Report and Statement of Accounts sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Northamptonshire Fund during the year.

The Statement of Accounts has been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2010/11 and the Financial Reports of Pension Schemes – A Statement of Recommended Practice (Pension SORP) 2007.

Mr M Bowmer

Head of Finance
(Section 151 Officer)

Dated September 2011

Registered Pension Scheme Number: 00329946RE

Management and Financial Performance Report

Scheme Management and Advisers

Administering Authority	Northamptonshire County Council P.O. Box 136 County Hall Northampton NN1 1AT
Administrator	Mr M Bowmer Head of Finance (Section 151 Officer)

Pension Committee and Investment Advisory Panel

County Council Members	Ken Melling (Chairman to 31/03/11) Graham Lawman (Chairman from 01/04/11) Sue Homer (Vice Chairman) Michael Tye Chris Long Chris Stanbra Andrew Langley (Substitute Member) Bill Parker (Substitute Member)
District/Borough Councils Representative	Malcolm Ward (Wellingborough Borough Council)
Universities and Colleges Representative	Roger Morris (Effective June 2010)
Employees Representatives	Peter Cox Josie Mason Andy Langford (Substitute Representative)

Key Officers supporting the Fund

Head of Pensions LGSS	Steve Dainty
Pensions Manager	Ian Gibbon
Legislation Officer	Ray Cheeseman
Fund Group Accountant	Paul Tysoe
Fund Principal Accountant	Emma Bland
Investment Advisors	Paul Meredith Mercer Investment Consulting

Investment Managers	UBS Aberdeen Majedie Alliance Bernstein Newton CBRE including RREEF Fauchier Wellington [New April 2010]
Custodian	Northern Trust
AVC Providers	Prudential Assurance Standard Life
Fund Actuary	Hymans Robertson LLP
Auditor	KPMG LLP
Legal Advisors	Sackers & Partners
Performance reporting	WM Company Mellon
Bankers	Nat West
Contacts	**Further information regarding the accounts and investments can be obtained from:** Paul Tysoe, Pension Fund Group Accountant E-mail: phtysoe@northamptonshire.gov.uk Telephone: 01604 368671 **Enquiries relating to benefits and administration should be directed to:** Ian Gibbon, Pensions Manager E-mail: igibbon@northamptonshire.gov.uk Telephone: 01604 236527

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 41.

Governance Risk
The Governance arrangements explain the legal framework of the Scheme, the make up of the Pensions 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://www.northamptonshire.gov.uk/Democracy/finance/NLGPS/nlgps.htm

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
Inappropriate long-term investment strategy

Mitigation
Fund specific benchmark informed through regular asset liability modelling with support of the Scheme's Actuary.

Risk
Investment manager under performance

Mitigation
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.]

Risk
Pensioners living longer than previous valuation assumptions

Mitigation
Triennial valuations to review and update longevity expectations

Risk
Regulatory change

Mitigation
Members of the Pensions Committee 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.

Risk
Administering Authority not advised of an employer closing to new entrants.

Mitigation
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 (or final salary) scheme. The operation of the Northamptonshire Local Government Pension Scheme is principally governed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 [as amended] (effective from April 2008) and the Local Government Pension Scheme (Administration) Regulations 2008. 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 19 to 24.

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 £12,600 to 7.5% for a full-time pay rate of more than £78,700 as at 31 March 2011.

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. The Fund currently recovers deficits over a maximum period of 17 years commencing April 2008, as set out in the Funding Strategy Statement.

Contribution rates for 2010-11 were assessed by the Fund's Actuary on the last completed valuation of the Scheme's financial position as at 31st March 2007 and are shown on pages 19 to 24. They also took account of the anticipated effect of the new pension scheme from 1 April 2008.

The next actuarial valuation will be effective from 1 April 2011 and is based on data as at 31 March 2010. Changes in contribution rates, as a result of this valuation, will take effect from 1 April 2011.

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.

The Fund currently has a strong net cash inflow, which it distributes to Fund managers to invest on behalf of the Fund. The investments of the Fund are predominately liquid therefore should the need arise the Fund can realise sufficient cash flow to meet its requirements.

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 Current Strategy was approved in February 2011 and is available through the following link:

http://www.northamptonshire.gov.uk/Democracy/finance/NLGPS/nlgps.htm

Scheme Administration Report

A major project undertaken this financial year has been the delivery of the Valuation for the Northamptonshire Local Government Pension Scheme. This is a triennial requirement and preparatory steps were taken early in the year to ensure resource was available; data was held in an accurate state; and contingencies identified.

Resource was provided by a dedicated project team who undertook a mammoth task of data cleansing all records prior to commencing the submission of data to the Fund's Actuary. This, together with employers providing their data in a timely manner, enabled the final submission to be made two weeks ahead of schedule. The data was commended by the actuary for its robustness.

The final results of the Valuation were assisted by the administration effort, reducing the financial assessments made by the Actuary for the future, due to removing erroneous records; combining individual benefits where possible; and virtually removing all records held with an undecided status.

The Independent Public Service Pension Commission, led by Lord Hutton, consulted on the future of public service pensions. Representatives from this Fund attended a number of seminars, listening and engaging with others (including Lord Hutton) on the potential impact of these changes to the Local Government Pension Scheme, before submitting its own response to the consultation.

In the budget on 23 March 2011 the Government accepted the recommendations within Lord Hutton's report as a basis for further consultation with public sector workers, trades unions and others. Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer. New public service pension schemes will be introduced by the end of this Parliament.

Northamptonshire County Council and Cambridgeshire County Council have entered into a Shared Service arrangement which includes the administration of the local government pension schemes. The intention is to reduce the administration costs for both Funds by providing a higher than average service for a lower than average cost. A great deal of work has already been undertaken to identify the best working practices and how both schemes will work together in the future.

Other events that have happened this financial year include:

- The introduction of a new payroll system that will serve all pensioners. Support has been provided by the Pensions Section to assist in bringing this in to place. Previously held with Mouchel, the payroll system has been brought back in house, under the Local Government Shared Service area of Northamptonshire County Council.

- Procedures have been challenged to determine where they can be improved and a number of initiatives have been implemented to enable individuals to help themselves thus reducing on administration time and costs.

- Communication has been improved through the delivery of pension information at induction, retirement and redundancy events.

- A number of schools have changed their status to become Academies. Processes have been adapted to ensure that these establishments are recognised and treated as separate employers in this Fund and support provided to ensure they are aware of the administrative and financial impacts of being a separate employer within this Fund.

- Submission of information to the Fund's external Auditors in respect of the 2009/2010 Annual Report and Statement of Accounts was commended on its quality.

The last few years has seen the workload of the pension administration area increase considerably. A matter that has been identified by the Fund's Actuary and the Pensions Committee. To assist in this six additional staff were appointed in the summer of 2010 and they are proving of great benefit to the Section in the delivery of its service.

Continual reviews are undertaken regarding the systems used by the Pension Administration Section. Currently using **Axis*e*** for assessing benefits and workflow management for local government members, consideration is being given to **Altair** the next generation in the provision and delivery of local government pension support and assessments.

A number of decisions will need to be made regarding the future of the administration of Northamptonshire Local Government Pension Scheme over the next few months. Some of these will be considered from the Shared Service position where we can identify cost effective savings. Others will be from how systems can be continually improved to provide a service expected by all stakeholders in this Scheme and additionally whether any preparatory work needs to be undertaken following the determination of the future of the local government pension scheme following the consideration of the report produced by Lord Hutton.

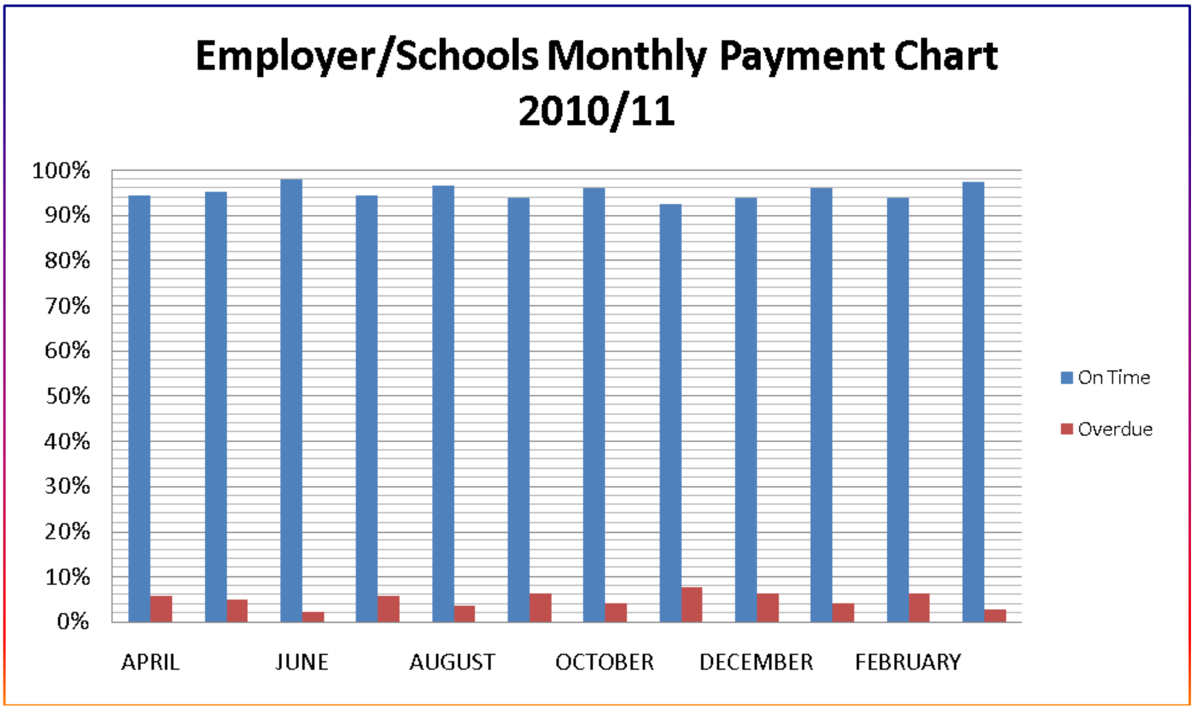
Steve Dainty
Head of Pensions

Graham Lawman
Chairman
Pensions Committee

Financial Performance

Contributions

The chart shows the timeliness of contributions received on or before the due date and shows the improvements made in reducing late contribution payments during 2010/11



An analysis of contributions is set out on pages 49-50 as part of the notes to the accounts.

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 95% of cases. This is a marked improvement from 2009/10 which was 82%.

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 for the five years 2006-07 to 2010-11

	2006-07	2007-08	2008-09	2009-10	2010-11
Contributors					
Northamptonshire County Council	12,447	13,657	13,447	12,631	12,047
Probation	257	259	256	225	207
Northamptonshire Police Authority	1,081	1,135	1,215	1,202	1,135
District Councils					
Corby	390	397	386	374	352
Daventry	330	295	284	264	253
East Northamptonshire	194	194	205	194	183
Kettering	445	432	433	431	415
Northampton	1,189	1,131	1,120	1,100	1,041
South Northamptonshire	315	293	219	210	199
Wellingborough	367	300	282	301	263
University/Colleges					
University of Northampton	607	572	581	580	572
Moulton College	193	206	214	204	215
Northampton College	264	273	303	309	296
Tresham College	245	250	247	220	165
Academies					
Duston School					72
Guilsborough School					54
Kettering Science Academy					56
Kettering Buccleuch Academy					67
Northampton School for Boys					64
Sponne Community School					74
United Learning Trust	54	62	71	66	67

Admitted Bodies					
Daventry District Housing		64	70	70	58
Northamptonshire Connexions	162	156	157	151	105
Shaw Healthcare	143	111	94	80	68
South Northants Homes			68	72	73
Other bodies	928*	393	472	625	571
	19,611	**20,180**	**20,124**	**19,309**	**18,672**

	2006-07	2007-08	2008-09	2009-10	2010-11
Pensioners					
Northamptonshire County Council	5,096	5,559	5,886	6,284	6,586
Probation	106	117	121	132	139
Northamptonshire Police Authority	334	366	389	421	455
District Councils					
Corby	468	487	497	510	519
Daventry	241	252	258	272	276
East Northamptonshire	212	213	210	213	204
Kettering	426	443	449	465	474
Northampton	1,454	1,482	1,482	1,544	1,554
South Northamptonshire	242	249	257	276	282
Wellingborough	371	385	384	403	409
University/Colleges					
University of Northampton	220	245	268	300	325
Moulton College	29	37	46	53	64
Northampton College	75	87	102	112	132
Tresham College	88	101	111	130	152
Academies					
Duston School					
Guilsborough School					12
Kettering Science Academy					5
Kettering Buccleuch Academy					3
Northampton School for Boys					14
Sponne Community School					10
United Learning Trust	2	5	4	6	7
Admitted Bodies					
Daventry District Housing		0	0	2	15

