Staffordshire County Council
Pension Fund

Pension Fund

Crystal Mark
Clarity approved by Plain English Campaign

Annual Report and Accounts 2003/2004

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Chairman's foreword

Welcome to our Pension Fund's annual report for the financial year ended 2004.

What a difference 12 months can make! After reporting last year on yet another year of falling markets, for the third year in a row, I am extremely pleased to report that the 2003/2004 financial year saw a welcome reversal of this poor market performance with our Fund increasing in value by over £300 million to again reach £1.5 billion at 31 March 2004. As well as the improvements in investment markets generally, it is also pleasing to report that the investment return of our Fund for 2003/2004 is in the top 25% of all local-authority funds. Let's hope the good news continues!

Part way through 2003, we began a review of our Fund's corporate governance arrangements. This resulted in setting up a new Pensions Committee and a Pensions Forum for employing bodies. Representatives of employing bodies nominated by the Pensions Forum will have the opportunity to become observer members of the Pensions Committee who make the policy decisions.

The next actuarial valuation of our Fund is due on 31 March 2004 (there is a valuation every three years). I would like to thank the Deputy Corporate Director (Finance) and his staff for all their hard work in preparing for this.

I hope that this report gives you clear information about the Fund's activities, and that you find it helpful and interesting.

T A Dix
Chairman

Fund management and administration

Who looks after the Fund?

Administering authority

Staffordshire County Council, County Buildings, Stafford

Administrator

B D Roberts CPFA – Deputy Corporate Director (Finance)

Investment Advisory Panel council members

Councillor T A Dix – Chairman
Councillor J W Taylor – Vice Chairman
Councillor R Roberts OBE

Advisers

D G Thomas BSc, FIA
C W Jonas FRICS
Ives Associates

Actuary

Hymans Robertson and Company

Fund managers

Baring Asset Management
Deutsche Asset Management
Jupiter Asset Management
Invesco Asset Management
Putnam Investments
Lombard Odier Darier Hentsch Investment Management Limited
Gartmore Investment Management (until 24 June 2003)
Goldman Sachs Asset Management (from 24 June 2003)
Colliers CRE

Custodian

The Northern Trust Company

Auditors

The Audit Commission

Performance measurement

The WM Company

Fund management and administration

Introduction

Our Pension Fund is for people who provide local government services in Staffordshire.

Investment management arrangements

As a result of the Local Government Act 2000, we introduced a new set of rules, known as the 'constitution'. Under the constitution, the Regulatory Committee is responsible for appointing the **investment managers** and advisors to the Fund. The Deputy Corporate Director (Finance) is responsible for the day-to-day decisions on managing the Fund's investment finances and money, based on the advice received from the **Investment Advisory Panel** ('the Panel') when they meet every three months.

(Please note that these governance arrangements are being reviewed, and any changes will be reported on and made in 2004/2005.)

The Panel uses a policy of specialist investment management. It makes the major policy recommendations and lets the **investment managers** carry out the detailed investment functions within those overall policies. The main tasks of the Panel are to:

- monitor and review investment management arrangements;
- recommend how much of the Fund should be shared out between different types of asset and which countries they should be invested in;
- make sure that the Fund invests in different kinds of assets to spread the risk;
- review investments to make sure they are suitable for the needs of the Fund;
- monitor how **investment managers** perform against our investment targets; and
- co-ordinate the activities of the various **investment managers** to reflect the overall aims of the Fund.

A **Tactical Asset Allocation** (TAA) Manager works alongside the individual specialist managers. The TAA Manager:

- reports to the Panel;
- works within the very strict limits the Panel has approved;
- uses financial products, such as **futures,** to make sure that the Fund is divided in line with the targets set for each type of asset and each country; and
- adds value to the Fund by buying futures and currency in the markets which they think will perform the best.

During the year, the Fund reviewed the investment management arrangements for the TAA Manager. As a result, the existing manager, Gartmore Investment Management, was replaced with a new manager, Goldman Sachs Asset Management, to run both strategic and tactical parts of the arrangement.

Fund management and administration

Investment administration

The Deputy Corporate Director (Finance) and his staff co-ordinate the administration and accounting functions that relate to the Fund. They collect and examine the details of all the transactions carried out by the various **investment managers**.

The Deputy Corporate Director (Legal) is responsible for any legal work relating to **property** investments.

Pensions administration

The Deputy Corporate Director (Finance) and his staff are also responsible for all administration related to recording each member's years of service, working out benefits and paying pensions.

Communicating with members

General

We aim to keep Fund members up to date with their pension scheme. As well as a summary of the Annual Report and Accounts, we will tell our members about any legal changes to the pension scheme. All the organisations which are members of the Fund will receive a copy of the Annual Report and Accounts and an update of the scheme's conditions.

Benefits statements

During 2003/2004 we continued to issue first benefit statements and also completed the issue of second benefit statements to those members who have already received their first one. We aim to make sure that all members have received at least one benefit statement by 31 March 2005.

The Myners Review

In 2000, the Government ordered a 'Review of Institutional Investment in the United Kingdom'. The Review, published in March 2001, was carried out by Paul Myners, Chairman of the Gartmore Fund Management Group, and is simply referred to as 'Myners'.

In October 2001, in response to the Myners' proposals, the Government issued a revised set of 10 investment principles. Each authority in charge of running a pension fund has to publish details of how they follow each of the 10 principles and, where appropriate, say why they have chosen not to follow them. The 10 principles cover the following areas.

1. Effective decision-making
2. Clear aims
3. Focus on asset allocation
4. Expert advice
5. **Explicit mandates**
6. **Activism**
7. **Appropriate benchmarks**
8. **Performance measurement**
9. **Transparency**
10. Regular reporting

Our Fund follows the 10 principles to different extents, and we are keeping the position under regular review.

Investment report

Statement of our investment principles

Main aim

We aim to give members pension and lump-sum benefits when they retire, or give their dependants benefits if they die before or after they retire.

We have agreed the following funding and investment aims so we can achieve our main aim.

Funding aims – our ongoing plan

We aim to manage the Fund so that, in normal market conditions, all the benefits that the member has built up are fully covered by the actuarial value of the Fund's assets. The administering authority must agree an appropriate level of contributions from organisations which are members of the Fund to meet the cost of future benefits.

The assumptions we use for this test are the same as the assumptions used in the latest **actuarial valuation**. We will look again at these assumptions at least every three years. We will tell the **Investment Advisory Panel** about any important changes which affect the Fund.

Investment aims

We aim to achieve a return on Fund assets which is enough, over the long term, to continue to meet the aims of the Fund.

To achieve these aims, we have agreed the following.

Choosing investments

The **Investment Advisory Panel** will make sure that we appoint one or more **investment managers** who are authorised, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, to manage the assets of the Fund.

The **Investment Advisory Panel**, after getting appropriate advice about investments, may give specific instructions as to where to invest and will make sure the assets are suitable for the Fund. The **investment managers** (each of which will have a different investment performance target) will be able to choose which stocks to invest in. We expect them to maintain a range of different types of asset.

Investment report

The kinds of investments we will hold

Each **investment manager** has a management agreement which sets out the relevant standards, performance target, range from which to invest and any restrictions. These are decided by the **Investment Advisory Panel**.

We reviewed the Fund's overall strategy using an asset and liability study based on the results of the 2001 **actuarial valuation**.

The study took account of:

- the liabilities of the scheme;
- how solvent the scheme is (the ratio of assets to liabilities); and
- how much risk the **Investment Advisory Panel** were prepared to take.

The **Investment Advisory Panel** have agreed an 'asset allocation standard', which provides an efficient balance between risk and return.

Risk

By using this asset allocation standard and monitoring performance against a specific target we can prevent the **investment managers** moving away from our aims. However, it still gives them the flexibility to manage the Fund in a way where they can improve returns.

Appointing more than one **investment manager** reduces the risk of bad investment decisions.

We expect each manager to maintain a wide range of different investments.

Expected return on investments

We expect the standard to produce a return over the long term that is more than the investment return shown in the **actuarial valuation**. The Fund's assets are managed actively and we expect them to do better than the standards we have set for them over the long term. In this way, we expect the investment performance the Fund will achieve to be better than the rate of return the actuary assumed.

