

2004/2005

Staffordshire County
Pension Fund

Annual Report and Accounts



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Chairman's foreword



Welcome to our Pension Fund's annual report for the financial year ended 2005.

2004/2005 was the first year of the Pension Fund working under its new corporate governance arrangements, with the introduction of a new **Pensions Committee** and Pensions Consultative Forum as well as the **Pensions Panel** (previously known as the Investment Panel). The year was also very busy because we carried out a major review of the Fund's investment structure and its investment management arrangements which, after a thorough tender process, led to the appointment in March 2005 of five new **investment managers** to manage assets across the UK, USA, Europe and the rest of the world. We are looking forward to working with these new managers who will take over our Fund's investment portfolio early in 2005/2006.

While pleasing to note that the 2004/2005 financial year saw the second successive year of positive market performance, with our Fund's value increasing by over £150 million to reach £1.66 billion, it is disappointing to have to report that our Fund's return for the year was below the average for all local authorities. However, we hope that our new investment structure and new **investment managers** will improve this performance in the future.

Once again, I would like to take this opportunity to thank the Deputy Corporate Director (Finance) and his staff for their work during the year.

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

A handwritten signature in black ink, appearing to read 'T A Dix'.

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)

Pensions Committee council members

Councillor D Leech – Chairman
Councillor T A Dix – Vice Chairman
Councillor J W Taylor
Councillor P E B Atkins
Councillor R Roberts OBE
Councillor C A Dean
Councillor G Roberts
Councillor M Clarke
Councillor S G Norman
Councillor R N Smith
Councillor K Hoare
Councillor I Parry
Councillor B Faulkner
Councillor C R Jebb

Five members also represented the Pensions Consultative Forum, which is made up of representatives from all of the organisations that are members of the Fund.

Pensions Panel council members

Councillor T A Dix – Chairman
Councillor J W Taylor – Vice Chairman
Councillor P E B Atkins
Councillor R Roberts OBE
Councillor C A Dean

Advisers

D G Thomas BSc, FIA
Hymans Robertson LLP
Ives Associates

Actuary

Hymans Robertson LLP

Fund managers

Baring Asset Management
Deutsche Asset Management
Jupiter Asset Management
Invesco Asset Management
Putnam Investments
Lombard Odier Darier Hentsch Asset Management
Goldman Sachs Asset Management
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 this constitution, we have set up a **Pensions Committee** to set and review the overall Pension Fund strategy and aims. As well as reviewing things such as the Fund's Statement of Investment Principles and its communications strategy, the committee also monitors the performance of the **Pensions Panel** that decides on the best way to deliver the strategy and achieve the aims set by the **Pensions Committee**.

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

- recommend to the **Pensions Committee** 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;
- decide the appropriate investment manager structure and appoint the **investment managers** (a review of investment management arrangements during the year resulted in a number of changes to our **investment managers**, which we will report on in 2005/2006);

- monitor how the **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 **Pensions 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.

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 **Pensions Panel** when they meet every three months.

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.

Fund management and administration

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

By 31 March 2005, all members had received at least one benefit statement. Members will now receive a benefit statement each year.

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 | 6 Activism |
| 2 Clear aims | 7 Appropriate benchmarks |
| 3 Focus on asset allocation | 8 Performance measurement |
| 4 Expert advice | 9 Transparency |
| 5 Explicit mandates | 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 **Pensions Committee** 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 **Pensions 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 **Pensions 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 **Pensions 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 **Pensions Panel** were prepared to take.

The **Pensions Committee** have agreed an 'asset allocation standard', recommended by the Pensions Panel, 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 **Pensions 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 **Pensions Panel** monitor the managers' policies and, at the moment, are happy that these policies meet their responsibilities to the beneficiaries.

Corporate governance

The **Pensions 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 **Pensions Panel** also say that other **investment managers** should follow the **Combined Code** as far as possible. The **investment managers** present a report to the **Pensions 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. The main restrictions are listed below.

- a No more than 10% (15%) 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. This does not apply if the investment is made by a properly appointed investment manager or is in units or other shares of the investments within the trusts of any one unit trust scheme.
- 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% (35%) of the Fund may be invested in unit trusts that are managed by a single manager.
- f No more than 25% (35%) of the Fund may be invested in open-ended investment companies that are managed by a single manager.

- g No more than 25% (35%) of the Fund may be invested in unit trusts and open-ended investment companies, where both the unit trusts and the open-ended investment companies are managed by a single manager.
- h No more than 25% (35%) of the Fund may be invested in a single Managed Fund Insurance Contract (MFIC).
- i No more than 25% of the Fund may be invested using stock lending arrangements.

Further amendments to these regulations allow all pension funds to increase some of these limits to the percentages shown in brackets above but must meet the various requirements of the regulations, including revising and publishing the Fund's statement of investment principles.

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 **Pensions Panel** has set.