Northamptonshire Connexions	22	30	33	36	55
Shaw Healthcare	22	33	39	49	58
South Northants Homes			0	9	14
Other bodies	466*	386	410	431	476
	9,874	**10,477**	**10,946**	**11,648**	**12,240**

	2006-07	2007-08	2008-09	2009-10	2010-11
Deferred Pensions					
Northamptonshire County Council	5,959	6,314	7,300	8,863	10,165
Probation	81	82	99	127	138
Northamptonshire Police Authority	411	429	547	578	641
District Councils					
Corby	295	282	308	336	358
Daventry	212	204	216	240	295
East Northamptonshire	105	103	109	121	138
Kettering	225	231	259	273	286
Northampton	754	765	809	837	912
South Northamptonshire	195	198	209	217	223
Wellingborough	207	204	216	218	234
University/Colleges					
University of Northampton	331	346	400	422	461
Moulton College	99	105	121	166	216
Northampton College	163	150	155	173	233
Tresham College	174	183	211	216	266
Academies					
Duston School					8
Guilsborough School					33
Kettering Science Academy					6
Kettering Buccleuch Academy					3
Northampton School for Boys					42
Sponne Community School					33
United Learning Trust	5	5	6	13	22

Admitted Bodies					
Daventry District Housing		0	2	6	14
Northamptonshire Connexions	101	102	116	120	142
Shaw Healthcare	35	42	48	62	67
South Northants Homes			0	6	8
Other bodies	509*	339	330	349	414
	9,861	**10,084**	**11,461**	**13,343**	**15,358**

* Figures include what were grant maintained schools, later included within NCC figures.

	March 09	March 10	March 11
No. of new starters throughout the year	2549	2343	2203
No. of new pensioners throughout the year	705	941	949
No. of new deferred beneficiaries throughout the year	1952	2506	2634
No. of refunds and transfers out throughout the year	214	321	468

In addition to the 15358 deferred records an additional 3614 records have been closed awaiting final determination of whether the accrued benefits are to be refunded, transferred elsewhere or are to remain within this scheme as deferred benefits.

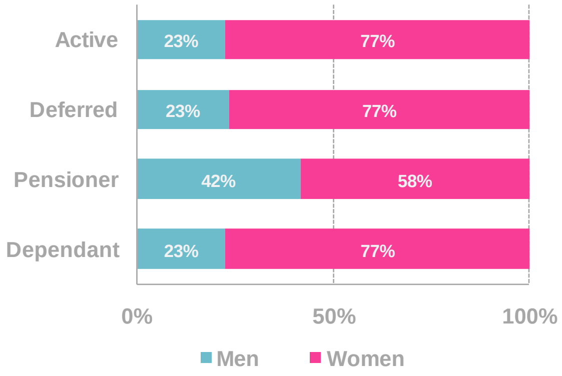
The membership analysis below shows the age profile of membership.

	at 31/03/2011	**at 31/03/2011**	**at 31/03/2011**
Members in LGPS	**Actives**	**Deferred**	**Pensioners**
Age 17 Up to and including 20	161	90	0
Age 21 Up to and including 25	715	726	0
Age 26 Up to and including 30	1,251	1,213	0
Age 31 Up to and including 35	1,578	1,336	1
Age 36 up to and including 40	2,535	1,988	6
Age 41 Up to and including 45	3,342	2,832	19
Age 46 up to and including 50	3,233	2,836	42
Age 51 Up to and including 55	2,837	2,306	221
Age 56 Up to and including 60	2,020	1,668	1,042
Age 61 Up to and including 65	882	325	3,056
Age 66 Up to and including 70	107	30	2,404
Age 71 Up to and including 75	11	8	1,596
Age 76 Up to and including 80			1,102
Age 81 Up to and including 85			623
Age 86 Up to and including 90			337
Age 91 Up to and including 95			101
Age 96 Up to and including 100			28
TOTAL	**18,672**	**15,358**	**10,578***
Average age of members	**45 years**	**44 years**	**69 years**

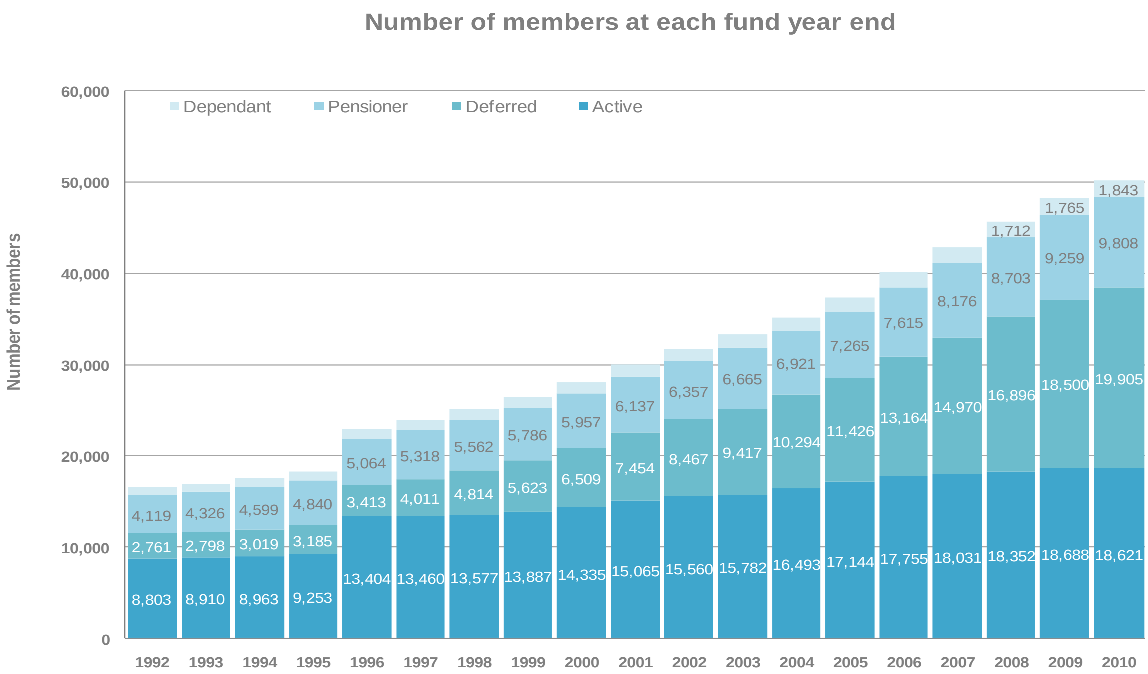
(*Pensioners data excludes dependents pensions)

Membership Profile as at 31 July 2010

We have analysed the profile of the membership by the key characteristics of gender and role in the chart below.

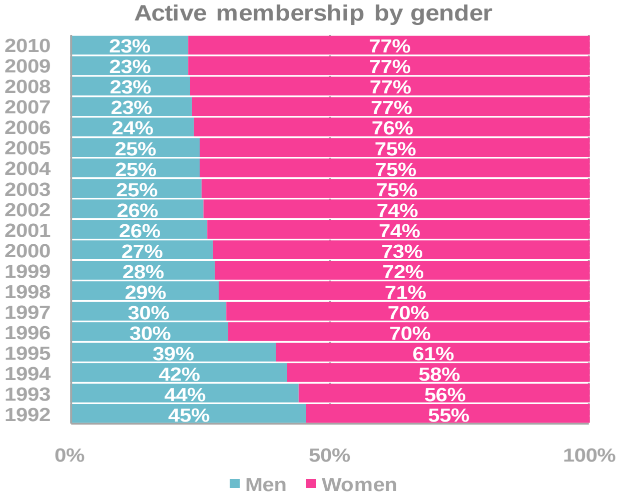


Historic membership



Pension Funds go through a growth cycle. They start off being dominated by active members, but as they mature the deferred and pensioner populations grow. The above chart shows that over the last nineteen years the Fund has been maturing, with an increasing proportion of the membership being deferred or pensioners.

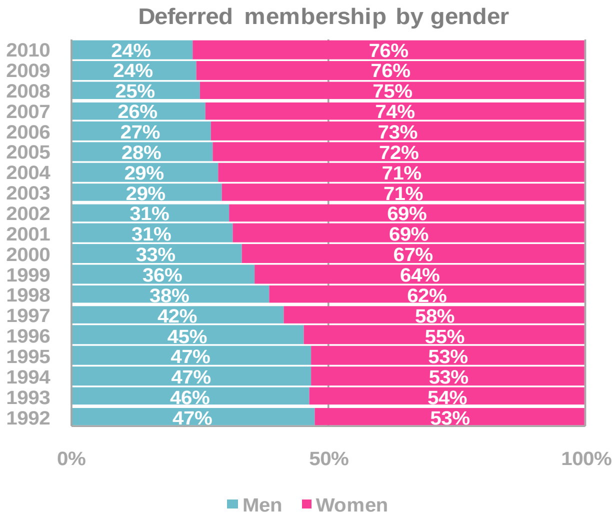
Active membership at Fund year ends



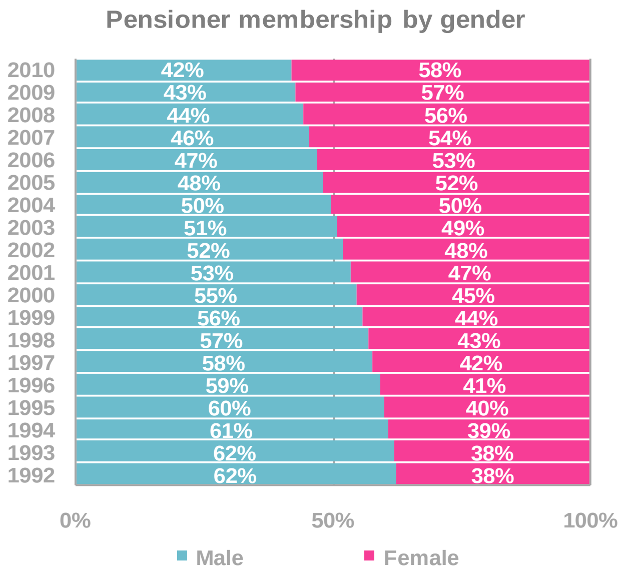
The active membership has experienced a gradual shift from having slightly more women than men to being female dominated.

Deferred membership at Fund year ends

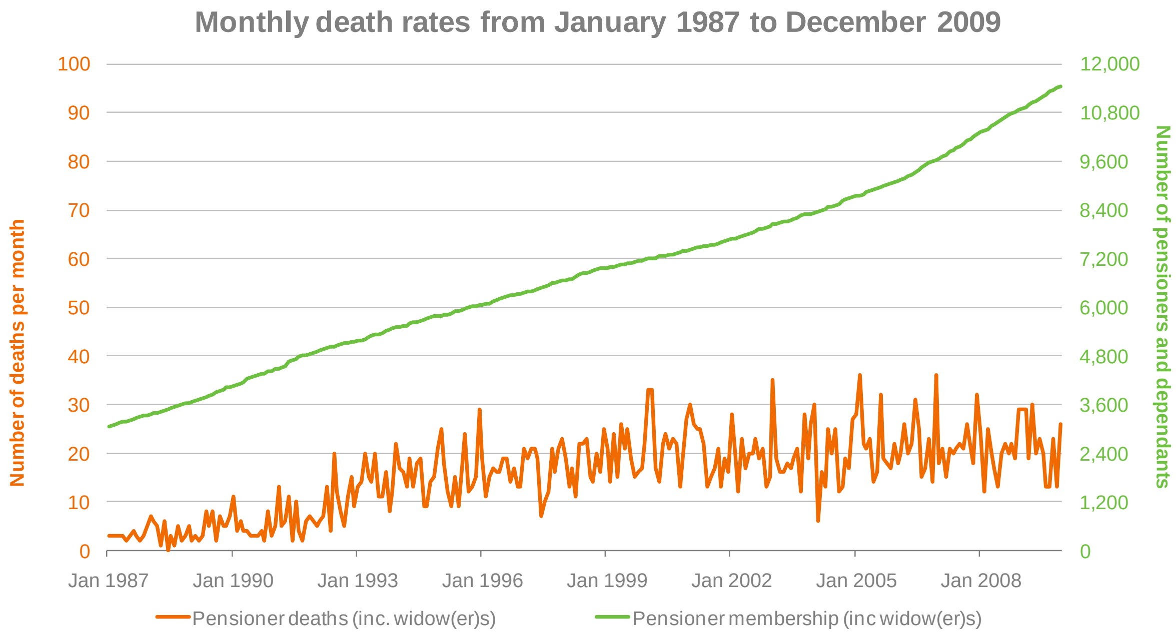
The deferred pensioner membership has experienced a gradual shift from having slightly more women than men to being female dominated.