Selling investments

Most of the stocks the Fund's **investment managers** hold are quoted on major stock markets and may be sold quickly if they need to be. **Property** investments can take a long time to sell so only make up a relatively small part of the Fund's assets.

Socially-responsible investment

All of the scheme's assets (not including cash) are managed by external managers. The **Investment Advisory Panel** accept that each **investment manager** will have their own policy on being socially responsible when they make investments and they recognise that this policy may vary between managers. However, the **Investment Advisory Panel** monitor the managers' policies and, at the moment, are happy that these policies meet their responsibilities to the beneficiaries.

Corporate governance

The **Investment Advisory Panel** recognise that the Fund's UK stocks and shares managers should influence how the companies they invest in are run. In particular, they must follow the guidelines in the **Combined Code** when they vote on the action that the companies they invest in are going to take. The **Investment Advisory Panel** also say that other **investment managers** should follow the **Combined Code** as far as possible. The **investment managers** present a report to the **Investment Advisory Panel** every three months telling them about votes cast on the stocks and shares held.

Investment powers

The main powers to invest are shown in the Local Government Pension Scheme (Management and Investment of Funds Regulations) 1998 (as amended). Under these regulations, any money that forms part of the Pension Fund and is not needed to meet payments out of the Fund must be invested following the restrictions listed below.

a No more than 10% of the Fund may be invested in stocks and shares in unlisted companies. These are stocks and shares which are not listed on either a recognised United Kingdom stock exchange or an international stock exchange.

b Except for gilts and bank deposits, no more than 10% of the Fund may be invested in a single holding.

c No more than 10% of the Fund may be deposited with any one bank.

d Loans used from the Fund, including money used by the administering authority or lent to other local authorities, but not including loans to the Government, may not be more than 10% of the value of the Fund.

e No more than 25% of the Fund may be invested in unit trusts that are managed by a single manager.

f No more than 10% of the Fund may be invested in a single unit trust.

g No more than 25% of the Fund may be invested in a single Managed Fund Insurance Contract (MFIC).

h No more than 25% of the Fund may be invested using **stock lending** arrangements.

Investment strategy

The aim of the Fund is to make sure that there are enough assets to pay out its liabilities. To achieve this, the Fund aims to get the best investment return by:

- regularly reviewing its policy on investments;
- monitoring and, if necessary, changing which assets are held;
- predicting and reacting to movements in the stock market;
- having many different types of asset in the Fund to reduce the risk; and
- considering new areas to invest in.

The **investment managers** can buy and sell investments within the limits the **Investment Advisory Panel** has set.

Investment background

Worldwide

The 12-month period to March 2004 saw a significant expansion in worldwide economic activity. The initial successful military campaign in Iraq removed some of the economic uncertainty and the fall in oil prices that followed also had a positive changing effect. A lot of the improvement came from stronger than expected US economic growth. This was driven by the continued high level of retail spending as a result of low interest rates and a programme of tax cuts, which encouraged a high level of mortgage refinancing and a buoyant housing market. Companies also restocked their reserves and improved their spending on capital, especially in the technology area.

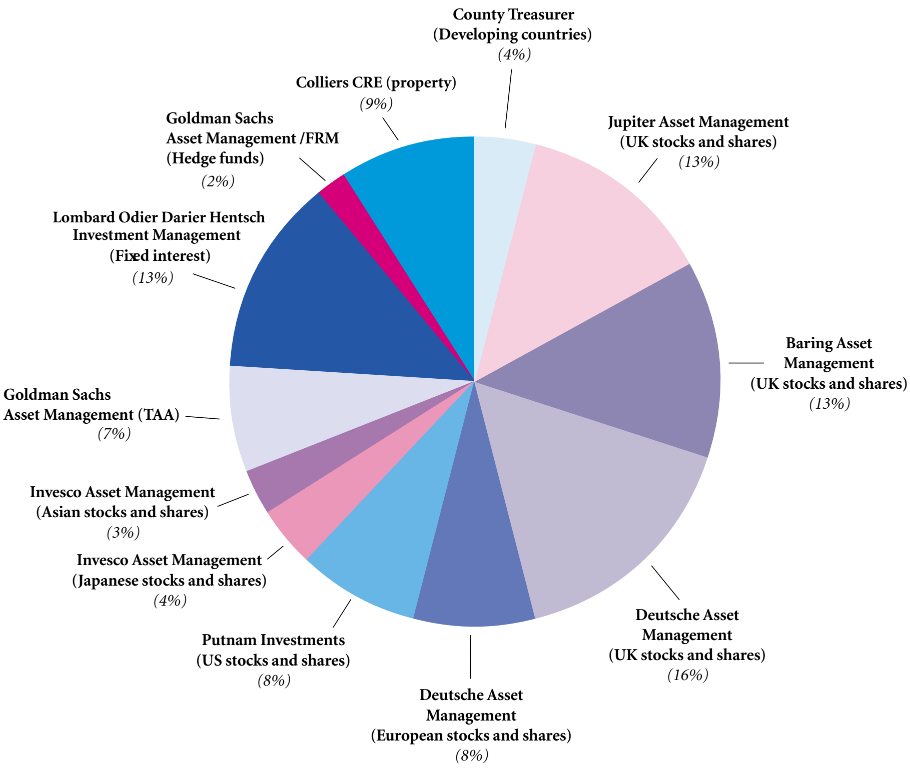
All major stock and shares markets recorded strong returns, with the FTSE All World index gaining 25.4% in sterling terms.

USA

Economic growth in the US grew rapidly to 8% in the period from April to June in 2003. However, the market was unsettled by the apparent lack of jobs, with unemployment remaining high at 6%, and this led to questions over how long the upturn would last. Cost-reduction measures and improved productivity meant that many companies' accounts began to show an increase in profits. The weakness of the dollar also increased the reported profits of some of the larger overseas earners.

Reflecting the weakness of the dollar, the US stocks and shares market fell behind others, rising by 16.1% in sterling terms, though in local currency terms the market rose by 35.1%.

How much of the investments each manager looks after
Market value on 31 March 2004 (in millions)
(not including the effect on the investments of the Tactical Asset Allocation (TAA) Manager's actions)



UK

Compared to the rest of Europe, UK economic growth remained strong and above the long-term trend of 2.5% to 3%. This was driven by strong consumer spending and the continued growth in public spending, although manufacturing activity was more reserved with conflicting signs over the pace of any recovery. With consumer spending partly being driven by record levels of mortgage equity withdrawal, reflecting the healthy state of the housing market, the Bank of England raised interest rates. While everyone agreed that this course of action was appropriate, the focus of discussion was the extent and speed of this process.

The FT All Share Index rose 31%, although the FTSE 100 only managed 25.7% as it was held back as a result of high percentages of stocks and shares being held in less risky sectors such as oils, financials, telecoms and pharmaceuticals. Areas more exposed to the economic recovery outperformed the index and these included IT (+92.3%), media (+54.3%), construction (+62.1%) and aerospace and defence (+66.2%).

Not surprisingly bonds underperformed, given the turn in the interest-rate cycle and the upward movement in inflationary pressures. Long gilts rose by 2.8%. A more positive outlook for inflation resulted in index-linked gilts rising by 6.2%. Cash returned 3.8%.

Europe

Economic growth across Europe remained disappointing and below the trend. The European Central Bank (ECB) continued to focus on the threat of inflation, rather than economic growth, and so maintained a stable interest-rate policy unlike the US and the UK. Also, the level of unemployment rates and high tax rates restrained consumer spending. While company profits increased, the cost of restructuring and the high levels of government regulation continued to reduce baseline (minimum) returns. The continuing strength of the euro also reduced export demand.

Despite this gloomy economic background, Europe (not including UK) rose by 36.9%. Unlike the UK, which is a largely defensive market, European indexes have a greater weighting in areas which have to spend money on buying or improving fixed assets (for example, buildings and machinery), such as technology and engineering and autos, and these performed strongly.