Investment background

Worldwide

The 12-month period to 31 March 2005 saw a continued expansion, but at a slower pace, as concern over higher oil prices, continued terrorist threats and concerns over the strength of the Chinese economy held back economic growth. Global markets started the year well, but mixed economic news from the US and concerns following the Madrid bombings led to more defensive markets. The price of oil and the ever-present threat of terrorism were important factors in the direction of markets throughout the period. Confidence among investors strengthened towards the end of 2004 and markets ended the year with a flourish before losing some of the gains made in the first three months when further mixed economic data caused uncertainty to emerge again.

During the 12 months to 31 March 2005, most major stock markets recorded positive gains, with the FTSE World Index gaining 8.3%.

USA

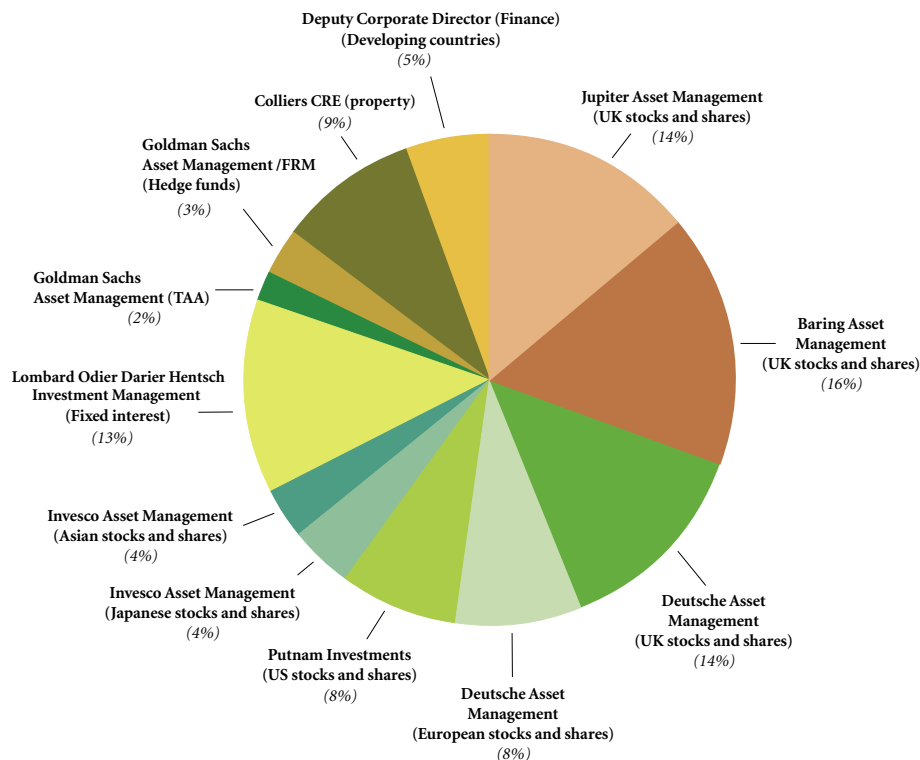
Although company profits were good, this was not really reflected in stock-market performance as investors remained concerned about the economy, which started to show signs of weakness in the middle of the year. Despite this, the Federal Open Market Committee decided to increase rates in June, the first upward movement for more than four years. This upward path continued throughout the rest of the year. The clear result in the Presidential election provided some certainty for investors and added to stock-market strength. During 2005, companies started to return cash to investors by paying higher dividends and became involved in mergers and takeovers.

Reflecting this continued weakness in the dollar, US stocks and shares rose only 3.8% in sterling terms, though in local currency terms the market rose by 6.7%.

How much of the investments each manager looks after

Market value on 31 March 2005 (in millions)

(not including the effect on the investments of the Tactical Asset Allocation (TAA) Manager's actions)



Investment report

UK

Continued strength in house prices and positive economic data resulted in a series of rate increases by the Monetary Policy Committee (MPC), with the base rate peaking at 4.75% in August. These moves by the MPC achieved their aim as the housing market began to slow down, without dampening the UK economy which grew at its fastest pace in four years from April to June. Despite continually high oil prices, inflation remained comfortably within the MPC's target range. Cash flow remained healthy and the stock market received a boost from the increasing amount of share buybacks and higher dividends.

The FTSE All-Share Index rose 15.6% and the FTSE 100 rose 15.4% as the stable sectors dominated market performance. The huge rise in demand for commodity stocks from China led to the best-performing sectors over the year being steel and other metals (+30.9%) and resources (+27%). The other top sector over the year was the oil sector, which rose a spectacular 28.5% due to higher oil prices.

Not surprisingly, bonds didn't perform as well as equities. However, the pause in interest-rate rises following the August rate increase provided support as these increases seemed to finally take their toll on the housing market and retail sales. UK bonds returned 6.7% and a more positive outlook for inflation resulted in index-linked gilts rising by 5.4%. Cash returned 4.7%.