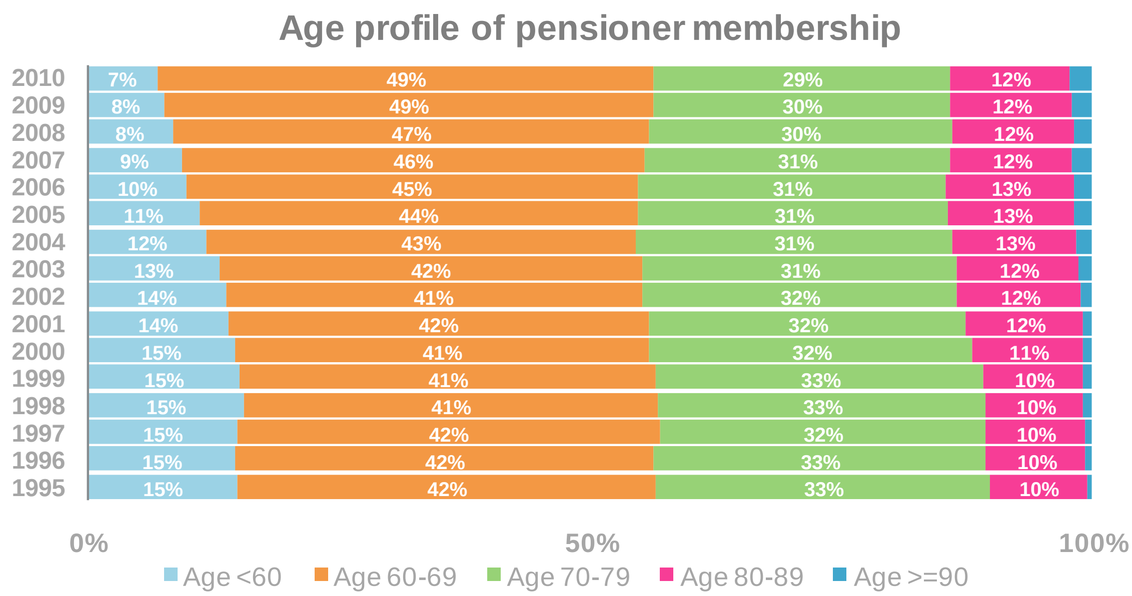
Pensioner membership (excluding widow(er)s) at fund year ends



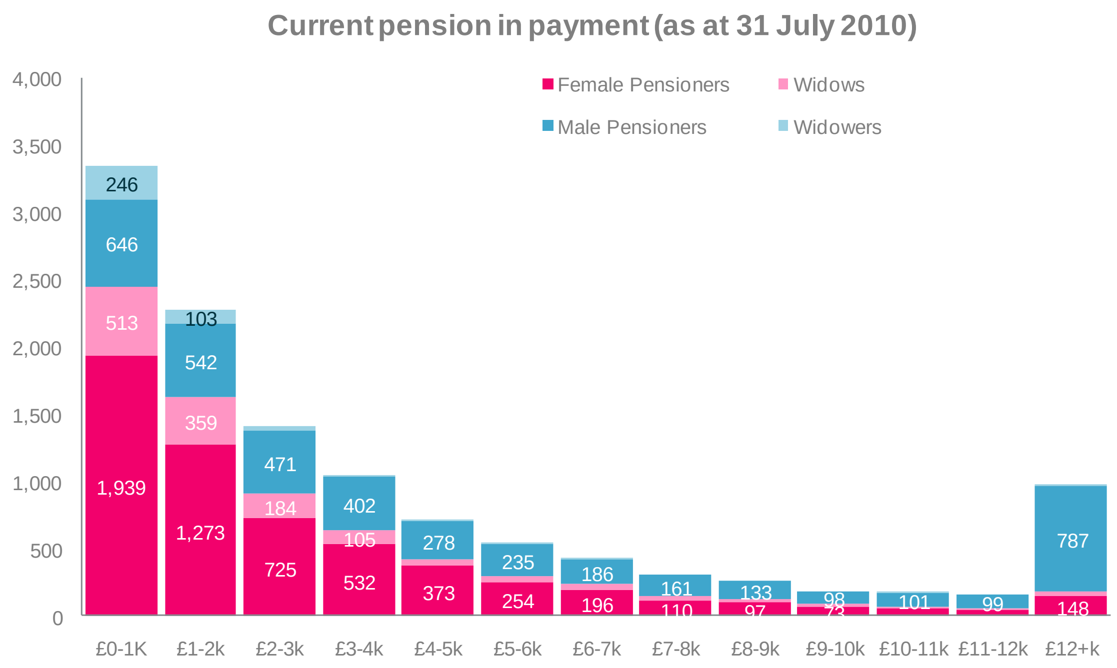
The pensioner population membership has experienced a gradual shift from being male dominated to having slightly more women than men.



The number of deaths in the pensioner membership (including widows, widowers) has been fairly consistent this century whereas the total pensioner membership has risen by over 50%.



The age profile of the pensioner membership reflects a fairly stable percentage of around 55% - 57% for those under 70 with a marked decrease in those pensioners under 60.



Life Expectancies

Men

Membership group	Minimum life expectancy	Maximum life expectancy	Range of life expectancies within which 75% of all accrued pensions lie	Average life expectancy (weighted by liability)
Current pensioners	77.0	88.0	81.9 - 87.4	84.6
Future pensioners	78.7	88.0	82.4 - 85.7	84.1

Women

Membership group	**Minimum life expectancy**	**Maximum life expectancy**	**Range of life expectancies within which 75% of all accrued pensions lie**	**Average life expectancy (weighted by liability)**
Current pensioners	79.6	88.5	85.0 - 87.5	86.2
Future pensioners	80.6	88.5	85.3 - 87.1	86.4

Note: The minimum life expectancy for pensioners is lower than for active members and deferred pensioners as it includes members known to retire on grounds of ill health. All the life expectancies shown above are prior to allowance for future improvements.

Participating Employers	Contribution Rate 2010-2011 % of Payroll
Major Scheduled Bodies	
Borough Council of Wellingborough	26.90%
Corby Borough Council	25.30%
Daventry District Council	24.30%
East Northamptonshire Council	24.60%
Kettering Borough Council	22.30%
Northampton Borough Council	27.80%
Northamptonshire County Council	19.40%
Northamptonshire Police Authority	15.50%
Northamptonshire Probation Trust	17.10%
South Northamptonshire Council	23.70%
Moulton College	13.50%
Northampton College	18.30%
Tresham Institute	15.00%
University of Northampton	16.50%
Other Scheduled Bodies	
Coroner	19.40%
Northamptonshire County Council - Councillors	19.40%
Borough Council of Wellingborough - Councillors	26.90%
South Northamptonshire Council - Councillors	23.70%
Abbeyfield School	19.40%
Abington Vale Primary	19.40%
Barry Road Primary School	19.40%
Bishop Stopford CE School	19.40%
Boothville Primary School	19.40%
Broughton Primary School	19.40%
Bugbrooke Community Primary School	19.40%
Campion School	19.40%
Caroline Chisholm School	19.40%
Chacombe Primary School	19.40%
Chenderit School	19.40%

Participating Employers	Contribution Rate 2010-11 % of Payroll
Croyland Nursery School	19.40%
Danetree School	19.40%
Deanshanger Kingsbrook School	19.40%
Duston School	19.40%
Ecton Brook Primary School	19.40%
Fairfields Special School	19.40%
Finedon Infant School	19.40%
Finedon Mulso Junior School	19.40%
Friars Special School	19.40%
Gateway School	19.40%
Grange Community School	19.40%
Great Addington Primary	19.40%
Greenfields School	19.40%
Hardingstone Primary School	19.40%
Headlands Primary School	19.40%
Henry Chichele School	19.40%
Huxlow Science College	19.40%
Irchester Primary	19.40%
Irthlingborough Junior School	19.40%
Isebrook School	19.40%
Kettering Millbrook Infant School	19.40%
Kettering Millbrook Junior School	19.40%
Kingsley Primary School	19.40%
Kingsley School Kettering	19.40%
Kingsthorpe Community College	19.40%
Magdalen College	19.40%
Mawsley Primary	19.40%
Montsaye Community College	19.40%
Moulton Primary School	19.40%

Participating Employers	Contribution Rate 2010-11 % of Payroll
Moulton Secondary Schooll	19.40%
Newton Road Community School	19.40%
Northampton School for Girls	19.40%
Oundle Primary School	19.40%
Park Infant School Raunds	19.40%
Park Junior School Kettering	19.40%
Parklands Primary School	19.40%
Prince William School	19.40%
Raunds Manor School and Sports College	19.40%
Raunds Windmill Primary School	19.40%
Ringstead Primary School	19.40%
Rushden Community School	19.40%
South End Infant Rushden	19.40%
South End Junior Rushden	19.40%
Southfields School for Girls	19.40%
St Andrews Primary School	19.40%
St Mary's Primary Northampton	19.40%
St Mary's Primary School	19.40%
St Patrick's Primary School	19.40%
Standens Barn Primary	19.40%
Stimpson Avenue Primary	19.40%
The Ferrers College	19.40%
The King John School Thrapston	19.40%
The Kingswood School Corby	19.40%
Thomas Beckett Catholic School	19.40%
Thorpelands Primary School	19.40%
Thrapston Primary School	19.40%
Towcester Primary School	19.40%
Trinity Lower Aldwincle	19.40%
Vernon Terrace Primary	19.40%
Thorpelands Primary School	19.40%
Wallace Road Nursery School	19.40%
Weldon Primary School	19.40%

Participating Employers	Contribution Rate 2010-11 % of Payroll
Welford, Sibbertoft and Sulby Endowed School	19.40%
Wellingborough Croyland Primary School	19.40%
Wellingborough Oakway Infant School	19.40%
Wellingborough Oakway Junior School	19.40%
Wellingborough Our Lady's Catholic Junior School	19.40%
Wellingborough Redwell Infants School	19.40%
Wellingborough Sir Christopher Hatton School	19.40%
Wellingborough Weavers School	19.40%
Wellingborough Wrenn School	19.40%
Weston Favell School	19.40%
Wollaston Primary School	19.40%
Woodford Halse Primary School	19.40%
Woodnewton Learning Community	19.40%
Academies	
Brooke Weston Academy	16.10%
Corby Business Academy	14.10%
Guilsborough Academy	17.50%
Kettering Science Academy	14.10%
Kettering Buccleuch Academy	15.60%
Malcolm Arnold Academy	19.40%
Northampton School for Boys	17.70%
Sponne Academy	awaiting
Small Scheduled Bodies	
Barby Parish Council	19.50%
Billing Parish Council	19.50%
Brackley Town Council	19.50%
Brixworth Parish Council	19.50%
Creaton Parish Council	19.50%
Grange Park Parish Council	19.50%

Participating Employers	Contribution Rate 2010-11 % of Payroll
Irthlingborough Town Council	19.50%
Moulton Parish Council	19.50%
Oundle Town Council	19.50%
Raunds Town Council	19.50%
Rushden Town Council	19.50%
Stanwick Parish Council	19.50%
Towcester Town Council	19.50%
Wollaston Parish Council	19.50%
Wootton & East Hunsbury Parish Council	19.50%
Admitted Bodies	
Amey plc	18.10%
Daventry & District Housing	14.70%
DC Leisure	13.50%
EMBC plc	17.60%
May Gurney	19.50%
May Gurney (Nordis)	18.20%
Northamptonshire Connexions Partnership Ltd	17.40%
Northamptonshire Enterprise Ltd	12.80%
Northampton High School	16.40%
NSL Ltd	15.70%
Rockingham Forest Trust	14.70%
Service 6	17.80%
Shaw Healthcare	17.90%
South Northants Homes	15.80%
Spire Homes Limited	36.90%
The Castle (Wellingborough) Limited	24.10%
The Northampton Theatres Trust	21.00%
United Learning Trust - Northampton Academy	11.30%
Wellingborough Homes Ltd	16.10%
West Northants Development Corporation	14.70%
WSP	19.70%

Participating Employers	Contribution Rate 2010-11 % of Payroll
Small Admitted Bodies	
Age Concern (Northampton and County)	29.70%
East Northants Cultural Trust	14.10%
EMLC	51.50%
North Northamptonshire Development Corporation	27.40%
Riverside Truck Rental	22.10%
Employers Whose Active Membership Ceased during the Financial Year Ending March 2011	
The Stationery Office	22.80%
Employers with NO Active Members	
AWA Ex WNRA	N/A
Carillion	N/A
Corby Development Corporation	N/A
Daventry Town Council	N/A
Derngate Housing Association	N/A
Department of Constitutional Affairs (Magistrates)	N/A
Former Health Pensioners	N/A
Former Nene College Pensioners	N/A
Long Buckby Parish Council	N/A
Nene Valley Waste	N/A
Newton in the Willows Trust	N/A
Northampton and County Blind Association	N/A
Northampton Borough Council Ex Transport	N/A
Northampton Development Corporation	N/A
Northampton Joint Valuation Panel	N/A
Northampton Transport Limited	N/A
Northamptonshire Enterprise Agency	N/A
Pest Express	N/A
Pytchley Town Council	N/A
Scholorest	N/A
Society of County Archivists	N/A
Wicksteed Memorial	N/A
Corby Beanfield Primary School	N/A
Corby Queen Elizabeth School	N/A
Corby Woodnewton Junior School	N/A
Kettering Montagu School	N/A
Northampton Kingsley Park Middle School	N/A
Stanion CE Primary School	N/A

Investment Policy and Performance Report

Benchmark 2010

The asset allocation and benchmarks applied during the 2009-10 financial year are shown below. This can be compared to the asset allocation and benchmarks revised as at 31 March 2010 for the 2010-11 financial year, on page 26.