The 10 UK largest shareholdings

Name of company	Market values on 31 March 2004
Vodafone Group plc	£46,813,741
BP plc	£42,389,920
HBSC Holdings plc	£40,346,205
Royal Bank of Scotland Group plc	£31,586,724
GlaxoSmithKline	£26,251,557
AstraZeneca Group	£21,107,519
Barclays Bank plc	£19,436,746
Shell Transport & Trading Co plc	£13,775,174
Standard Chartered	£12,633,092
Rio Tinto plc	£10,905,307

Investment background (continued)

Far East

Despite the initial uncertainty relating to the outbreak of SARS (Severe Acute Respiratory Syndrome), Asia staged a strong economic upturn. China continued to grow and this fuelled the rise in the prices of commodities such as grains, metals and food generally. There was much speculation that the economy was expanding too quickly and that interest rates would have to rise. Asian economic activity benefited directly from China, with exports rising 35% against 9% for the rest of the world. Despite continued price deflation in Hong Kong, both retail spending and property prices recovered sharply.

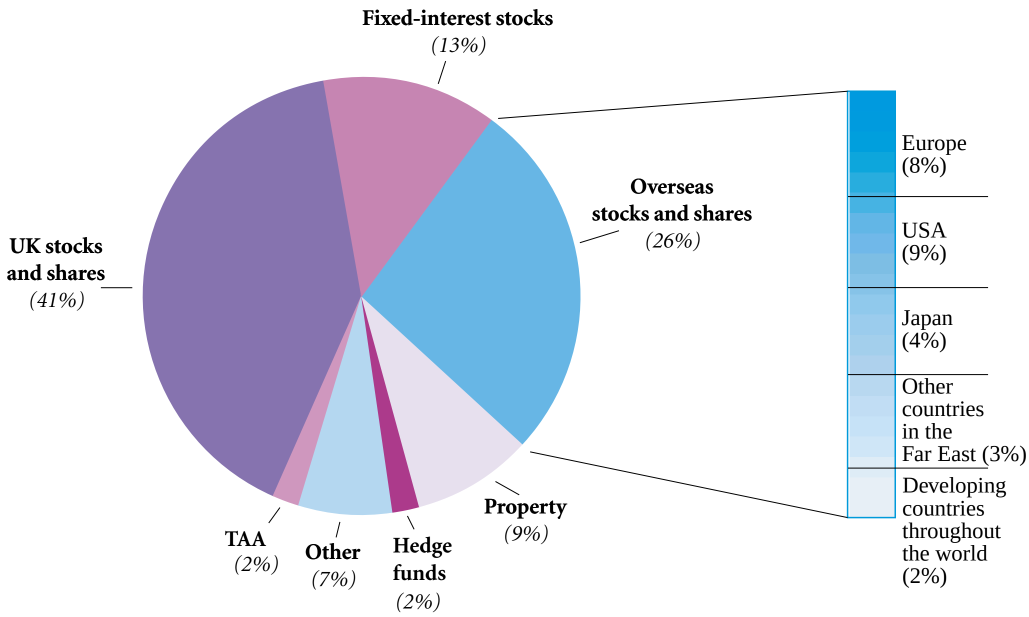
Although there were concerns over the pace of expansion in the Chinese economy, the region as a whole recorded some of the strongest economic growth rates, with an investment return for the Pacific (not including Japan) of 40.6%.

Japan

After several years of disappointing growth, Japanese economic activity accelerated from a low base. With interest rates remaining at zero, there was some evidence that consumers had started to spend rather than save, and this boosted spending within the home economy. Confidence also increased with the emergence of some modest inflationary pressures and this partly removed the negative effect of price deflation. The decline in unemployment from the 2002 peak of 5% was also a positive factor. Export demand from the USA and China also accelerated, which was partly a result of the weakness of the yen against the dollar.

The strengthening Japanese economy was reflected in an investment return of 46.5% in sterling terms from its stocks and shares market.

How the Fund is invested
Market value on 31 March 2004 (in millions)
(not including the effect on the investments of the
Tactical Asset Allocation (TAA) Manager's actions)



Fund values

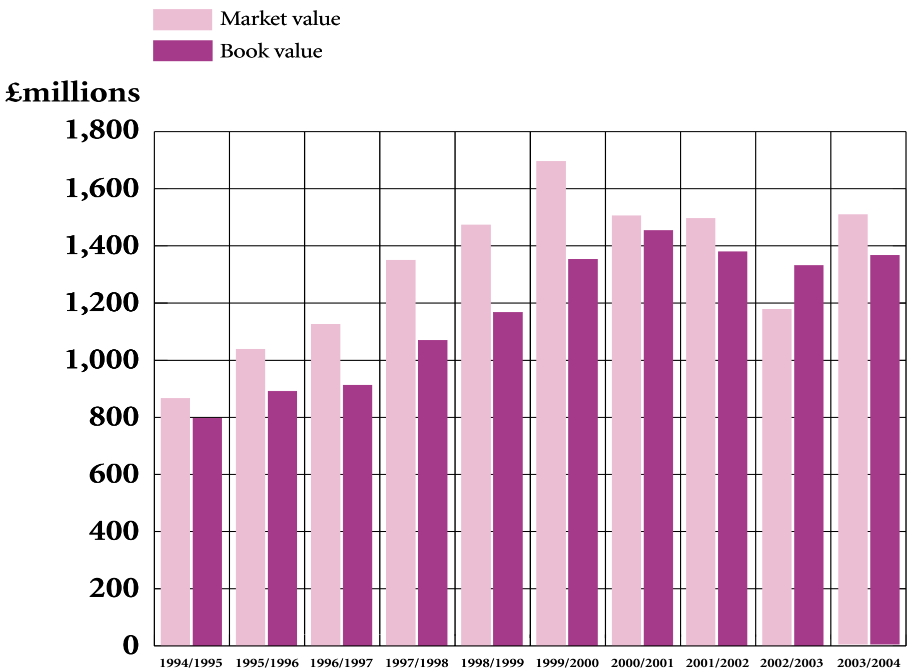
While the value of the Fund can go up and down in the short term as market conditions change, it is more important to achieve long-term investment targets to match the long-term liabilities of the scheme.

The 2003/2004 financial year saw a welcome reversal of the poor performance experienced over the previous three years. Share markets across the world showed positive returns, ranging from 16.1% in the US to 46.5% in Japan, (the UK returned 31%). Reflecting the continuing low level of interest rates across the world, the UK bond market returned 2.3% while bond markets overseas returned -2.8%. Property investments produced positive returns of +12.9%. This continues to prove how important it is to invest in different assets to make sure all the investments held grow over the long term.

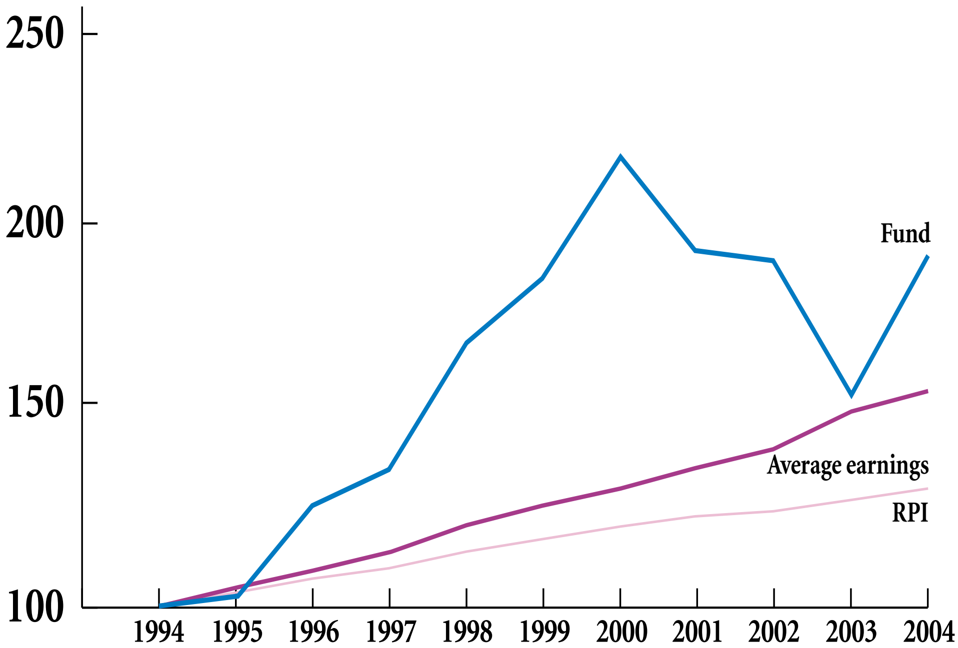
As a result of the relatively good market returns, our Fund increased in value by £310.4 million (26%), reaching a total of £1,506 million on 31 March 2004. In the long term, the Fund's market value increased by 74% between 1994 and 2004. This is shown in the chart below.