Europe

Strong company results continued throughout the year and gradually attracted investors back into the European market, despite rising oil prices and higher raw material prices. Weakness in the US dollar and concerns over the strength of the US economy also added to the uncertainty as conditions became more difficult for European companies working in the US. Economic data in the Euro-zone was still weaker than other areas of the world, but economic data releases became more encouraging in 2005.

Despite the mixed backdrop, Europe (not including the UK) rose by 18.6%. The main reason for this was the strong volume of merger and acquisition activity, with high-profile deals such as the takeover of Sanofi-Synthelabo by Aventis, which helped the pharmaceutical sector become one of the best performers of the year. A slump in global demand for semiconductors meant that technology stocks were generally disappointing over the year, leading to the worst sector performance within the European market.

The 10 UK largest shareholdings

Name of company	Market values on 31 March 2005
BP plc	£48,570,607
Vodafone Group	£48,346,146
HBSC Holdings plc	£45,556,461
Shell Transport & Trading Company plc	£35,582,288
Royal Bank of Scotland Group plc	£33,147,149
Glaxo Smith Kline	£23,923,623
Astrazeneca Group	£17,837,177
HBOS plc	£17,138,929
Prudential	£15,720,615
Barclays Bank plc	£15,199,936

Investment background (continued)

Far East

The major economic theme over the year was the rise in inflation across the region, caused by cost increases in raw materials such as iron ore, coking and steel. However, as exports slowed, domestic demand proved to be very resilient. China finally began to raise interest rates in October, having only used administrative measures since the start of the year. Politics also played a major role due to the record number of elections across Asia. The major surprise came in India, where the BJP were overturned in favour of the congress-led coalition.

Equity market performance was highly rotational, with last year's best-performing market, Thailand, ending as this year's worst. It was the smallest markets, such as Indonesia and the Philippines, which were the best performers, rising almost 30% (Indonesia) and 35% (the Philippines). The Pacific Basin region (not including Japan) returned 13.5%.

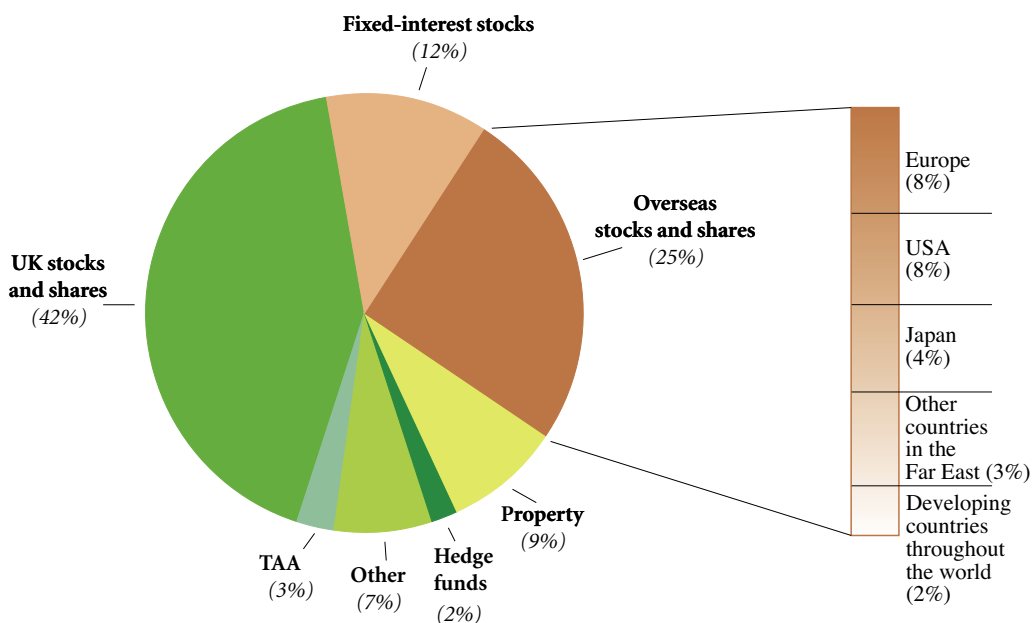
Japan

Better than expected growth in Japan, supported by domestic demand, helped to calm investors' fears over whether the Japanese recovery will continue. However, in the period from July to September global economic data and record-high oil prices sparked fears that the domestic recovery may falter. Poor Japanese economic data followed, highlighting weakness in telecoms and software spending along with weakness in consumer demand, all of which combined to reduce economic growth figures. The weakening dollar also added to the deterioration as concerns grew of a slowdown in export trade.

The Japanese stocks and shares market reflected the poor economic data and effect of the weaker dollar by falling 4.1% in sterling terms.