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	**46.00%**		
Alliance Bernstein	15.30%		MSCI AC
Newton	15.30%		MSCI AC
UBS	15.40%		FTSE All World (inc EM)* Passive
Property	**8.00%**		
CBRE	4.00%		HSBC/APUT All Balanced Funds Index
RREEF	2.00%		HSBC/APUT All Balanced Funds Index
UBS	2.00%		HSBC/APUT All Balanced Funds Index
Hedge FoF	**3.00%**		
Fauchier	3.00%		Sterling 3 month LIBOR +5%
Bonds	**20.00%**		
Aberdeen	10.00%		
		1.80%	FTSE All Stock Gilts
		3.20%	iBoxx Sterling Non Gilts
		3.20%	Barclays Capital Inflation Swap GBP 20 Year Real Rate TR
		0.90%	Barclays Capital Nominal Swap GBP 20 Year Coupon TR
		0.90%	Barclays Capital Nominal Swap GBP 50 Year Coupon TR
UBS	5.00%		
		1.67%	1.67% iBoxx Sterling Non Gilts
		1.67%	FTSE Over 5 Year Index Linked Gilts
		0.83%	FTSE All Stocks Gilts
		0.83%	FTSE Over 15 Year Gilts
Wellington	5.00%		
		3.33%	Merrill Lynch Sterling Broad Market
		1.67%	Merrill Lynch Index Linked Gilts Index
Total	**100.00%**		

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

Benchmark 2011

The benchmark from March 2011 is:-

March 2011 Benchmark & Indices

Asset Class	Weighting %		Market Benchmark Adopted
UK Equities	23.0		FTSE All-Share
Global Equity	46.0		
		30.6	MSCI All Countries
		15.4	FTSE AW (inc EM) [Passive]
Bonds	20.0		
		2.63	FTSE Government All Stock
		0.83	FTSE Government All Stock > 15 Years
		4.87	Iboxx Sterling Non-Gilts
		1.67	FTSE Index Linked Gilts > 5 Years
		3.33	Merrill Lynch Sterling Broad Market
		1.67	Merrill Lynch Index Linked Gilts Index
		3.20	20 Year Sterling Inflation Linked Swap
		0.90	Lehman Bros 240 Month Sterling Swap
		0.90	Lehman Bros 600 Month Sterling Swap
Property	8.0		HSBC/APUT All Balanced Funds Index
Hedge Funds	3.0		Sterling 3 month LIBOR + 5% p.a.
Total	**100.00%**		

What's Changed?

Equities
The main strategic changes saw a reduction in UK Equities with a corresponding increase in Global Equities, reflecting the view that diversity across global markets would drive improved performance and reduce investment risk. It also recognised the perceived view that development markets would take longer to recover from the global recession and by adopting full market capitalisation the fund would benefit. In addition the Fund took a view on passive investing by placing 15.3% of the fund with a Passive Global Equity mandate reducing the active manager position. Therefore in overall terms the equity allocation remained at 69% of the overall benchmark with the introduction of a passive brief to the Fund.

Bonds
In the Bonds arena the fund took the opportunity to appoint an additional bonds manager, this was with a flexible appointment, deliberately permitting the potential to combine any or all bond investment provision through this new manager should the Fund consider it appropriate.

The benchmark as at 31 March 2011 shows a slightly increased asset allocation from 18% to 20%, which was funded from a reduction of 2% in the Hedge Fund mandate and cash held by the Fund.

Other Asset Classes
The main change during the year was to reduce the allocation to hedge funds from 5% to 3%.

Fund Manager Profiles

The Fund Manager profile at the start of the Financial year 31 March 2010:-

Investment Manager	Asset Class	Individual Target
UBS	Multi-Asset	1%
Aberdeen	Bonds	1.3%
Wellington	Bonds	1% [From April 10]
Majedie	UK Equities	2%
Martin Currie	UK Equities	2% [Ceased March 2010]
Alliance Bernstein	Global Equities	2%
Newton	Global Equities	2%
UBS	Passive Overseas Equities	[From April 10]
Fauchier	Hedge Fund of Funds	LIBOR +5%
Partners Group	Hedge Fund of Funds	LIBOR +5% [Ceased March 10]
CBRE	Property	1%
RREEF	Property	0.75%
Overall Fund Target		**1.3%**

The Fund Manager profile at the end of the financial year 31 March 2011:-

Investment Manager	Asset Class	Individual Target
UBS	Multi-Asset	1.25%
Aberdeen	Global Fixed Interest	1.3%
Wellington	UK Fixed Interest	1%
Majedie	UK Equities	2%
Martin Currie	UK Equities	2% [Ceased March 2010]
Alliance Bernstein	Overseas Equities	3%
Newton	Overseas Equities	2%
UBS	Passive Global Equities	0%
Fauchier	Hedge Fund of Funds	3 month LIBOR +5%
CBRE	Property	1%
CBRE (Managing RREEF)	Property	0.75%
Overall Fund Target		**1.7%**

Key Changes

The key changes reflect the mandate terminations of Martin Currie within UK Equities and Partners Group within Hedge Funds, the monies of which were used to fund the appointments of the UBS Passive Global Equity mandate and the appointment of Wellington within the bonds mandate. The impact of these changes together with the adoption of full market capitalisation, increased the Funds overall out performance target to 1.7% from a previous target of 1.3%.

Asset Allocation Strategic Review

The Fund has a policy to review the Asset Allocation following a valuation process, a review commenced in November 2010. The Fund considers its existing strategy to be robust; however a formal review and challenge process is good governance.

The review focussed to assess whether making changes to the asset allocation could either drive improvements in the funding level, or provide more downside protection. The fund considered the reduction of risk, however this may decrease the expected investment returns, and so would require greater employer contributions to recover the funding level and provide future benefits. As such, with particular reference to the current economic environment, it is not recommended to reduce the level of risk markedly.

However, there are a number of areas that do require further investigation, under a general theme of "making the assets work harder" in the current market environment.

During 2010-11 the fund reviewed its bonds allocation, benchmarks and manager mandates. This review has now been completed with the outcomes impacting in the 2011-12 financial year. The Pension Committee agreed to terminate the bonds mandate with Aberdeen Asset Management and move the monies to the Wellington mandate.

The asset allocation review continues in the 2011-12 financial year, the resulting changes will be recorded in the Annual Report for March 2012.

Asset Allocation and Fund Specific Benchmark April 2011 by Fund Manager

The table below shows the asset allocation and associated specific benchmarks (indices) by Fund Manager as at 31 March 2011.

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	**46.00%**		
Alliance Bernstein	15.30%		MSCI AC
Newton	15.30%		MSCI AC
UBS	15.40%		FTSE All World (inc EM)* Passive
Property	**8.00%**		
CBRE	4.00%		HSBC/APUT All Balanced Funds Index
RREEF	2.00%		HSBC/APUT All Balanced Funds Index
UBS	2.00%		HSBC/APUT All Balanced Funds Index
Hedge FoF	**3.00%**		
Fauchier	3.00%		Sterling 3 month LIBOR +5%
Bonds	**20.00%**		
Aberdeen	10.00%		
		1.80%	FTSE All Stock Gilts
		3.20%	iBoxx Sterling Non Gilts
		3.20%	Barclays Capital Inflation Swap GBP 20 Year Real Rate TR
		0.90%	Barclays Capital Nominal Swap GBP 20 Year Coupon TR
		0.90%	Barclays Capital Nominal Swap GBP 50 Year Coupon TR
UBS	5.00%		
		1.67%	1.67% iBoxx Sterling Non Gilts
		1.67%	FTSE Over 5 Year Index Linked Gilts

		0.83%	FTSE All Stocks Gilts
		0.83%	FTSE Over 15 Year Gilts
Wellington	5.00%		
		3.33%	Merrill Lynch Sterling Broad Market
		1.67%	Merrill Lynch Index Linked Gilts Index
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 2011.

Asset Class	Manager	Market Value as at 31 Mar 2011	Holding (%)
Multi Asset	UBS	236.6	18.3
UK Equity	Majedie	157.6	12.2
Global Equity	Alliance Bernstein	196.3	15.2
	Newton	194.7	15.1
Passive Global Equity	UBS	204.6	15.8
Fixed Income	Aberdeen	145.3	11.2
	Wellington	63.3	4.9
Property	CBRE	46.8	3.6
	RREEF	15.5	1.2
Hedge Fund of Funds	Fauchier	32.1	2.5
Total		1,292.8	100.0

Other Developments In The Finance Environment

Investment Regulations

The Investment Regulations 2009 set out a number of key changes for Pension Funds to comply with.

This included the requirement to set up a separate bank account for the Pension Fund to improve the financial controls of the Fund and demonstrate no co-mingling monies between the Administering Authority and the Pension Fund. In addition the Regulations set out clearly the borrowing powers of the Pension Fund permitting borrowing for two reasons

(a) paying benefits due under the scheme, or
(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

Finally the Regulations set out the legal requirement to produce a Statement of Investment Principles (SIP) and associated Compliance Statement. The Northamptonshire Fund has produced a SIP on an annual basis since the 1990s.

CIPFA Skills and Knowledge Framework

In 2010, CIPFA, working through the 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 Fund adopted the Framework in November 2010 and has implemented a series of training sessions at the end of Pension Committee sessions to cover the six Key Skill areas, being:-

- Pensions Legislative 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 spreading of training sessions over the cycle of Pension Committee meetings provides a regular programme of training shared by both officers and members of the Fund together, where questions can be addressed by practitioners on a topic by topic basis.

A training assessment questionnaire was completed by Pensions Committee members and officers to establish future training requirements on an individual basis.

Investment Review 2010-11

Economic and market background

Throughout the previous year all risk assets rebounded dramatically in a “relief” rally as it became increasingly apparent that the banking crisis was contained, albeit with unprecedented support from Western governments. Unsurprisingly 2010/11 was a period of consolidation as markets grappled with the unpredictable long term effects of these extraordinary measures.

Exceptionally low interest rates were intended to ensure a robust recovery by promoting capital investment and sustaining consumption. Despite an unwelcome by-product in speculation in physical assets, including gold and silver, economic activity did recover slowly in the developed world. Recovery was very slow in countries with the greatest previous banking and property excesses, such as the UK and some fringe Euro states. Our new Coalition Government used its fresh mandate to start addressing the chronic budget imbalance with spending far exceeding a tax base much reduced by the banking crisis. Successively Greece, Ireland and Portugal received support from other Euro members and the IMF. But in the developing economies, including China, activity rebounded much more vigorously, further boosting commodities and leading to suggestions of a permanent “two speed” world.

Global equities returned just 8%, with East Asia leading, Thailand returning 36% and Korea, Indonesia and Malaysia around 25%. Japan lagged with -4% after dipping at year end on the economic disruption of the tsunami to its “just in time” manufacturing. Within Europe, Scandinavia and Germany performed significantly better than the southern periphery. By sector, global oils at 21% and mining at 16% reflected the surge in their product and also industrials and telecoms were relatively strong at around 15%. The laggards were banks, mainly on fears of tougher solvency requirements, and pharmaceuticals, given the dwindling pipeline of patented pills: both returned -1%. Growth and momentum portfolio characteristics generally prevailed over value.