The graph on page 16 shows the returns on the Fund, compared with the Retail Price and Salaries and Wages indexes for the same period.

Growth in the value of the Fund 1994 to 2004



Graph showing the Fund return, Retail Price Index (RPI) and average earnings



This graph shows how the change in the RPI has been overtaken by the growth of:

- average earnings; and
- the Fund.

Investment performance

For the year ended 31 March 2004, the Fund's investments earned a return of 25.6% including **property**. The average returns for the year for all local authority funds were 23.4%, as measured by the WM Company. This means that our Fund's performance this year was in the top 25% for all local-authority funds, and in the longer term our Fund is still in line with the average for all local-authority funds in the CIPFA/WM survey, as shown on the chart opposite.

Investment performance (continued)

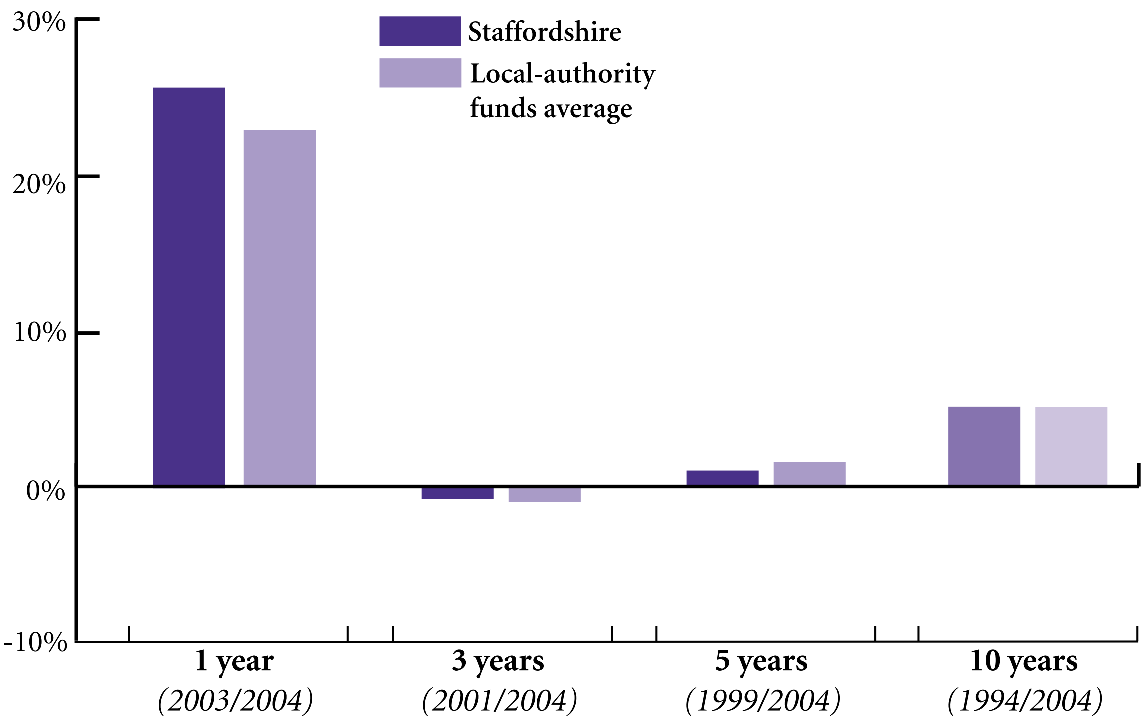
Individual Investment Managers' performance measured against their benchmark for the last financial year and the last three financial years is shown on pages 18 and 19.

Good investment performance by the Fund over the long term has been very important in achieving a strong financial position. We can see the benefit of this good performance in the 2001 **actuarial valuation** report. The employers' contribution rates the actuary recommended for the three-year period starting on 1 April 2002 continue to be lower than most other local-authority funds.

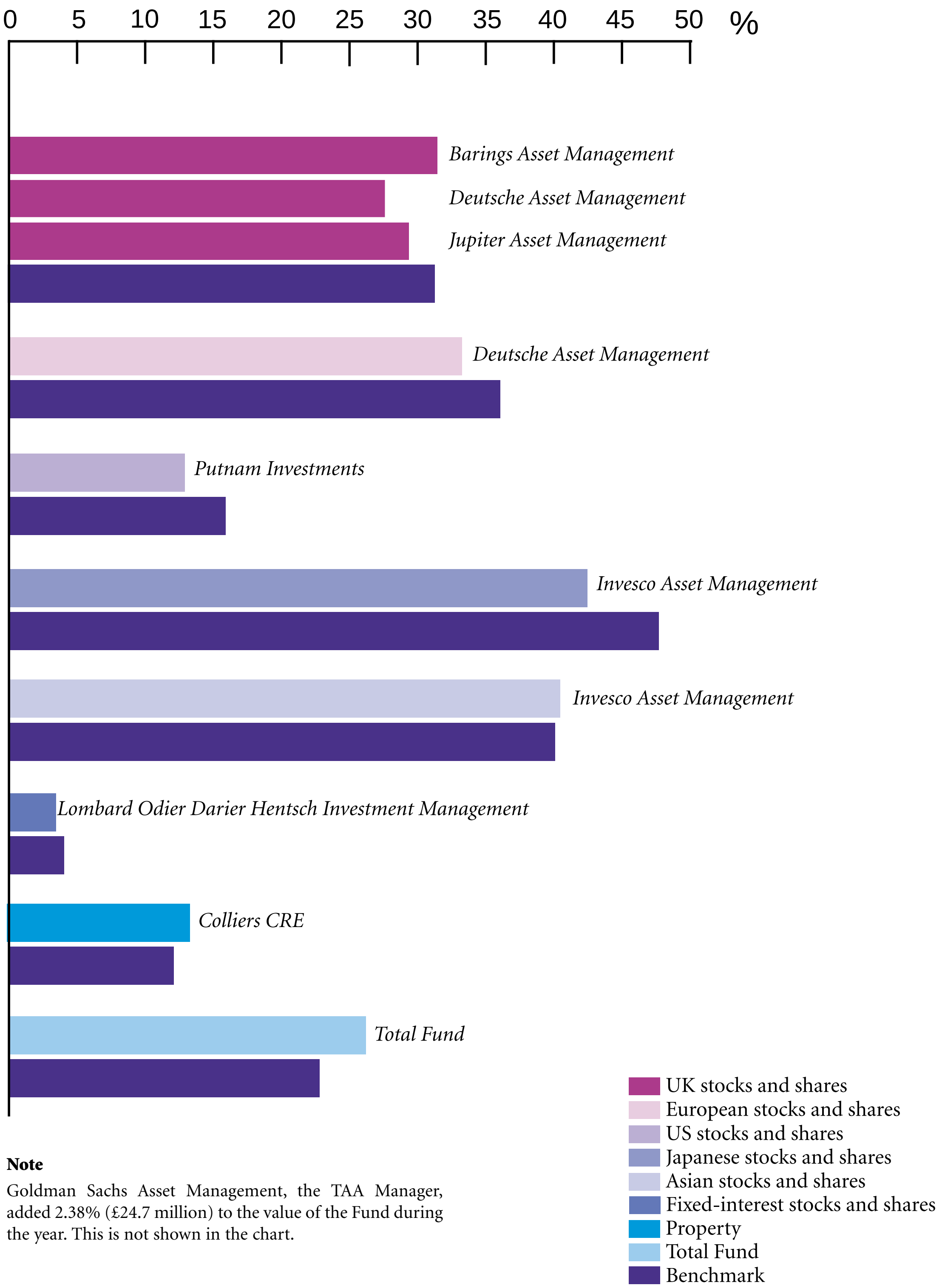
While we expect the results of the 2004 actuarial valuation will show the Fund to be in **deficit**, we hope that if contribution rates are at a higher level than now, they will continue be lower than those of most other local-authority funds.