How the Fund is invested

Market value on 31 March 2005 (in millions)
(not including the effect on the investments of the
Tactical Asset Allocation (TAA) Manager's actions)



Investment report

Largest property holdings

		Market values on 31 March 2005 £000
Oasis Park, Eynsham	Offices	12,150
Centurion Park, Southampton	Industrial	11,250
McArthur Glen Designer Outlet Centre	Shopping Centre	10,078
12/26 Lexington Street, London	Offices	9,700
Lincoln House, 125/7 Deansgate, Manchester	Offices	9,200

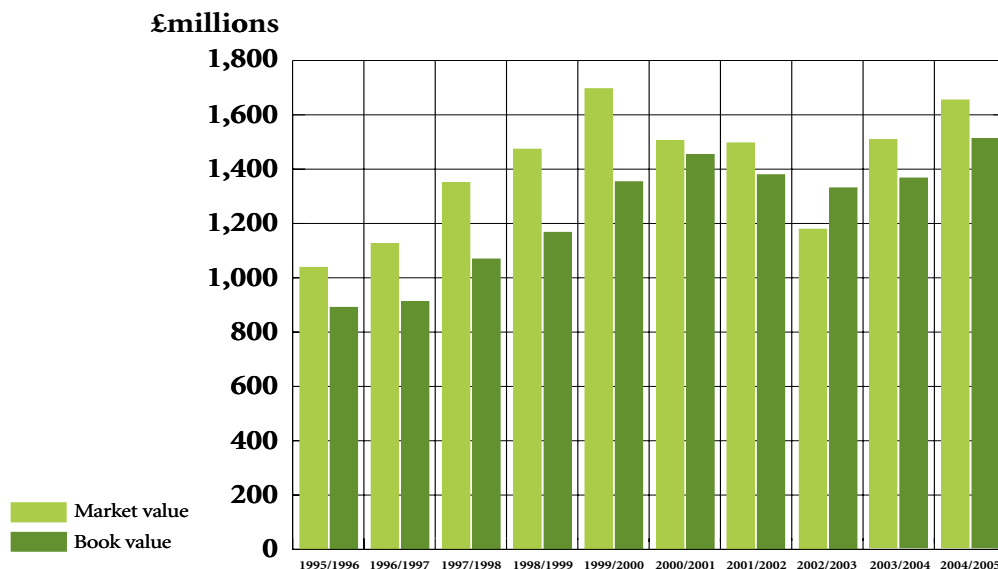
Fund values

The 2004/2005 financial year saw the second year in a row of positive performance. Share markets across the world produced returns ranging from -4.1% in Japan to 18.6% in Europe. The UK returned 15.6%. Bond markets produced solid returns, with UK bonds returning 6.7% and overseas bonds returning 2.3%, reflecting the strength of sterling over the period. **Property** was the best-performing asset over the year, with a return of 18%. 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 returns, our Fund increased in value by £155 million (10.3%), reaching a total of £1,661 million on 31 March 2005. In the long term, the Fund's market value increased by 60% between 1995 and 2005. This is shown in the chart below.

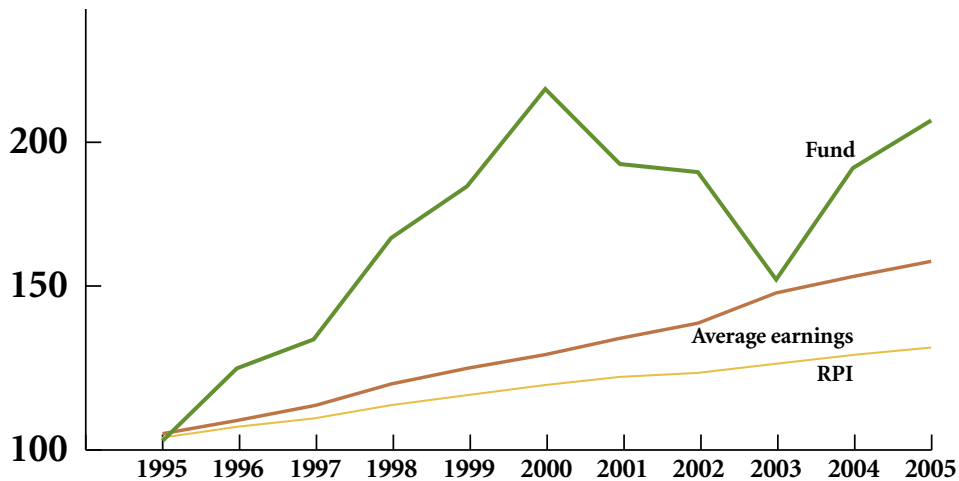
The graph on page 16 shows the returns on the Fund, compared with the Retail Price and Salaries and Wages indexes for the same period.

Growth in the value of the Fund 1995 to 2005



Investment report

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 2005, the Fund's investments earned a return of 9.8% including **property**. The average returns for the year for all local authority returns were 11.7% as measured by the WM Company. Although this below-average performance is disappointing, we hope that the move towards the new strategic asset allocation benchmark and the recent appointment of new **investment managers**, including global and index tracking managers, will improve the Fund's performance. Over 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.