UK equities returned 9% still benefitting from the long term weakness in sterling but restrained by the collapse in BP shares after the Deepwater Horizon oil spill disaster, by the revelation of the banks’ payment protection insurance scam and by fears for consumption as the austerity Budget began to hurt, particularly through 20% VAT. UK property overall returned marginally more than equities led by London offices still rebounding sharply from the depths of the banking crisis. Bonds were marginally behind equities at 7% for gilts, both fixed and index linked, and credit after its stellar recovery in the previous year returned just 5%.

Performance

With equities, property and bonds providing such similar overall returns it was a year in which manager success rather than asset allocation was the key to performance. Some results were poor and the overall Fund return at 7.2% was short of the fund’s bespoke benchmark of 8.1% and the Local Authority average of 8.2%.

Economic Outlook

For many decades developed economies have mostly surprised by the strength and cohesion of recovery from recessions giving credence to the concept of a coordinated economic cycle. However the causes of the recent hiatus have hardly been addressed, the International Monetary Fund has suggested that the present recovery may be “multi-speed" and the last major worldwide financial crisis in the 1930s may be a better historical guide with recovery fitful and generally delayed.

The Chinese Renimbi and the German Euro are still overly competitive and the trade imbalances between these big exporters and the US and other consumer economies have been improved only marginally by recession. An increasingly global economy is still subject to diverse and often apparently uncoordinated national policies on regulation, taxation and interest rates. The loose monetary policy of the US devalues the dollar as a reserve currency and speculation in gold and commodities suggests that there is generally little confidence in the fiat money system. A weak dollar also risks fuelling inflation in economies where the exchange rate is controlled. Indeed in China the authorities are already restricting credit to restrain breakneck growth and there must be limits to the acquiescence of the Chinese people in democratic and environmental shortcomings with increasing visibility of stark and growing inequality.

The corollary of German efficiency is that the Euro zone may have to be curtailed eventually to exclude countries unable to regain lost competitiveness. Greece heads the queue of those incapable of servicing existing debt. The latest "solution" to Greece's problems involves an interest rate subsidy effectively from taxpayers, mostly German, with private investors, mainly banks, taking a voluntary "haircut", which supposedly will not be repeated elsewhere. Subsequent direct ECB support for the Italian and Spanish bond markets seems a further desperate gamble to relieve pressure on the solvency of European banks. However without full fiscal integration further losses will have to be recognised with the potential to induce a further leg to the banking crisis. Confidence in the "fractional reserve" banking model continues to depend implicitly on Government support. With their major client companies able to borrow directly from markets on better terms, banks have found it irresistible to move into generally unproductive financial engineering on the back of this moral hazard. Globally coordinated banking regulation and solvency standards are urgently needed but national priorities are inhibiting progress and the downgrade of US government debt threatens to further destabilise over-geared financial institutions short of suitable additional collateral demanded by regulators.

The Arab "Spring" is hoped to lead eventually to something more like the liberal democracies which have been at the core of past economic development. But progress in Egypt and Tunisia is proving erratic and there is not much precedent for smooth transition in any resource dependent country. Continuity of oil supply may depend on the Arabian producers continuing to bribe their subjects and successfully subjugate their immigrant labour force. This hardly seems a recipe for sustained stability and the cost of doing so will tend to underpin the price of oil, which is already a significant constraint on growth.

Manufactured exports to emerging markets from Germany and from parts of the US have recovered, supporting the entire local economy. But in the UK, as in much of fringe Europe, manufacturing is no longer big enough to make a major overall contribution. Indeed the strength and durability of recovery in the UK economy remains worryingly dependent on a sustained pick-up in wider private sector capital investment and skills and job creation, all on an unprecedented scale. Companies have shown resolution in retaining labour but consumer confidence is weak and the effect of Government spending and employment restraints is beginning to bite. Real household income after taxes is falling and will be further restrained as interest rates rise eventually from current crisis levels.

Resolution of the burgeoning debt overhang could take many years of restraint and painfully slow growth not only in the Euro periphery but also the US and UK, where the level of household debt is also uncomfortably high. Emerging economies are not so constrained and should outpace the developed West. Germany and core Euro will almost certainly lead the fringe. London's international exposure suggests that it will continue to lead the rest of the UK. However most large companies compete internationally and share prices should generally discount these variations. At the time of writing [19th August] markets have just suffered two weeks of wild gyrations on some weak economic indicators; US politicians scrambling to avoid defaulting on their national debt; and a lack of governance in the Euro area raising the spectre of a renewed banking crisis. The world order is changing and it seems inevitable that geopolitical and domestic cohesion will continue to be tested.

Strategic asset allocation

The key strategic decision for the Fund is the extent of exposure to equities. The best generally accepted fundamental valuation guides are the cyclically adjusted price earnings ratio and market value compared to net worth. Even after the recent sharp setback these suggest that markets are still overvalued and expected returns slightly below long term trend. However the simpler and widely quoted price to next years forecast earnings ratio is positive and the earnings yield compares very favourably with that on government bonds. The difference in these signals reflects current remarkably buoyant profit margins, which must suffer as austerity hits consumption and government spending. However these conditions are hardly favourable for property or most alternative investments. Therefore the bulk of the Fund is held in equities to produce the long-term returns from global activities that should best help to minimise employer contributions.

This key element has been endorsed in the current formal triennial review of strategy, which has not been materially changed by the Hutton proposals. This review has already led to a rationalisation from three to two bond managers and with the prospect of poor returns from gilts, particularly index-linked, the overall benchmark has been adjusted to include an absolute return component and to increase the scope for other fixed interest assets, including corporate bonds. The review will also consider the balance between and variations of active management and index-tracking. Finally possible further diversification is being considered beyond the existing alternatives of property and hedge funds.

All the managers remain under regular review to help ensure the best possible prospect of adding long-term value. Any further changes will be coordinated with evolving strategy to minimise costs.

Paul Meredith 19th August 2011

Investment Performance 2010-11

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 2011						
		Northamptonshire Pension Fund	The Benchmark	Retail Price Index	UK Average Weekly Earnings Index	Local Authority Average
2010-11	**1 year**	7.2	8.2	5.4	2.0	8.2
2008-11	**3 years**	5.0	6.2	3.1	2.5	5.4
2006-2011	**5 years**	2.6	4.5	3.6	3.8	4.0
2001-2011	**10 years**	4.7	5.1	3.1	4.0	5.3

Investment Manager Performance

This table sets out the investment manager performance for 2010-11.

		1 Year			**3 Years % pa**		
Asset Class	**Manager**	**Return**	**Benchmark**	**Variance**	**Return**	**Benchmark**	**Variance**
Multi Asset	UBS	7.4	8.5	-1.1	5.3	4.8	0.5
UK Equity	Majedie	9.5	8.75	0.8	10.9	5.4	5.5
Global Equity	Alliance Bernstein	4.5	8.0	-3.5	3.3	8.4	-5.1
	Newton	8.7	8.0	0.7	5.9	8.6	-2.7
	UBS Passive[1]	8.1	8.2	-0.1			
Fixed Income	Aberdeen	6.5	4.7	1.8	6.0	5.9	0.1
	Wellington[1]	6.8	5.7	1.1			
Property	CBRE	9.2	9.1	0.1	-3.6	-3.9	0.3
	RREEF	8.0	9.1	-1.1	-6.4	-3.9	-2.5
Hedge Fund of Funds	Fauchier	1.0	5.7	-4.7	2.2	8.8	-6.6

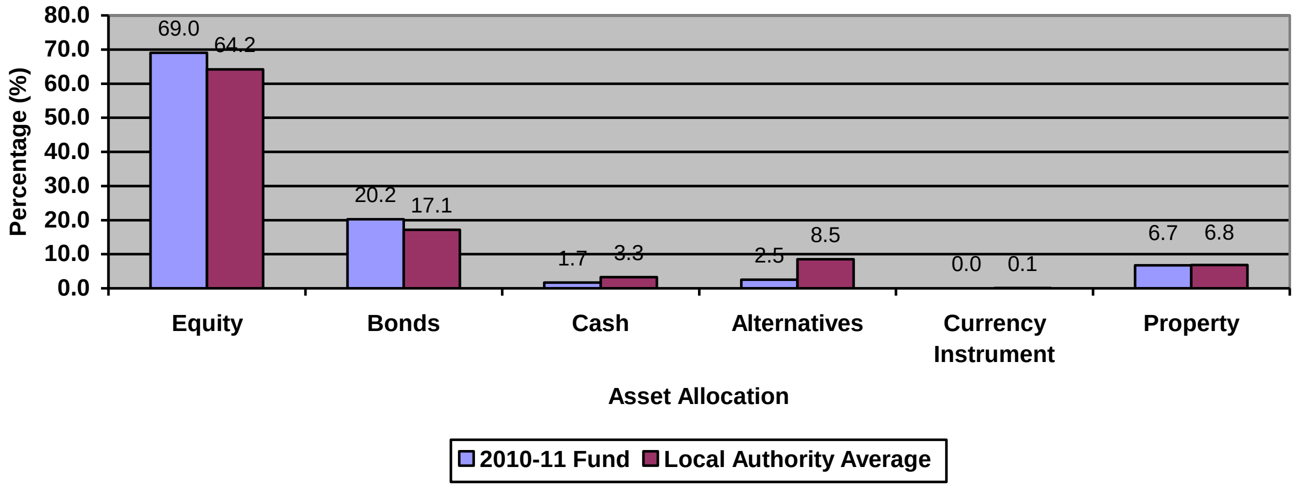
[1] Appointed 1 April 2010, therefore only 1 year history available.

Performance by Asset Class

Investment returns and the Local Authority Average

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.

Asset Mix Compared to the Local Authority Universe

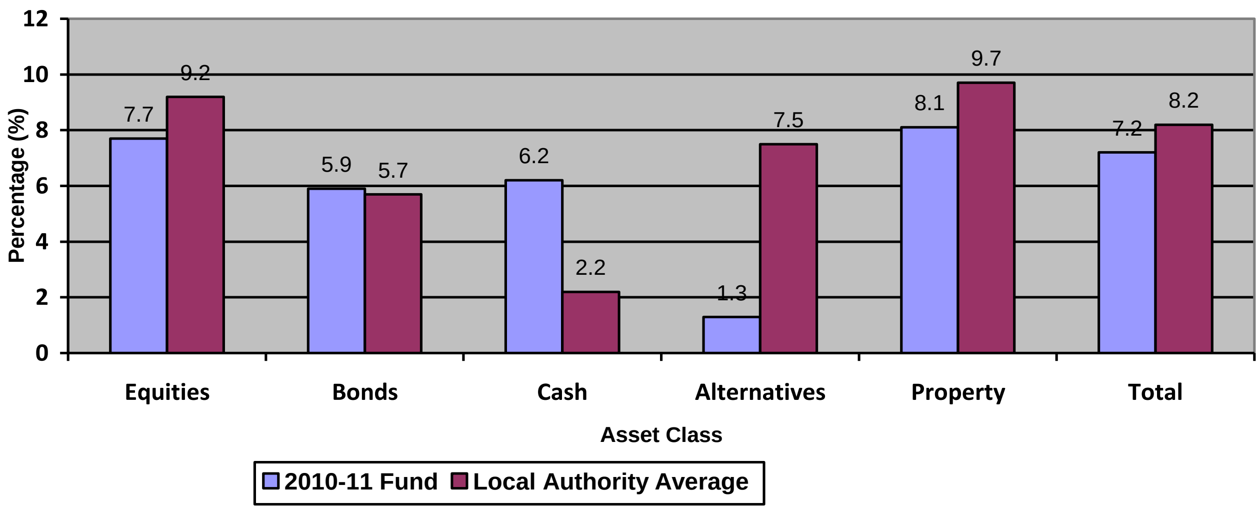


The graph shows that the Fund's asset mix is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity and bonds, but disfavour of alternatives.

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.