Pension Fund

Local-authority portfolio performance statistics (including property)



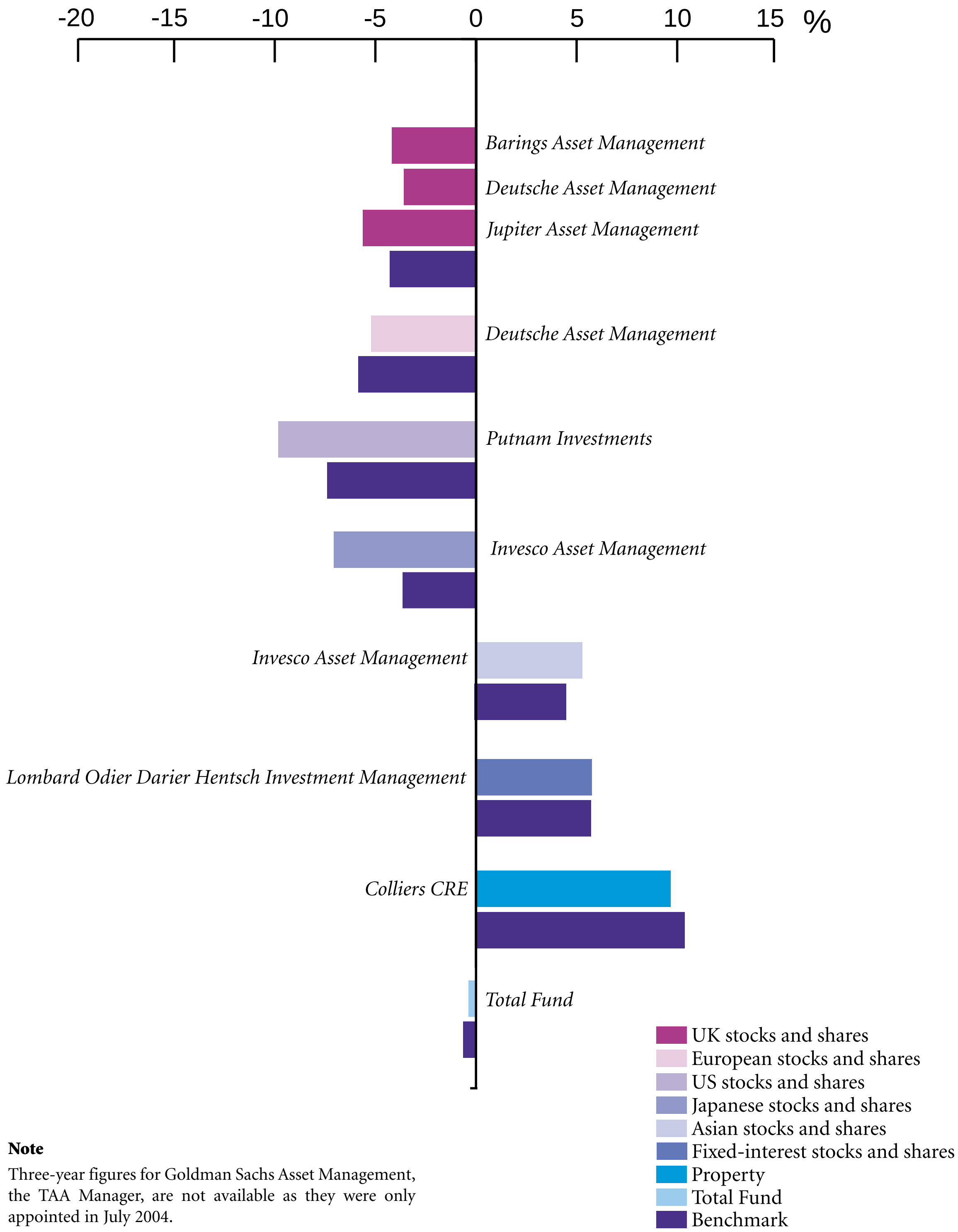
Manager performance – one-year return against benchmark (2003/2004)



Note

Goldman Sachs Asset Management, the TAA Manager, added 2.38% (£24.7 million) to the value of the Fund during the year. This is not shown in the chart.

Manager performance – three-year return against benchmark (2001 to 2004)



Note

Three-year figures for Goldman Sachs Asset Management, the TAA Manager, are not available as they were only appointed in July 2004.

Fund membership

Membership of the Fund

Under the Local Government Pension Scheme Regulations 1997, Staffordshire County Council must maintain a **Pension Fund** for employees of local authorities and other organisations within Staffordshire. Teachers, police officers and firefighters have their own separate pension schemes.

Contributions to the Fund

Under the Local Government Pension Scheme Regulations, scheme members must pay a basic contribution rate of 6% (some manual workers pay 5%). The benefits we pay to members are set by legislation. You can get full details of these benefits in the scheme booklet. They are also available on our website at www.staffordshire.gov.uk/pensions

The contributions employers have to make are assessed by the Fund's actuaries at each Fund valuation. When they confirm the employers' contributions, the actuaries set:

- a common rate which all employers taking part in the Fund have to pay, taking account of existing and possible liabilities which are common to those employers and the need to maintain a rate that is as constant as possible; and
- if special circumstances apply to an employer, an individual adjustment to the common rate for that employer.

Actuarial valuation

An **actuarial valuation** of the Fund was carried out on 31 March 2001 and the results of this valuation applied from 1 April 2002. The contribution rates the actuaries recommended for the period from 1 April 2002 to 31 March 2005 were as follows.

Common rate	+10.5%
Individual adjustments ranging from	-10.5% to +3.0%

The contribution rates the actuaries recommended have, in some cases, been increased gradually over the three years which began on 1 April 2002.

Fund benefits

This is a brief summary of the benefits provided by the Local Government Pension Scheme (LGPS).

Employee contributions

All employees joining the LGPS for the first time after 1 April 1998 will make contributions of 6% of their pensionable pay. However, if they joined the scheme before 1 April 1998 and paid contributions at 5%, they may continue to pay at this rate while they stay in the same job.

Normal retirement age

The normal retirement age for LGPS members is age 65. Benefits can be paid from age 60 (if the member asks) or from age 50 (if the member asks and the employer agrees). In these circumstances, benefits may reduce. If the employee is aged 50 or over and the employer confirms that the person is leaving on grounds of redundancy or cost savings, benefits can be paid prematurely (without reduction).

Retirement benefits

The LGPS is a 'final-salary' pension scheme, which means that, depending on the period of membership, the benefits will be worked out on pay averaged over the final year. As this is guaranteed, benefits are not affected by how well or badly investments perform.

When a person retires, the benefits that can be paid are:

- a retirement pension of $^1/_{80}$ x final pay x period of membership; and
- a retirement grant of $^3/_{80}$ x final pay x period of membership.

Ill-health retirement

Members retiring because of permanent ill health will receive retirement benefits as above, from any age, and in most cases with a compensatory increase in the period of membership.

Death benefits

The death benefits that can be paid depend on whether the member was still in employment or had retired at the date they died. The range of benefits includes:

- a death grant;
- a surviving spouse's (husband's or wife's) short-term pension;
- a surviving spouse's long-term pension; and
- children's pensions.

Transfers, deferred benefits and refunds

A person who leaves the LGPS before being entitled to immediate payment of benefits can have the pension rights (built up to the date they leave) transferred to another pension arrangement. The following options are also available.