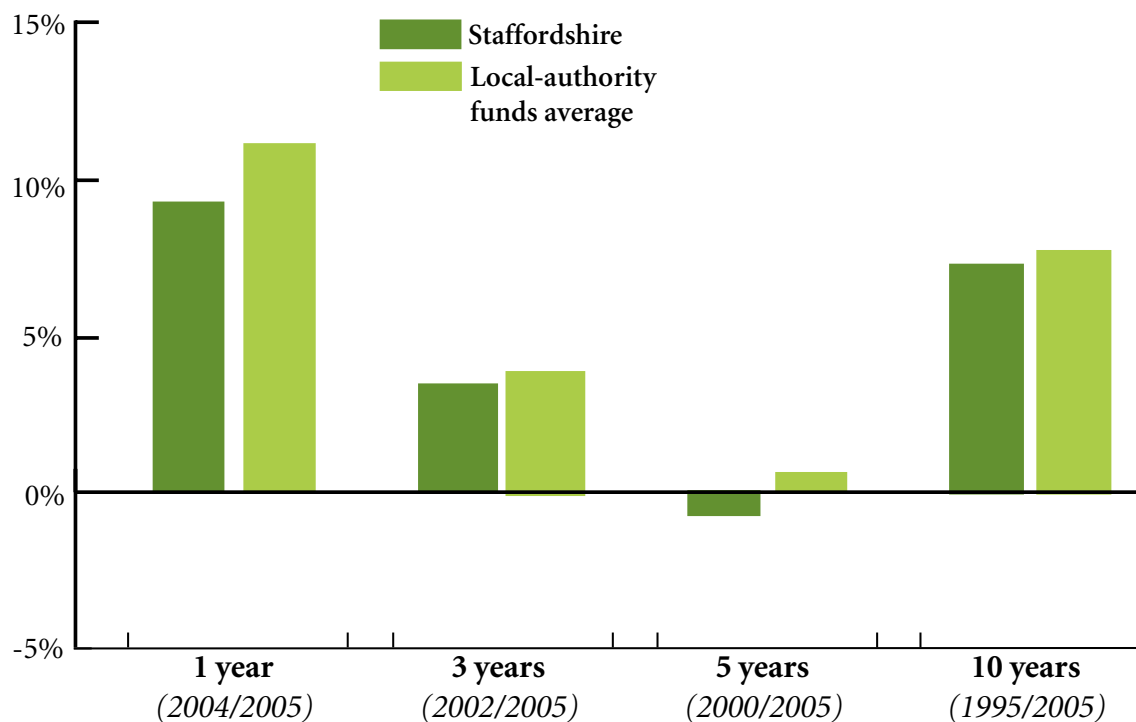
Investment performance (continued)

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.