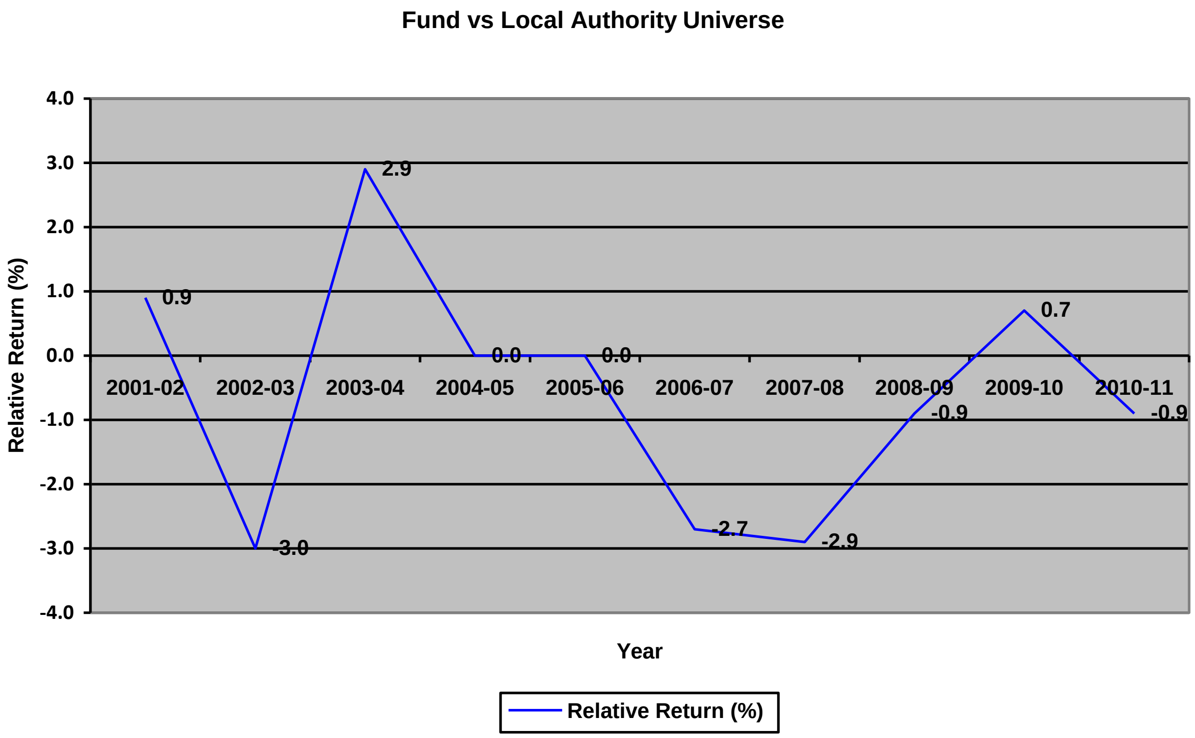
Investment Return Compared to the Local Authority Universe



NB: The Fund figure for Alternatives includes Hedge Funds only, whilst the Local Authority's figure for Alternatives includes Private Equity, Hedge Funds, GTAA, and Commodities etc.

Year / Annual Return	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Total Fund	0.5	-21.8	27.0	11.8	24.9	4.1	-5.7	-20.7	36.1	7.2
WM Benchmark	-0.5	-19.5	23.4	11.7	24.9	7.0	-2.8	-19.9	35.2	8.2

The table above compares the Fund's performance with the Local Authority Average for the ten years since 2001. This is shown graphically below where the relative returns are plotted.



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

Of the ten years shown the Fund has outperformed the Local Authority Average on three occasions, underperformed on five occasions and matched the average on two occasions.

Actuarial Reports

Actuarial Report on Fund

1. Hymans Robertson LLP undertook a valuation of the Fund as at 31 March 2010 in compliance with Regulation 77 of the Local Government Pension Scheme Act 1997 (as amended) (“the Regulations”).

   The revised contribution arrangements which are effective from 1 April 2011 are set out in the Rates and Adjustments Certificate required by Regulation 77.

   It should be noted that contribution rates are subject to review under Regulation 78(3)(b) if the need arises and, in any case, rates for years from 2014-16 onwards will be reviewed at the next valuation.

   In the normal course of events, it would be expected that the funding level would increase by the time of the next valuation at 31 March 2013 (results effective from 1 April 2014), largely because the rates of contribution to be paid contain an element to liquidate the deficiency found at this valuation. The residual deficiency would then be re-spread at the next valuation. (Amortising early retirement costs as they arise means that future redundancies should have no great effect on the position of the Fund.) However, any increase in funding level is dependant on the assumptions made being borne out in practice, the main areas where variations might be expected being increases in pay and investment returns in excess of price inflation.

2. Hymans Robertson LLP are of the opinion that the rates of contribution in payment from 1 April 2011, together with the increases recommended to apply in future, and the existing assets of the Fund, will be sufficient, on the basis of the assumptions adopted for the actuarial valuation of the Fund as at 31 March 2010, to meet the liabilities of the on-going Fund under the regulations associated with accrued and currently accruing pensionable service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment.

Actuarial Position Statement
(Most recent valuation)

1. An actuarial valuation of the Fund was carried out as at 31 March 2010 and has been implemented from 1 April 2011.

2. The 31 March 2010 valuation position is calculated using a market value based approach, similar to that adopted for the FRS17 accounting for pension costs.

3. At the valuation date, the Fund showed a deficit of £445 million and a funding level of 73%, based on the assumptions made for calculating its funding target. The assets held at the valuation were sufficient to cover 73% of the accrued liabilities, a funding level decrease of 3% compared to the level at the 2007 actuarial valuation.

4. This valuation also showed that the Common Contribution Rate, i.e. the average employer contribution rate payable in respect of future service only was 24.7% of Pensionable Pay. (In 2007 Mercer's common contribution rate was 12.7% which represented purely future service rate, whilst Hymans consider the common contribution rate should be the total rate including the deficit, providing a figure of 24.7%. The equivalent comparator for Mercer would be the future service rate of 12.7% and deficit of £341.1m, giving a rate of 20.2%). Individual adjustments to the Common Contribution Rate payable by the respective authorities have been provided.

5. The deficit of £445 million is to be recovered over a maximum period of 20 years through additional employer contributions. The average employer contribution rate of 24.7% of Pensionable Pay, per annum, consists of 16.2% in respect of future service and 8.4% in respect of the deficit recovery contributions.

6. The revised contribution rates are effective from 1st April 2011. The increase in the contribution rate from 20.2% to 24.7% is due to a combination of increases to the cost of accruing benefits plus past-service shortfall. The existing contribution rates following the 31 March 2010 valuation for each participating body are shown in Appendix 4.

7. The market value of the Fund's assets at the valuation date was £1,206m.

8. The main actuarial assumptions used in the 31 March 2010 actuarial valuation were as follows:

   Rate of price inflation 3.8% per annum

   Rate of general pay increases 5.3%

   Rate of increase of pensions
   3.3% per annum

Actuarial Investment Return Assumptions

(Most recent valuation)

Investment Return Assumptions:

The Investment return assumptions applied in the most recent valuation (March 2010) are shown below:

Return on long dated gilts 4.5%

Asset Outperformance Assumption 1.6% p.a.

Financial assumptions	31 March 2007 Funding basis (%pa)	31 March 2010	
		Funding basis (%pa)	Gilts basis (%pa)
Discount rate*	6.4%/5.4%	6.1%	4.5%
Price inflation	3.1%	3.8%	3.8%
Pay increases**	4.6%	5.3%	5.3%
Pension increases:			
pension in excess of GMP	3.1%	3.3%	3.3%
post-88 GMP	2.8%	2.8%	2.8%
pre-88 GMP	0.0%	0.0%	0.0%
Revaluation of deferred pension	3.1%	3.3%	3.3%
Expenses	0.5%	0.7%	0.7%

* At the previous valuation the discount rate was 6.4% pre-retirement and 5.4% post-retirement.

** An allowance is also made for promotional pay increases. Note that the assumption at 31 March 2010 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

Governance Arrangements

Legal Framework
The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – Management and Investment Regulations 1998. The main stipulations are:

- An administering authority may appoint one or more investment manager to manage and invest fund monies on their behalf.
- The investment manager must provide, at least once every three months, a report setting out his actions.
- The investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments which they propose to make.

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

The Pensions Committee consists of:
- five members nominated by the County Council;
- one district council representative;
- two employee representatives, nominated by the employees' union UNISON
- a University and Colleges Representative [Effective June 2010]

Since April 2001 the Fund has been advised by independent adviser, Mr. P Meredith. The independent adviser is not formally a member of the Pensions Committee.

The members of the Pensions Committee as at 31 March 2010 are listed on page 2.

In respect of Investments the Pensions Committee seeks to ensure that all:

- funds are suitably invested,
- investments are diversified,
- relevant investment limits are not exceeded,
- Investments and investment arrangements are regularly monitored and reviewed.

Investment Asset Allocation and the role of Fund Managers
Asset Allocation is the determination by the Pensions Committee informed by professional investment advisors of the categories of investment that the Fund should seek to invest in, being an assessment of the asset types that best serves the current and future demands on 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 Pensions Committee 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 Advisory Panel 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 Panel members and the Panel'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 Russell Mellon Performance Services Limited and the WM Company.

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 1st April 2008 for a three year period ending on March2011.

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 duly commenced an Asset Liability Study in November 2010, which is planned to complete by the autumn of 2011.

Administering Authority Discretions

1.1 Power of employer to increase total membership

Employers may resolve to increase the total membership of an active member (Augmentation).

<u>Decision</u>; On the award of augmented service employers with an automatic right of admission to the fund (County, District/Borough Councils; Fire and Police authorities; Probation Service, Further and Higher Education establishments) will be required to repay the actuarially assessed costs of the augmentation over a period of up to three years. The costs are to be repaid at the beginning of each financial year commencing from the financial year following that in which payment commences. This provision will also be applied to Housing Associations and Connexions.

Other employers will be required to repay the actuarially assessed costs immediately unless otherwise agreed by the Assistant Chief Executive Finance and Commercial (Section 151 Officer), or his nominated officer in consultation with the Chairman of the Pensions Committee.

1.2 Statements of policy concerning abatement of retirement pensions in new employment

Each administering authority must formulate and keep under review their policy concerning abatement of pensions for re-employed pensioners. Abatement is the extent, if any, to which the amount of the retirement pension should be reduced or possible completely suspended.

<u>Decision</u>; When a Local Government Pension Scheme pensioner is re-employed within the local government sector and combined earnings and pension exceeds final salary in the original employment when adjusted for inflation, the pension will be abated.

Legislation Report 2010/11 – Northamptonshire Pension Fund

During the last year there have been two Statutory Instruments amending the Local Government Pension Scheme.

1.1 **The Local Government Pension Scheme (Amendment) Regulations 2010 (SI 2010/2090)** contained mostly minor amendments and a number of regulatory clarifications regarding:

- Ability to pay additional contributions to purchase pre 1988 service so that it counts towards a nominated co-habitee survivors pension
- Ill health benefits
- Aggregation of service allowing existing members a period of time, until 1st October 2011, to aggregate any periods of membership which they had not previously aggregated and also allowing new starters to aggregate any previous periods of local government membership, not just the most recent period
- A person with a Pension Credit, as a result of a Pension Sharing Order, may now claim those benefits from age 60 with a reduction as an alternative to receiving them in full at age 65

1.2 **The Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011 (SI 2011/561)** these corrected earlier drafting errors in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007

Also as a result of the June 2010 Budget, pension increases for Public Service Schemes including the Local Government Pension Scheme, from April 2011 are based on the Cost Price Index (CPI) instead of the Retail Price Index (RPI) as previous.

Other new legislation impacting on the local government pension schemes: -

The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2010

This set the standard lifetime allowance to £1.8 million for the tax years from 2011-12 until 2015-16 inclusive. The SI also sets the annual allowance at £255,000 for the same tax years.

The Finance Act 2010

Restricted tax relief on pension contributions for high earners.

Government Actuary Department - Guidance: Individual Incoming & Outgoing Transfers (Version 2)

Government Actuary Department - Guidance: Trivial commutations: lump sums paid on or after 1 April 2009

Government Actuary Department - actuarial transfer and ARC factors

The Government's Independent Public Service Pensions Commission

The Independent Public Service Pensions Commission issued its interim report on 7 October 2010. Main direction of report was that public service pensions should be: -

- affordable and sustainable;
- adequate and fair;
- support productivity; and
- transparent and simple.

The Independent Public Service Pensions Commission (IPSPC) issued its final report on 10 March 2011. The report re-iterated the original case for reform of the public service pension schemes which included:

- the rising value of benefits due to increase longevity;
- unequal treatment of members within the same profession;
- unfair sharing of costs between the employee, the employer and taxpayers; and
- barriers to increasing the range of providers of public services.

Any reform would need to ensure that public service pension schemes are:

- affordable and sustainable;
- adequate and fair;
- supportive of productivity; and
- transparent and simple.

The report has made 27 recommendations for the reform of the public service pension schemes.

The Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010 [SI 2010/2659]

Permits schemes to use electronic communication methods as their default for communications with members.