- If the person has two or more years' membership of the LGPS or has had a transfer of previous pension rights into the scheme, they would be entitled to deferred benefits (that is, benefits based on the period of membership and final pay at the last day of service but not paid until they are eligible to take them).
- If the person has less than two years' membership of the LGPS and has not had a transfer of previous pension rights into the scheme, they may be eligible for a refund of contributions.

Improving retirement benefits

There are various ways of improving retirement benefits. As long as certain tax limits and rules are kept to, a member can choose from the following.

- Buying extra LGPS benefits by paying extra contributions.
- Paying **additional voluntary contributions (AVCs)** through an arrangement between the Fund and a life assurance company to provide an annuity as well as LGPS benefits.
- Paying AVCs through an arrangement between the Fund and a life assurance company to improve the level of death grant.
- Paying free-standing AVCs to a non-Fund-linked life assurance company of their choice.
- Paying into a personal pension plan or a stakeholder pension arrangement running at the same time as the LGPS.

For more detailed information on the LGPS, please ask for the publication 'The Local Government Pension Scheme: A guide for employees eligible to participate in the Staffordshire County Council Pension Fund', or visit our website at
www.staffordshire.gov.uk/pensions

New organisations who are taking part in the Fund

During 2003/2004 no new local authorities joined the Fund. However, three more contractors who are on contract to local authorities in Staffordshire joined the Fund. J and S Seddon (Building) Ltd and JDM Accord Ltd joined the Fund in July 2003 and Connaught Property Services Ltd took over a contract from Frank Haslam Milan and Co Ltd in August 2003.

New regulations

During 2003/2004 two sets of amending regulations were issued.

The first of these is the Local Government Pension Scheme and Discretionary Compensation (Local Authority Members in England) Regulation 2003, under which county and district councils can allow their elected members to join its pension fund.

The second set were the Local Government Pension Scheme (Amendment) (No2) Regulations 2003 which amended the regulations about **admitted bodies**.

Members

	31 March 2003	31 March 2004	Change
Pensionable employees	*35,937*	*36,771*	*+2.3%*
Pensioners	*16,888*	*17,229*	*+2.0%*
Deferred pensioners (people who no longer pay into the scheme)	*10,922*	*12,368*	*+13.2%*

Organisations which are members of the Fund at 31 March 2004

Staffordshire County Council (as employing authority)
Staffordshire Moorlands District Council
Newcastle-under-Lyme Borough Council
Stoke-on-Trent City Council
Stafford Borough Council
East Staffordshire Borough Council
South Staffordshire District Council
Cannock Chase District Council
Lichfield District Council
Tamworth Borough Council
Staffordshire Probation Service
Staffordshire Valuation Tribunal
Staffordshire Magistrates' Courts Service
Cheadle Town Council
Burntwood Town Council
Great Wyrley Parish Council
Shoal Hill Common Joint Committee
Bretby Crematorium Joint Committee
Uttoxeter Town Council
Lichfield City Council
Penkridge Parish Council
Wombourne Parish Council
Stone Town Council
Brereton and Ravenhill Parish Council
Codsall Parish Council
Kinver Parish Council
Staffordshire University
Sixth Form College, Stoke-on-Trent
Leek College of Further Education and School of Art
Newcastle-under-Lyme College
Stoke-on-Trent College
Stafford College
Burton-on-Trent College
Rodbaston College
Cannock Chase Technical College
Tamworth and Lichfield Colleges
Lapley, Stretton and Wheaton Aston Parish Council
Perton Parish Council
Rolleston on Dove Parish Council
Stoke-on-Trent Education Action Zones
Shenstone Parish Council
Kidsgrove Town Council
Hednesford Town Council
Eccleshall Parish Council
Kings Bromley Parish Council
Eccleshall Parish Council
Madeley Parish Council
Cheddleton Parish Council
Rugeley Town Council
Stoke-on-Trent and Staffordshire Fire Authority
Staffordshire Police Authority
Community Council of Staffordshire
Keele University
Newcastle-under-Lyme School
Connexions
South Staffordshire Housing Association
Homezone Housing Ltd (Lichfield)
Moorlands Housing
Aspire Housing Ltd (Newcastle)
Trent and Dove Housing Association
Flow Foods Ltd
Frank Haslam Milan and Co Ltd
Superclean Services Ltd
J+S Seddon (Building) Ltd
JDM Accord Ltd
Connaught Property Services Ltd

Financial statements

Staffordshire County Council Pension Fund

Financial statements
1 April 2003
to 31 March 2004

Financial statements 2003/2004

Responsibilities for the statement of accounts

Responsibilities as the administering authority for the Staffordshire County Council Pension Fund

We must:

- arrange for our Deputy Corporate Director (Finance) to manage the financial affairs of the Pension Fund; and
- manage the Pension Fund so we use our resources economically, efficiently and effectively, and protect the Funds' assets.

The Deputy Corporate Director (Finance)'s responsibilities

The Deputy Corporate Director (Finance) is responsible for the Pension Fund's statement of accounts. Under the terms of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in Great Britain, this must fairly present the financial position of the Fund on the accounting date. It must also fairly represent its income and spending for the year ended 31 March 2004.

In preparing this statement of accounts, the Deputy Corporate Director (Finance) has:

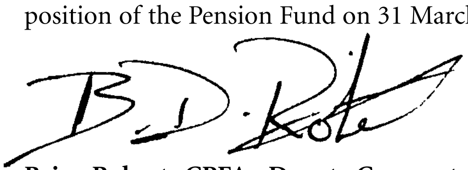
- chosen suitable accounting policies and used them consistently;
- made judgements and estimates that were reasonable and careful; and
- followed the code of practice.

The Deputy Corporate Director (Finance) has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

Deputy Corporate Director (Finance)'s certificate

I certify that the statement of accounts shows fairly the financial position of the Pension Fund on 31 March 2004.



Brian Roberts CPFA - Deputy Corporate Director (Finance)
5 August 2004

Accounting policies

Statement of recommended practice

The accounts have been prepared in line with:

- the requirements of the Local Government Pension Scheme Regulations 1997; and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

They follow the main recommendations of the Statement of Recommended Practice (SORP), 'The Financial Reports of Pension Schemes'.

Accounting policies

a Employers have made contributions based on percentages of pensionable pay recommended by the Fund's actuary in his valuation (from April 2002). We charge increases in benefits that we have to pay previous employees, under pension increase regulations, to the Fund. These are part of the overall contribution rate each employer pays. We recover increases for employees who are now the responsibility of other organisations, for example, the Department of Health, from these organisations.

b We use the 'receipts and payments basis' for **transfer values** we have received or paid and **refunds of contributions**. This means the accounts do not include money we owe or which is owed to us.

c We add all interest and dividend income we are due to receive in the year to the Fund in that year.

d We include investments in the Net Asset Statement at their valuation on 31 March 2004. We valued investments made through UK or overseas stock exchanges at mid-market prices at the close of business on 31 March 2004. We have valued foreign investments using the rates of exchange that applied on 31 March 2004. During the year, we spent £950.5 million on investments and received £1,000.8 million for investments we sold.

e We include the value of **property** at an independent desk-top valuation (a valuation completed without visiting individual properties) on 31 March 2004.