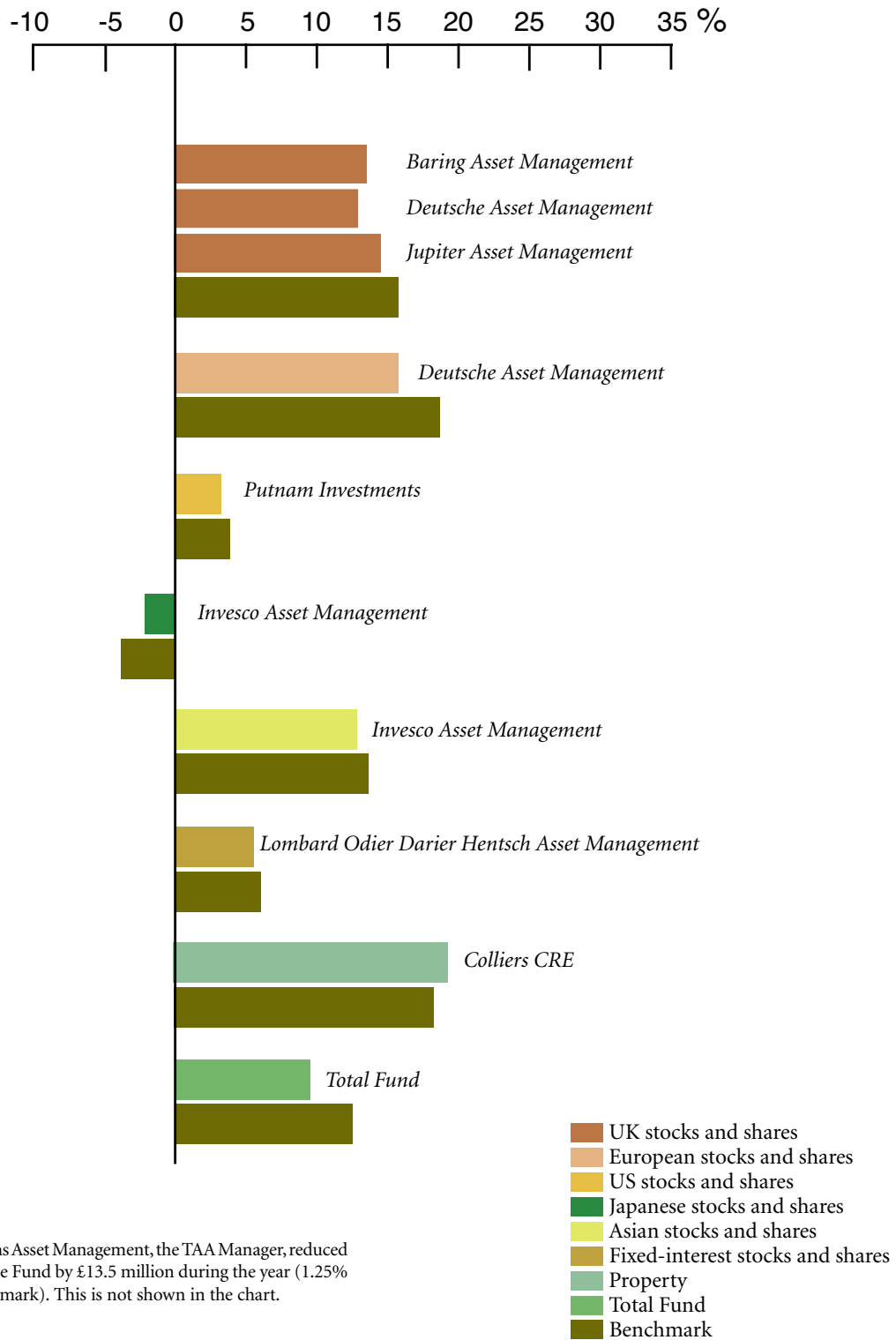
Pension Fund

Local-authority portfolio performance statistics (including property)



Investment report

Manager performance – one-year return against benchmark (2004/2005)