Redundancy Payments

Increased the maximum "week's pay" for calculating a statutory redundancy payment from £380 per week to £400 per week where the appropriate date falls on or after 1 February 2011

Fund Account and Net Asset Statement

Fund Account for the year ending 31 March 2011

		2010-11	2010-11	2010-11	2009-10
	Note	£000	£000s	£000s	£000s
Contributions	(3)				
Employers' contributions		66,153			69,169
Employees' contributions		19,691			19,883
Employees' added years for additional benefit		299			345
Employers' augmentation		0			205
Transfers in					
Individual transfers in	(4)	8,076			13,433
			94,219		**103,035**
Benefits payable					
Death benefits		(1,848)			(1,284)
Lump sums	(5)	(14,139)			(14,514)
Pensions		(49,442)			(47,361)
Payments to and for leavers					
Return of contributions		(10)			(19)
Individual transfers out	(4)	(9,476)			(10,792)
Administration expenses	(6)	(3,006)			(2,875)
			(77,921)		**(76,845)**
Net additions from dealing with Members				**16,298**	**26,190**
Returns on investments					
Net profit on sales		31,001			52,485
Net increase in unrealised gain	(7)	32,123			225,424
Change in market value of investments			**63,124**		**277,909**
Investment Income					
Investment Income	(8)	22,567			31,340
Investment Managers' Fees	(6)	(3,652)			(3,824)
			18,915		**27,516**
Net returns on investments				**82,039**	**305,425**
Net (decrease)/ increase in the Fund				**98,337**	**331,614**
Net assets of the Fund at the start of the year				**1,200,104**	**868,490**
Net assets of the Fund at the end of the year				**1,298,441**	**1200,104**

Net Asset Statement as at 31 March 2011

	Note	2010-11 £000	2010-11 £000s	2009-10 £000s
Investments at market value				
Fixed-interest securities	(12)	100,972		56,230
Index-linked securities	(12)	42,964		39,382
Equities	(12)	657,340		625,832
Pooled Investment Vehicles	(12)	469,928		431,457
Derivatives	(12)	(554)		(200)
Cash deposits	(12)	22,266		60,072
Other Investment Balances	(12)	(528)		(20,936)
			1,292,388	**1,191,837**
Current assets				
Debtor				
Contribution due from employers	(13)	6,808		9,047
Others		3,785		2,850
Pension Fund Cash		4		0
Cash with Northamptonshire County Council		(82)		88
			10,515	**11,985**
Current liabilities				
Creditors	(13)			
Unpaid Benefit		(3,091)		(2,818)
Others		(1,371)		(900)
			(4,462)	**(3,718)**
Net current assets			**6,053**	**8,267**
Net assets			**1,298,441**	**1,200,104**

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Pension Fund Committee members. The accounts do not take account of the obligation to pay future benefits which fall due after year end. The actuarial position of the Scheme which takes into account these obligations is dealt with is available on Northamptonshire County Council's website, *http://www.northamptonshire.gov.uk/pensions.*

Notes to the Accounts

The Head of Finance and Section 151 Officer is responsible for:

- The preparation of the accounts for Northamptonshire Pension Fund that give a true and fair view of the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- Making reasonable and prudent judgements and estimates.
- Complying in all material aspects with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and applying accounting policies consistently.
- Keeping proper, up to date, accounting records.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.
- The administration of pension benefits.

The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) is the first to be based on International Financial Reporting Standards (IFRS). Until 2009/10, the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice was prepared under UK GAAP and adopted the Financial Reports of Pension Schemes – A Statement of Recommended Practice (Pension SORP).

The Code requires local authorities to account for retirement benefit plans in accordance with IAS 26, except where interpretations or adaptations to fit the public sector are detailed in the Code. IAS 26 (unlike the Pension SORP) does not set out to comprehensively specify the requirements for preparing financial statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. In addition, the Code incorporates some requirements of the Pension SORP.

1 Accounting Policies

The accounts have been prepared in accordance with proper practices, which primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, supported by International Financial Reporting Standards.

(a) Contributions and benefits are included in the accounts on an accruals basis.
(b) Transfer values have been recorded on the basis of amounts receivable or payable as at 31 March.
(c) Coupons and dividends are included in the accounts on an accruals basis.
(d) Investments including listed securities, property and unit trusts are included in the accounts at market value (Bid price). These prices are determined by the custodian using several sources including Exshare, Telekurs, Reuters, FT Interactive Data and Bloomberg.
(e) Unquoted securities are valued having due regard to the latest dealings, professional valuation, asset values and other appropriate financial information.
(f) Fixed and index linked interest securities are accounted for as 'financial assets at fair value though profit or loss' as these are acquired principally for the purpose of selling or repurchasing it in the near term.
(g) Changes in the fair value of fixed interest and index linked interest securities form part of returns on investments in the fund account. Coupon receipts on fixed interest securities are part of investment income.
(h) Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as advised by investment managers.
(i) Additional Voluntary Contributions (AVC) investment valuations are provided by the AVC providers Prudential Assurance and Standard Life.
(j) **Taxation**

The fund pays VAT collected on income in excess of VAT payable on expenditure to HM Customs and Excise. The accounts are shown exclusive of VAT.

The fund is exempt from tax on capital gains and from income tax on coupon receipts.

The fund is liable to tax at a rate of 20% on small pensions that have been compounded into a lump sum.

The fund is exempt from US withholding tax.

The Fund receives coupons on its overseas bond gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available, it may be either in full at sources, or partial relief by claim.

In some markets (Finland, Japan, Canada, Italy, Norway and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia and Singapore) where no double taxation agreements exist and the full amount is payable.

(j) **Invest Management Expenses**
The investment managers are paid quarterly fees in arrears based on the market value of the investments managed at the end of each quarter. Performance fees are payable to Majedie Asset Management, Fauchier and Partners based upon the performance of their mandate.

(k) **Gains and Losses**
Gains and losses are reflected on an average calculation basis.

(l) **Administrative Expenses**
There is a dedicated Pensions Admin team, whose costs are recharged to the Fund.

(m) **Foreign Currency Translation**
Investments held in foreign currency are translated into sterling at the exchange rate as at the date of valuation.

(n) The **Statement of Investment Principles** is available on the Northamptonshire County Council's website, *http://www.northamptonshire.gov.uk/pensions*.

2. Long Term Liabilities
The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. The accounts do not take account of the liabilities to pay future benefits. They should therefore be read in conjunction with the Report of the Actuary which takes such liabilities into account, available on Northamptonshire County Council's website, *http://www.northamptonshire.gov.uk/pensions*.

3. Contributions
All accruals for contributions owed by employers have subsequently been received.

The decrease in employers' contributions from 2009-10 to 2010-11 predominantly relates to early retirement costs. Repayment of early retirement costs were spread by employers over a period of three years. The receipts for 2009/2010 represent repayment of these costs going back to 2007/2008.

Employees' added years for additional benefit as at 31st March 2011 (£300k) have decreased over 31st March 2010 (£345k). Following a change in regulations, not only are they more expensive, but Additional Voluntary Contribution's (AVC's) have proven to be a more popular way of investing, rather than increasing contributions into the scheme.

Employers' augmentation as at 31st March 2011 (£0k) has decreased over 31st March 2010 (£205k) due to the reducing trend of employers giving additional service, due to changes in policy and legislation.

The following tables show the breakdown of contributions and benefit payments by Administering Authority, Admitted Bodies and Scheduled bodies.

Analysis of Contributions – 2009-10

	Employers contributions	Employees contributions	Employees additional contributions	Total
	£'000s	£'000s	£'000s	£'000s
NCC	27,384	7,999	114	35,497
Admitted Bodies	3,399	1,180	17	4,596
Scheduled Bodies*	38,386	10,704	214	49,304
Total	69,169	19,883	345	89,397

Analysis of Contributions – 2010-11

	Employers contributions	Employees contributions	Employees additional contributions	Total
	£'000s	£'000s	£'000s	£'000s
NCC	26,238	8,098	89	34,425
Admitted Bodies	3,560	1,034	13	4,607
Scheduled Bodies*	36,355	10,559	197	47,111
Total	66,153	19,691	299	86,143

Analysis of Benefits – 2009-10

	Death Grants	Lump Sums	Pensions	Total
	£'000s	£'000s	£'000s	£'000s
NCC	826	6,153	21,625	28,604
Admitted Bodies	121	758	1,371	2,250
Scheduled Bodies*	337	7,603	24,365	32,305
Total	1,284	14,514	47,361	63,159

Analysis of Benefits – 2010-11

	Death Grants	Lump Sums	Pensions	Total
	£'000s	£'000s	£'000s	£'000s
NCC	1,003	5,417	22,535	28,955
Admitted Bodies	238	1,712	1,587	3,537
Scheduled Bodies*	607	7,010	25,320	32,937
Total	1,848	14,139	49,442	65,429

* *Schools included under Scheduled Bodies*

4. Individual Transfers In/Out
   2008/2009 was a period where many changes occurred in respect of actuarial tables used to calculate transfers of benefits both within this Scheme and other pension schemes, creating a backlog of transfers to be resolved. 2009/2010 saw the transfer backlog addressed by this scheme resulting in higher than usual number of transfers finalised for that year.

5. Lump Sums
   The reduction in lump sums from 31st March 2010 (£14.5m) to 31st March 2011 (£14.1m) is due to the ceasing of automatic accrual for lump sums from 1st April 2008.

6. Administration Expenses and Investment Managers' Fees

	2010-11 £000	2009-10 £000
Administration expenses:		
Pensions administration	1,900	1,800
Actuarial services and investments	347	270
Investment expenses	605	488
Audit fees	34	141
Other Costs	120	176
	3,006	2,875
Investment managers' fees:		
	3,652	3,824
Total	6,658	6,699

2009-10 included audit fees for 2008-09 and 2009-10. Additionally, fees were reduced in 2010-11 following an Audit Commission review and revision of scale fees for pension funds.

Investment Manager fees are dependant on the value of assets held and performance.

Fund Manager Fees Not Shown in the Accounts

Fund managers that work through pooled arrangements take their fees at source from the pooled fund and therefore the fees do not go through the Fund's accounts. The nominal values of fees are:

	£000s
Catapult Growth Fund	37
East Midlands Regional Venture Capital Fund	30
Jubilee Absolute Return Fund Class GBP B	314
RREEF UK Core Property Fund	100
RREEF UK Ventures Property Fund No. 2 Exempt Unit Trust	5
	486

7. Increase in value of unrealised profits

Market value of investments	£000s	£000s
at 31.3.11	1,292,388	
Investments at cost at 31.3.11	(1,187,728)	
Unrealised loss		104,660
Market value of investments		
at 31.3.10	1,191,837	
Investments at cost at 31.3.10	(1,119,300)	
Unrealised profit		72,537
Increase in value of unrealised profit		32,123

The increase in value of unrealised gain of £32,123k represents the change in the unrealised profit between the opening and closing position of the market value of investments and the cost of these investments.

Unrealised profit reflects assets held by the Fund, however profits are only realised when actually sold. This reflects the investment performance of the Fund in the 2010-11 financial year.

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8. Analysis of investment Income

Investment Income for the years ended 31st March was received from the following sectors.

2009-10			2010-11
Coupons and Dividends			**Coupons and Dividends**
£000s			**£000s**
3,127		**Coupons from fixed-interest securities**	1,066
20,961		**Dividends from equities**	17,324
542		**Income from Index-linked securities**	327
		Income from Pooled Investment Vehicles	
2,937		*Unit Trust Fixed Interest*	*0*
2,555		*Property Unit Trusts*	*3,372*
5,492			3,372
929		**Interest from Cash deposits**	179
232		**Stock Lending**	140
5		**Commission Recapture**	3
52		**Venture Capital**	156
31,340			**22,567**

9. Stock Lending

Income of £139,760 was earned from stock lending activities, undertaken on behalf of the Fund by Northern Trust, the Fund's global custodian. This income is the premium paid by third parties who borrow stock held by this Fund. Collateral stock is held to safeguard the Fund's assets. Lending is limited to 35% of the stock held by the Fund, although actual activity in 2010/11 averaged 9%.

As at 31 March 2011 the value of stock loaned to third parties was £38.79m against collateral held of £41.81m, more information on this is shown below.