Staffordshire County Council Pension Fund

Revenue account for the year ended 31 March 2004

Contributions and benefits

2002/2003 £thousands	2002/2003 £thousands		2003/2004 £thousands	2003/2004 £thousands
		Contributions we received		
25,188		From employees	26,987	
37,425	62,613	From employers (Notes 2 and 3)	44,449	71,436
		Transfers in		
	14,600	Transfer values we received (Note 4)		16,943
		Other income		
	10	Contributions repaid to us		0
	77,223			**88,379**
		Benefits we paid		
(37,671)		Retirement pensions	(39,073)	
(6,434)		Retirement grants	(7,228)	
(1,141)		Death grants	(797)	
(2,813)		Family benefits	(2,997)	
(15,046)	(63,105)	Payments as a result of the Pensions Increase Act	(15,181)	(65,276)
		Leavers		
(12,069)		Transfers to other schemes (Note 4)	(10,075)	
(524)	(12,593)	Refunds to leavers	(634)	(10,709)
	(1,417)	**Administrative expenses** (Note 5)		(1,576)
	(77,115)			**(77,561)**
	108	**Net additions (withdrawals) from dealings with members**		**10,818**

Staffordshire County Council Pension Fund

Revenue account for the year ended 31 March 2004

Returns on investments

2002/2003 £thousands	2002/2003 £thousands			2003/2004 £thousands	2003/2004 £thousands
		Investment income			
		Income from investments			
1,849		Government bonds	UK	2,041	
1,564			Overseas	755	
5,303		Corporate bonds	UK	6,570	
0			Overseas	0	
15,958		Stocks and shares	UK	18,108	
5,004			Overseas	6,517	
1,099		Index-linked	UK	615	
40			Overseas	1	
8	30,825	Other		8	34,615
	2,753	Interest on cash deposits			1,942
	10,718	Rent on properties			9,345
		Other income			
63		Commission recapture		67	
102		Stock lending (Note 6)		145	
4	169	Other		0	212
	44,465				46,114
	(336,710)	**Change in market value of investments**			255,988
	(3,431)	**Investment management expenses** (Note 7)			(2,518)
	(295,676)	**Net returns on investments**			**299,584**
	(295,568)	**Net increase (decrease) in the Fund during the year**			**310,402**
	1,491,159	Net assets of the Fund brought forward			1,195,591
	1,195,591	**Net assets of the scheme on 31 March 2004**			**1,505,993**

Change in market value of investments

Unrealised gain (loss) in 2003/2004	214,401
Realised gain (loss) in 2003/2004	41,587
	255,988

Staffordshire County Council Pension Fund

Net assets statement at 31 March 2004

Investments (Note 8)

2002/2003 Market value £thousands			2003/2004 Book cost £thousands	2003/2004 Market value £thousands	2003/2004 Market value £thousands
22,418	**Government bonds**	UK	34,650	34,385	
21,715		Overseas	12,894	13,131	
44,133			47,544		47,516
112,966	**Corporate bonds**	UK	112,961	112,768	
0		Overseas	0	0	
112,966			112,961		112,768
475,394	**Stocks and shares**	UK	546,831	568,214	
288,733		Overseas	333,556	348,405	
764,127			880,387		916,619
1,418	**Venture capital**	UK	2,007	2,018	
9,388		Overseas	12,093	12,093	
10,806			14,101		14,111
29,786	**Index-linked**	UK	27,859	29,246	
0		Overseas	779	801	
29,786			28,638		30,047
27,438	**Unit trusts**	UK	42,215	43,997	
20,627		Overseas	71,403	75,126	
48,065			113,618		119,123
0	**Other investments**	Hedge funds	30,000		30,375
121,738	**Properties**	Freehold	111,022	114,615	
13,740		Leasehold	11,679	14,100	
8,190		Limited partnership	7,924	8,859	
143,668			130,625		137,574
	Cash deposits				
19,000	Temporary investments		18,000		18,000
	Other				
176	Loans to local authorities		181		169
1,172,727	**Investments**		**1,376,054**		**1,426,302**

Current assets and liabilities

17,921	**Current assets**	Cash deposits (Note 9)	71,324	
11,142		Debtors (Note 10)	22,634	
29,063				93,958
(4,181)	**Current liabilities**	Creditors (Note 10)	(13,352)	
(2,018)		Other	(915)	
(6,199)				(14,267)
22,864	**Current assets and liabilities**			**79,691**
1,195,591	**Net assets of the scheme on 31 March 2004**			**1,505,993**

Staffordshire County Council Pension Fund

Actuary's statement

Name of the scheme: Staffordshire County Council Pension Fund

Date of the valuation: 31 March 2001

Summary of future rights

In my opinion, the resources of the scheme are likely to meet the liabilities of the scheme, as required by the regulations. In giving this opinion, I have assumed that the following amounts will be paid to the scheme.

- Contributions by the members (in line with the Local Government Pension Scheme Regulations 1997), at the rate of 6% of pensionable pay for all members, except manual staff who joined before 1 April 1998 and contribute at the rate of 5% of pensionable pay.
- Contributions by the employers for the year starting on 1 April 2002 (as shown on our certificate dated March 2002 in our report on the valuation of the Fund on 31 March 2001).

Summary of the methods and assumptions we have used

The valuation report dated March 2002 describes the valuation method and assumptions.

My opinion on the security of the Fund to pay its liabilities is based on the projected unit valuation method. This assesses the cost of benefits existing members have built up during the year after the valuation, allowing for future salary increases. We adjust the resulting contribution rate to allow for any difference in the value of liabilities (allowing for future salary increases) and the assessed value of assets.

The main financial assumptions are as follows.

		Increase including inflation percentage each year	Increase over inflation percentage each year
Investment return	Stocks and shares	6.25% to 6.75%	3.45% to 3.95%
	Bonds	5.25% to 5.75%	2.45% to 2.95%
	75% stocks and shares and 25% bonds	6.00% to 6.50%	3.20% to 3.70%
Pay increases (not including increases for more responsibility and experience)		4.30%	1.50%
Price inflation and pension increases		2.80%	0.00%

The valuation showed that the value of assets of the Fund as at 31 March 2001 was higher than the value of total liabilities by £54.9 million. The value of assets at 31 March 2001 was 103% of the value of total liabilities. Assets were valued at their market value averaged over the 12 months to the valuation date.

The next actuarial valuation is due on 31 March 2004. The financial experience of the Fund since the 31 March 2001 valuation has been poor, with significant falls in the value of equity investments. I would expect employers' minimum contributions to rise from 1 April 2005.

Donald Fleming
Fellow of the Faculty of Actuaries
Partner in the Firm of Hymans Robertson

221 West George Street
Glasgow G2 2ND

August 2004

Notes to the accounts

1 General

We have prepared the Fund's accounts in line with the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. They follow the Statement of Recommended Practice for Pension Scheme Accounts, which was published by the Accounting Standards Committee in July 1996.

2 Employers' contributions

Under regulations that have applied from 1 April 1990, we charge increases in pensions we pay to former employees under the Pensions (Increase) Acts to the Fund. We recover these as part of the contributions employers pay in line with the Certificate of Employers' Contribution given by the actuary.

3 Actuarial valuation

The accounts reflect levels of contributions after the March 2001 actuarial valuation. As a result of this valuation, some employing authorities have increased the level of employers' contribution rates gradually over the three years which began on 1 April 2002.

4 Transfer values

Transfers between funds for members changing employment are shown in the accounts when they are paid.

5 Administrative expenses

Under the Local Government Pension (Amendments) Regulations 1989, which came into force on 1 April 1989, administering authorities can get back administration costs, charges and expenses from the Pension Fund. We decided to do this so that the Fund pays for Pension Fund administration costs as well as investment expenses.

6 Stock lending

The table below summarises the stock lent out by the Pension Fund on 31 March 2004 under our stock-lending programme.

		Market value (£thousands)
Stocks and shares	– UK	67,320
	– Overseas	54,749
Fixed interest	– UK	43,590
	– Overseas	0
		165,659

Collateral holdings are not identified as individual loans, but are kept in a **pooled structure** by the custodian.

7 Investment management expenses

This figure in the accounts represents the fees and associated expenses we pay direct to **investment managers**. It includes what we owe to investment managers at the end of our financial year. Performance-related investment management expenses are accounted for at the time they become due for payment under the terms of the appropriate Investment Management Agreement.

8 Investments

We have included investments in the net assets statement at their market value on 31 March 2004. We have included their **book value** for information only. The market valuations have been included in the following way.

a We value all **securities** fully listed on the stock exchange at the mid-point of the official quotation at the close of business at the end of the financial year. We include all other **securities**, including venture capital and unauthorised unit trusts, at their value at the end of the financial year.

b We value overseas **securities** on overseas stock exchange quotations or market prices at the close of business at the end of the financial year.

c We assess sterling values of overseas **securities** on the average overseas currency exchange rate at the end of the financial year.

d We value **property** using an independent valuation at the end of the financial year every three years. The 2004 figure is an independent desk-top valuation by Cushman & Wakefield, Healey & Baker Chartered Surveyors.

e All costs of buying investments are included in their book value.