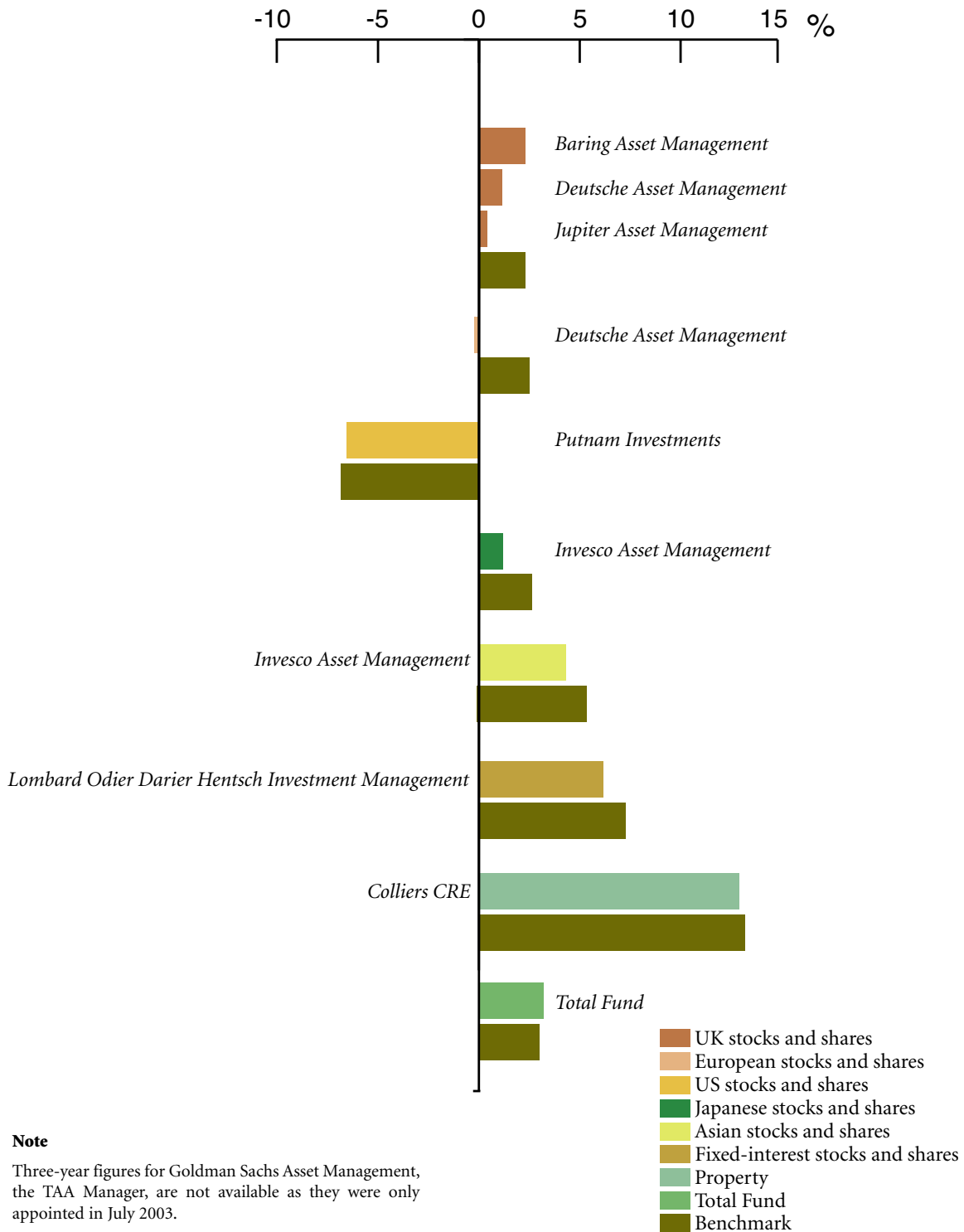


Note

Goldman Sachs Asset Management, the TAA Manager, reduced the value of the Fund by £13.5 million during the year (1.25% of their benchmark). This is not shown in the chart.

Investment report

Manager performance – three-year return against benchmark (2002 to 2005)



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.

The latest **actuarial valuation** was carried out on 31 March 2004. The results of this valuation will be applied from 1 April 2005. At the valuation date, the value of the assets was 85% of the value of total liabilities. This will mean employer contributions will increase from 1 April 2005.

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 $\frac{1}{80} \times \text{final pay} \times \text{period of membership}$; and
- a retirement grant of $\frac{3}{80} \times \text{final pay} \times \text{period of membership}$.

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.

Fund 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 Pension Fund', or visit our website at www.staffordshire.gov.uk/pensions

Fund membership

New organisations who are taking part in the Fund

In April 2004, Essington Parish Council and Kings Bromley Parish Council joined the Fund. Three more contractors who are on contract to local authorities also joined. P Vale Contract Services and Inspace Partnerships joined in April 2004, and C Walbrook Group Ltd joined in March 2005. During the year, a new admission agreement between the Fund and JDM Accord admitted ex-Stafford District Council, East Staffordshire Borough Council and Cannock District Council employees.

New regulations

During the year, the Government issued the Local Government Pension Scheme (Amendment) Regulations 2004. These regulations were due to come into effect on 1 April 2005 and would have raised the pension age to 65 for all members except those close to retirement. The regulations were later withdrawn after proposals by fund members for industrial action.

Members			
	31 March 2004	31 March 2005	Change
Pensionable employees	36,771	35,700	-2.9%
Pensioners	17,229	17,793	+3.3%
Deferred pensioners (people who no longer pay into the scheme)	12,368	13,459	+8.8%

Organisations which are members of the Fund at 31 March 2005

Scheduled bodies

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
West Midlands 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
Essington Parish Council
Audley Parish Council
Biddulph Parish Council
Horninglow and Eton 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


Admitted bodies

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

Contractors

Flow Foods Ltd
Frank Haslam Milan and Co Ltd
Superclean Services Ltd
J+S Seddon (Building) Ltd
JDM Accord Ltd
Connaught Property Services Ltd
P Vale Contract Services
Inspace Partnerships
C Walbrook Group Ltd

Financial statements



Staffordshire County Pension Fund

Financial statements
1 April 2004
to 31 March 2005

Financial statements 2004/2005

Responsibilities for the statement of accounts

Responsibilities as the administering authority for the Staffordshire County 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 expenditure for the year ended 31 March 2005.

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 2005.



Brian Roberts CPFA - Deputy Corporate Director (Finance)
23 June 2005

Financial statements 2004/2005

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. (as amended)

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

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 Assets Statement at their valuation on 31 March 2005. We valued investments made through UK or overseas stock exchanges at mid-market prices at the close of business on 31 March 2005. We have valued foreign investments using the rates of exchange that applied on 31 March 2005. During the year we spent £1,012.2 million on investments and received £974.0 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 2005.

Financial statements

2004/2005

Pension Fund

Revenue account for the year ended 31 March 2005

Contributions and benefits

2003/2004			2004/2005	
£thousands	£thousands		£thousands	£thousands
		Contributions we received		
26,987		From employees	28,871	
<u>44,449</u>	71,436	From employers (Notes 2 and 3)	<u>51,506</u>	80,377
		Transfers in		
	16,943	Transfer values we received (Note 4)		14,633
	0	Other income		0
	88,379			95,010
		Benefits we paid		
(39,073)		Retirement pensions	(41,350)	
(7,228)		Retirement grants	(10,048)	
(797)		Death grants	(973)	
(2,997)		Family benefits	(3,220)	
<u>(15,181)</u>	(65,276)	Payments as a result of the Pensions Increase Act	<u>(16,395)</u>	(71,986)
		Leavers		
(10,075)		Transfers to other schemes (Note 4)	(9,847)	
<u>(634)</u>	(10,709)	Refunds to leavers	<u>(414)</u>	(10,261)
	(1,576)	Administrative expenses (Note 5)		(1,656)
	(77,561)			(83,903)
		Net additions (withdrawals) from dealings with members		11,107
	10,818			