		Analysis by Asset Class of securities on loan:		
31-Mar-2010				31-Mar 2011
£000				£000
		Investments at market value		
7,390		Fixed-interest securities		8,598
15,835		Equities		30,187
23,225		**Total Securities on loan**		**38,785**

		Analysis of Collateral:		
31-Mar-2010				31-Mar 2011
£000				£000
		Investments at market value		
0		Certificates of Deposit		0
2,248		Delivery-By-Value Gilts		5,627
0		Delivery-By-Value Equities		1,385
2,035		Equities		5,084
20,219		Government Fixed		27,779
0		Letters of Credit		0
1		UK Gilt		1,937
24,503		**Total value of Collateral**		**41,812**

10. Commission Recapture

Income of £2,551 was earned from Commission recapture activities, undertaken on behalf of the Fund by Lynch Jones and Ryan, specifically appointed by the Fund to undertake this role. This relates to "recapturing" commission regarding research and development costs paid to third party brokers, whose sole role is to buy and sell stock on behalf of the Fund manager.

11. Venture Capital Income

The income of £155,880 reflects income from the East Midlands Regional Capital Fund No1 LP.

The Fund holds two Venture Capital investments both with Catapult Venture Managers, being:

	£
East Midlands Regional Venture Capital Fund No1LP.	860,557
Catapult Growth Fund LP	703,672
Total	1,564,229

These funds are small private equity commitments with a total potential drawdown of £4m. Feedback from Catapult Venture Managers indicates an Internal Rate of Return (IRR) of 10%.

12. Investment transactions during the year

	Bid Market Value as at 31 Mar 2010	Purchases and derivative payments	Sales and derivative receipts	Capital Change (Corporate Action)	Security Transfers at Book Cost	Realised Gain/Loss	Change in Unrealised Gain/Loss	Reclassifications	Bid Market Value as at 31 Mar 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities									
Fixed Interest Govt – UK	33,485	4,823	-4,400	-1,540	0	682	1,419	-1	34,468
Fixed Interest Other – UK	0	2,200	-1,700	0	0	118	2,749	21,256	24,623
Fixed Interest Other – Overseas	2,888	1,300	-1,757	39,600	0	123	2,426	-2,700	41,880
Fixed Interest Other – UK (Unlisted)	19,857	0	0	0	0	0	-1,300	-18,556	1
	56,230	**8,323**	**-7,857**	**38,060**	**0**	**923**	**5,294**	**-1**	**100,972**
Index Linked Securities									
Index Linked Bonds Public Sector – UK	19,653	5,530	-4,920	0	0	107	889	1	21,260
Index Linked Bonds – UK	19,729	2,150	-1,850	0	0	48	1,627	0	21,704
	39,382	**7,680**	**-6,770**	**0**	**0**	**155**	**2,516**	**1**	**42,964**
Equities									
Equities – UK	293,663	120,611	-114,924	-111	0	10,082	-432	-2,497	306,392
Equities – UK (Unlisted)	6,641	462	0	0	0	0	-64	-4,488	2,551
Equities – Overseas	325,528	253,146	-208,642	-40,666	0	17,622	-2,306	3,044	347,726
Equities – Overseas (Unlisted)	0	1,610	-1,008	0	0	17	52	0	671
	625,832	**375,829**	**-324,574**	**-40,777**	**0**	**27,721**	**-2,750**	**-3,941**	**657,340**
Managed Funds									
Managed Funds Property	61,315	18,055	-6,101	712	-662	0	5,018	4,488	82,825
Managed Funds Equity – UK	69,262	440	-18,801	0	-37,182	1,714	4,261	-1	19,693
Managed Funds Equity – Overseas	132,168	192,799	-162,361	0	37,182	9,957	4,099	1,391	215,235
Managed Funds Fixed Income – UK	111,293	0	-240	0	0	-19	9,067	0	120,101
Managed Funds Fixed Income – Overseas	2,982	0	0	0	0	0	-1,043	-1,939	0
Managed Funds Hedge Funds	54,437	153	-23,268	0	0	-5,132	5,884	0	32,074
	431,457	**211,447**	**-210,771**	**712**	**-662**	**6,520**	**27,286**	**3,939**	**469,928**
Derivatives									
Futures Fixed Interest – UK	0	0	-238	0	0	238	-89	0	-89
Futures Fixed Interest – Overseas	0	0	-63	0	0	63	20	0	20
Forward FX contracts	-200	1,380	-2,084	0	0	704	-286	1	-485
	-200	**1,380**	**-2,385**	**0**	**0**	**1,005**	**-355**	**1**	**-554**
Cash Deposits and Other Investments									
Cash & Short Term Deposits – UK	57,108	5,803	-42,654	0	0	0	0	-2	20,255
Cash & Short Term Deposits – Overseas	2,964	421	-1,431	0	0	-357	0	0	1,597
Variation Margin – UK	0	330	0	0	0	0	0	2	332
Variation Margin - Overseas	0	78	0	0	0	0	0	4	82
Mark-to- Markets	0	282	0	0	0	-282	0	0	0
Derivatives Commission	0	1	0	0	0	-1	0	0	0
	60,072	**6,915**	**-44,085**	**0**	**0**	**-640**	**0**	**4**	**22,266**
Other Investment Balances									
Pending Spot FX contracts	27	591	-600	0	0	9	-28	-1	-2
Pending Trade Purchases	-164,528	34,851	-52,195	0	0	0	-45	1	-181,916
Pending Trade Sales	143,565	144,511	-106,892	0	0	0	205	1	181,390
	-20,936	**179,953**	**-159,687**	**0**	**0**	**9**	**132**	**1**	**-528**
Grand Total	**1,191,837**	**791,527**	**-756,129**	**-2,005**	**-662**	**35,693**	**32,123**	**4**	**1,292,388**

- Included within the above purchases and sales figures are transaction costs of £1.7m.
- 'Equities – UK (Unlisted)' includes Venture Capital holdings.

13. Debtors and Creditors

The 2010-11 debtors balance reflects accrued contributions and transfers in as at 31st March 2011.

The 2010-11 creditors balance reflects accrued transfers out and investment manager fees as at 31st March 2011.

Contributions due from employers as at 31st March 2011 has decreased over 31st March 2010, due to the reduction in early retirement costs discussed in note 3 and the reduction in transfers in discussed in note 4.

14. Employer-related investments and related party transactions

There are no employer-related investments. Northamptonshire County Council [NCC] is responsible for managing the pension fund's finances, and therefore is a related party. NCC made payments of £33.4m to and recovered costs of £1.9m against the pension fund in the 2010-11 financial year. Payments relate to employer contributions into the fund in respect of NCC and receipts relate to administration costs incurred by NCC on behalf of the Pension Fund.

In 2010-11 NCC paid net interest of £3,090 to the Pension Fund on balances held, compared to £72,980 in 2009-10. The decrease in interest was due to draw downs for the Pension Fund's property manager which maintained a very low balance on the fund account. This was part of an agreed allocation to property over a given period of time.

15. AVC Investments

Additional Voluntary Investments are assets invested separately from the main fund in the form of individual building society accounts and insurance policies, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement, confirming the amounts held to their account and the movements in the year.

The movement during the year March 2010 to March 2011 reflects investment performance, withdrawals and additional contributions.

The aggregate amounts of AVCs are as follows:

	Value at 31/03/10	Purchases	Sales	Change in Market Value	Value at 31/03/11
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Prudential Assurance	2,056	404	(326)	155	2,289
Standard Life *	566	21	(78)	71	580
Total	**2,622**	**425**	**(404)**	**226**	**2,869**

- The Standard Life valuation is as at the 5th February 2011.

Top Ten Holdings as at 31 March 2011

Value of the Fund's Top Ten Holdings	£'000	%
UBS GLOBAL ASSET M WORLD EQUITY TRACKER A NAV	161,305,491.70	12.4%
ABERDEEN GBL V FXD INC ALPHA 20Y Z2 ACC	47,680,812.36	3.7%
ABERDEEN INTER FD GLOBAL II GL STR CDT Z2 GBP	46,024,437.57	3.5%
WELLINGTON STERLING CORE BOND PLUS PORTFOLIO GT	41,880,388.56	3.2%
JUBILEE ABSOLUTE CLASS B	32,072,924.86	2.5%
UBS GBL ASSET LIFE 350 TRACKER FUND A NAV	25,664,891.89	2.0%
UBS GBL ASSET MGT GBL EMG MARKETS EQTY JACC	24,933,824.85	1.9%
UBS GBL ASSET MGT CORP BD UK PLUS J GROSS ACC	21,789,397.57	1.7%
UBS GBL ASSET MGT INFL LKD BD UK PLUS GRJ	21,704,017.50	1.7%
MAJEDIE ASSET MGT SPECIAL SITS INV B ACCNAV	15,258,673.87	1.2%

Independent Auditors Report

Independent auditor's report to the members of Northamptonshire County Council

We have audited the financial statements of the local government pension fund administered by Northamptonshire County Council for the year ended 31 March 2011 on pages 45 to 55. The financial statements have been prepared under applicable law and the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

The Head of Finance is responsible for the preparation of financial statements for the pension fund in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and which give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Head of Finance; and

- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Michael McDonagh

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill,

Snow Hill Queensway,

Birmingham,

B4 6GH

30/9/2011

Glossary of Terms

Terms used in this report and general terms used in financial markets.

Accruals
Income and expenditure which is due but will not be received or paid until after the end of the financial year.

Actuary
An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies
Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

All Share Index
Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

Arbitrage
Buying and selling securities (usually in different markets) to take advantage of small pricing anomalies.

At Best
An instruction to deal at the best price ruling in the market at the time, i.e. The highest price (selling) or lowest (buying).

Authorised Unit Trusts
A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

Bargain
Another name for a trade or transaction of the Stock Exchange.

Bear
Someone who believes prices will fall in the future

Bearer
Securities which are legally owned by the Bearer of the document. No registration of ownership.

Beneficial Owner
The true owner of a security regardless of the name in which it is registered.

Bid Price
The price at which securities are purchased by market makers.

Bond
Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured. [See also Fixed Assets].

Bonus issue
Bonds, scrip or free issue are equivalent in terms. Free shares are issued to existing shareholders out of company reserves.

Bull
Someone who believes prices will rise in the future.

Certificate of Deposit
Certificate evidencing deposit of cash with a commercial bank.

Clean Price
The price of a bond which is quoted without accrued interest.

Commercial paper
Short term loan stock issued by corporates as part of a funding programme. Unsecured, Bearer securities.

Contract note
The documentary record of a trade which is sent from the broker to the investor

Convertible
Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

Coupon
The regular payment made on bonds.

Debenture
Fixed loan stock (bond) secured against the company's fixed assets. First in the event of the company going into liquidation.

Distribution dates
The date when interest or dividends are distributed to investors. Also called Payment Date.

Dividend
The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. {See also Equities]

Deferred Pension Benefit
A pension benefit which a member has accrued but is not yet entitled to receive.

Earnings per share (Eps]
The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

Equities
Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

Exercise Price
The price at which the holder of an option or warrant can buy/sell the underlying asset.

Expiry

The date on which an option or warrant expires.

Financial Services Authority (FSA)
The lead UK regulator. A designated agency which is not a government department.

Fixed Interest
Corporate Bond – A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt – Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and are a loan to the Government.

FTSE-100 Index
The main UK index used to represent the approximate price movements of the top 100 shares.

Futures
Instruments which give a buyer the right to purchase a commodity at a future date.

Gearing
The amount of borrowing versus debt on a company's Balance Sheet (Net debt/Ordinary shareholders' funds). Warrants and options also exhibit gearing, i.e. a small move in the price of the underlying asset can be magnified in the move in the price of the option.

Hedge
To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

Hedge Fund
A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

IMRO

Investment Management Regulatory Organisation. Fund Manager Regulator.

Index Linked
Stock whose value is related directly to an index, usually the Retail price Index and

therefore provides a hedge against inflation.

Interest Yield
The annual coupon on a bond divided by the clean price.

Loan Stock
Unsecured bonds, which may be convertible if they have a warrant attached.

Longs
Long dated gilts with time frame to maturity of more than 15 years.

Market Capitalisation
For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

Mediums
Medium-dated Gilts with time to maturity of 5-15 years.

Nominee
A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

Offer Price
The price at which market makers will sell stock.

Ordinary Shares
'A' Shares which confer full voting and dividend rights to the Owner.

Rights Issue
A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

Scheduled Bodies
Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

Scrip Issue
Issue of free shares to current shareholders. Often used instead of a cash dividend (scrip dividend alternative).

Short
Selling more of an asset than the investor owns.

Spread
The difference between the bid and offer prices.

Stag
A person who applies for a new issue in the hope of selling quickly to make a profit.

Stock
Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

Transfer Values
Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Trust
Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

Underwriter
A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

Unit trust
An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the Fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

Warrants
Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other

asset, at a fixed price on or before a specified date.

Yield Gap
Spread between gilt yields and yields on the stock market.

Zero coupon bond
A bond which is issued at a discount to par and does not pay coupons but is redeemed at par.