9 Cash

The cash figure in the statement of net assets includes cash the various **investment managers** are waiting to invest. This money is temporarily invested at money-market rates.

10 Debtors and creditors

We include debtors and creditors at the end of the financial year as shown below.

a We include investment income due to be paid to us up to the end of our financial year. We include **property** rental income owed to us up to the end of our financial year.

b We include all sales and purchase of investments except for the balance owing on partly-paid investments where the balance is not due to be paid until after the end of our financial year. The Main Fund was owed £11.2 million for shares sold and owed £11.8 million for shares bought.

c We include contributions owed to us and benefits we owe at the end of our financial year.

d We do not take account of liabilities to pay pensions and other benefits after the period end.

11 Foreign currency

Any foreign currency we have converted to sterling as at 31 March valuation.

12 Value added tax (VAT)

HM Customs and Excise repay the VAT the Fund pays on its expenses so VAT is not included in the figures in the accounts.

13 Income tax

The Fund is exempt from income tax so it can recover income tax it pays from the Inland Revenue. However, after the budget on 2 July 1997, the tax on UK dividends can no longer be recovered. The Main Fund is exempt from US withholding tax but other overseas withholding tax applies. Investment income is shown in the accounts after any withholding tax has been taken off. No capital gains tax is chargeable.

14 FRS17

Relevant information from the Pension Fund accounts has been supplied to the Fund's actuary, so the necessary information is available to help us meet Accounting Standard FRS17 and is available to those employing organisations who have asked for this information.

15 Related-party transactions

From time to time, Staffordshire County Council can use surplus Pension Fund cash for which it pays an appropriate rate of interest. The balance at the 31 March 2004 was around £1,130,000.

Plain English Campaign's Crystal Mark does not apply to this report.

Statement by the Appointed Auditor to Staffordshire County Council

Responsibilities of the County Council

The County Council is required:

- to make arrangements for the proper administration of the Authority's financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Corporate Director (Finance).
- to manage the Authority's affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Responsibilities of the Deputy Corporate Director (Finance)

The Deputy Corporate Director (Finance) is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice), is required to present fairly the financial position of the Authority, including the Pension Fund, at the accounting date and its income and expenditure for the year ended 31st March 2004.

In preparing this statement of accounts, he has stated that he has:

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

The Deputy Corporate Director (Finance) has also stated that he has:

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

Responsibilities of the Auditor

Delyth Morris has been appointed by the Audit Commission under s2 of the Audit Commission Act 1998 to undertake the audit of the statement of accounts of Staffordshire County Council, which includes a summary of the accounts of the authority's Pension Fund. As a result, the audit opinion on a local authority's accounts, including an opinion on the Pension Fund accounts is provided in the audit report issued on the local authority's financial statements. Our audit report is made solely to Staffordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Statement by the Appointed Auditor

We have examined pages 28 to 34 of the annual report of the Pension Fund, which have been prepared by its Deputy Corporate Director (Finance). In our opinion, these pages of the annual report are consistent with the statement of accounts of the County Council on which we have issued an unqualified opinion.

Signature:

Delyth Morris
District Auditor

30 November 2004

Glossary

Activism
This is when shareholders take an active part in running a company they hold shares in by using the voting rights that they get from owning those shares.

Actuarial valuation
This is when an actuary checks what the pension scheme assets are worth and compares them with the scheme's liabilities. They then work out how much the contributions from employers must be so that there will be enough money in the scheme when people get their pensions.

Additional voluntary contributions (AVCs)
This is an extra amount (contribution) a member can pay to their own pension scheme to increase the future pension benefits.

Admitted bodies
Organisations which carry out public functions or receive public finance (or both), and are members of our Fund, for example, housing associations.

Appropriate benchmarks
These are investment performance standards that we expect our **investment managers** to achieve and against which we measure their investment return.

Book value
The total cost of making an investment, including commission, stamp duty and so on.

Collateral holdings
Assets pledged to a lender until the loan is repaid. If the borrower does not pay off the loan, the lender has the legal right to seize the asset and sell it to pay off the loan.

Combined Code
Best practice in **corporate governance**, as recommended by various reports on the subject.

Commission Recapture
This is where the Pension Fund receives a cash refund of a percentage of the broker commissions paid by the Fund's **investment managers** for the transactions they carry out on behalf of the Fund.

Contributors
Employees of authorities who contribute to the Fund.

Corporate governance
Issues relating to the way in which a company makes sure that it is giving most importance to the interests of its shareholders and how shareholders can influence how the company is managed.

Deficit
This word is used to mean an actuarial deficiency. This is where the actuarial value of the Fund's assets is less than the money the Fund will have to pay out for pensions after the date of the **actuarial valuation**. The actuarial deficiency is the difference between the two.

Explicit mandates
These are clear and specific instructions that we give our **investment managers** on how they should manage the Fund's investments on our behalf.

Fixed-interest investments
Investments, mainly in stocks issued by the Government, which give a fixed rate of interest.

Futures contract
A legally-binding agreement to buy or sell a certain amount of a financial product at an agreed price on an agreed date in the future.

Hedge fund
This is an investment fund that operates on a similar basis to a unit trust but which uses a variety of investment instruments, markets and strategies to make a consistent and steady return. It aims to make money in falling as well as rising markets.

Index-linked securities
Investments in stock where the rate of interest and capital value are linked to the rate of inflation.

Investment Advisory Panel
An independent organisation we set up to provide advice on investments.

Investment management expenses
All expenses relating to managing the Fund's investments.

Investment managers
Firms we appoint to deal with the Fund's investments on a day-to-day basis.

Pension administrative expenses
All expenses relating to recording service and working out and paying pensions.

Performance measurement
Using statistical techniques to measure the investment performance of a Pension Fund. This often leads to a comparison with other funds and market indexes.

Pooled structure
When assets of more than one investor are combined.

Portfolio
A list of all the investments an investor owns.

Property
All the buildings and land that the Fund owns or leases, not including property unit trusts.

Realised gain (loss)
Profit or loss resulting from selling investments during the year.

Refunds of contributions
The amount employees will receive if they stop their pensionable employment with less than two years' contributing service.

Securities
Investing in shares of companies and in fixed-interest or index-linked stocks.

Stock lending
Lending some **securities**, such as stocks and shares, corporate bonds and government **securities** from the **portfolio**s of one investor to another approved investor, in return for a fee.

Strategic asset allocation
Spreading the Fund's investments over the major investment areas, for example, **fixed interest**, UK stocks and shares, overseas stocks and shares, **property** and so on.

Tactical asset allocation
Using futures to:

- make sure that the Fund's **strategic asset allocation** is in line with the targets set for each type of asset and each country; and
- take views on those markets and currencies we expect to perform the best.

Time-weighted return
The total capital and revenue returns on a fund. This is given as a percentage of the opening values of the fund in each investment period and also takes account of any new money received in that investment period.

Transfer values
The amount that is available from one pension to buy benefits in another pension when employees join or leave the scheme.

Transparency
This is making sure that we have clear information about the costs, transactions and activities of the Fund and that nothing is hidden.

Unit trust
People can invest in unit trusts by buying units. The managers of the trust use the money people invest to buy investments. The fund manager values the fund's assets from time to time and puts a new price on the fund's units.

Unrealised gain (loss)
Profit or loss that has not become actual. It becomes a realised profit or loss when the investment in which there is a gain or loss is actually sold.

Venture capital
A source of financing for new companies or other companies starting new or different activities that involve some investment risk but which offer the potential for above-average future profits.

Contacts

If you have any questions or need more information about our **Pension Fund**, please contact the relevant person below.

Investment and fund management
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Helen Bailey – Payroll Manager
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Or, you can write to us at:
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Staffordshire County Council
Resources Directorate
17 Eastgate Street
Stafford
ST16 2NF.

You can also visit our website at:
www.staffordshire.gov.uk/pensions

If you need a copy of this Annual Report in large print, in Braille, in another language or on cassette, please ask us.

Staffordshire
County Council

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