Financial statements

2004/2005

Pension Fund

Net assets statement at 31 March 2005

Investments (Note 8)

2003/2004		2004/2005		2004/2005	
Market value		Book cost		Market value	
£thousands		£thousands		£thousands	
34,385	Government bonds	UK	14,675	14,602	
13,131		Overseas	13,399	13,712	
<u>47,516</u>			<u>28,074</u>		28,314
112,768	Corporate bonds	UK	133,406	133,945	
0		Overseas	408	399	
<u>112,768</u>			<u>133,814</u>		134,344
568,214	Stocks and shares	UK	595,170	652,741	
348,405		Overseas	341,890	373,605	
<u>916,619</u>			<u>937,060</u>		1,026,346
2,018	Venture capital	UK	2,607	2,607	
12,093		Overseas	14,716	14,716	
<u>14,111</u>			<u>17,323</u>		17,323
29,246	Index-linked	UK	34,381	35,720	
801		Overseas	779	783	
<u>30,047</u>			<u>35,160</u>		36,503
43,997	Unit trusts	UK	35,813	42,736	
75,126		Overseas	85,587	77,883	
<u>119,123</u>			<u>121,400</u>		120,619
30,375	Other investments	Hedge funds	30,000		32,067
114,615	Properties	Freehold	103,509	119,840	
14,100		Leasehold	11,674	15,800	
8,859		Limited partnership	7,924	10,078	
<u>137,574</u>			<u>123,107</u>		145,718
18,000	Cash deposits	Temporary investments	37,500		37,500
169	Other	Loans to local authorities	180		169
1,426,302	Investments		1,463,618		1,578,903

Current assets and liabilities

71,324	Current assets	Cash deposits <small>(Note 9)</small>	74,756	
22,634		Debtors <small>(Note 10)</small>	11,188	
<u>93,958</u>				85,944
(13,352)	Current liabilities	Creditors <small>(Note 10)</small>	(2,940)	
(915)		Other	(880)	
<u>(14,267)</u>				(3,820)
79,691	Current assets and liabilities			82,124
1,505,993	Net assets of the scheme on 31 March 2005			1,661,027

Financial statements 2004/2005

Pension Fund

Actuary's statement

Name of the scheme: Staffordshire County 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 a 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 increase for more responsibility and experience)		4.30%	1.50%
Price inflation and pension increases		2.80%	0.00%

The funding aim of the scheme is 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 investment aim of the scheme is to achieve a return on fund assets which is enough, over the long term, to continue to meet the aims of the Fund.

The valuation showed that the value of assets of the Fund at 31 March 2001 (£1,514 million) 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 latest **actuarial valuation** of the Fund was carried out on 31 March 2004 and the results will be applied from 1 April 2005. The value of assets at this date (£1,505 million) was 85% of the value of total liabilities.

Donald Fleming - Fellow of the Faculty of Actuaries Partner in the Firm of Hymans Robertson
221 West George Street, Glasgow G2 2ND

June 2005

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 (as amended from time to time).

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. The latest **actuarial valuation** was carried out on 31 March 2004. The results of this valuation will be applied from 1 April 2005. At the valuation date, the value of the assets was 85% of the value of total liabilities. This will mean employer contributions will increase from 1 April 2005.

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 2005 under our stock-lending programme.

		Market value (£thousands)
Stocks and shares	– UK	84,625
	– Overseas	58,898
Fixed interest	– UK	35,768
	– Overseas	0
		<u>179,291</u>

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 2005. We have included their **book value** for information only. The market valuations have been included in the following way.

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

- We assess sterling values of overseas **securities** on the average overseas currency exchange rate at the end of the financial year.
- We value **property** using an independent valuation at the end of the financial year every three years. The 2005 figure is an independent desk-top valuation by Cushman & Wakefield, Healey & Baker Chartered Surveyors.
- 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.

- 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.
- 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 Fund was owed £0.3 million for shares sold and owed £1.8 million for shares bought.
- We include contributions owed to us and benefits we owe at the end of our financial year.
- 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 HM Revenue and Customs. However, after the budget on 2 July 1997, the tax on UK dividends can no longer be recovered. The 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 31 March 2005 was around £706,000.

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 2005.

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

31 October 2005

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 is similar 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 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.

Pensions Committee

A committee formed under the constitution of the County Council to deal specifically with pensions administration and investment.

Pensions Panel

An independent organisation we set up to provide advice on investments and to report to the **Pensions Committee**.

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 **portfolios** 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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Benefits and contributions

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Pensions payment

Julie Dennison – Head of Human Resources Shared Service Centre

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Or, you can write to us at:

Technical and Pensions Services

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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