

2007/2008

Staffordshire County

pension fund

Annual Report and Accounts



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Chairman's report





Welcome

to our Pension Fund's annual report
for the financial year ended March 2008.

2007/08 has been a challenging year for the Fund, against a background of great economic uncertainty and the much publicised credit crunch arising out of the US housing market in 2007.

Perhaps unsurprisingly and for the first time in four years, the Fund's value decreased from £2,312m to £2,189m in a very difficult year for investors everywhere.

Once again, I would like to take this opportunity to thank the Director of 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 'John W Taylor'. The signature is stylized and cursive.

John W Taylor
Chairman (Pensions panel)

Fund management and administration



Who looks after the Fund?

Administering authority

Staffordshire County Council
County Buildings, Stafford

Administrator

Andrew Burns B.Sc(Hons), CPFA, MBA
Director of Finance

Pensions Committee council members



John O'Leary
Chairman



John W Taylor
Vice Chairman



Terry A Dix



Philip E B Atkins



Carol A Dean



Gwilyn Roberts



Mike Maryon



Veronica Downes



Christina R Jebb

As well as the nine members above, there are five members who represent 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

John W Taylor – Chairman
Terry A Dix – Vice Chairman
Philip E B Atkins
Mike Maryon
Carol A Dean

Advisers

David G Thomas BSc, FIA
Hymans Robertson LLP
Carolann Dobson Bsc, MSII

Actuary

Hymans Robertson LLP

Fund managers

Alliance Bernstein Institutional Investment
Axa Rosenberg
Colliers CRE
Goldman Sachs Asset Management Ltd -
to 19 March 2008
Insight Investment
Russell Investment Group
Standard Life Investments
State Street Global Advisors

Custodian

The Northern Trust Company

Auditors

PricewaterhouseCoopers LLP

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** makes major policy recommendations to the **Pensions Committee** and appoints independent **investment managers** to 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**;

- co-ordinate the activities of the various **investment managers** to reflect the overall aims of the Fund; and
- monitor how the **investment managers** perform against their investment targets.

The Director of Finance is responsible for managing the Fund's investments from day to day, in line with the decisions of the **Pensions Panel**.



Fund management and administration

Investment administration

The Director of 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 Director of Law and Governance is responsible for any legal work relating to **property** investments.

Pensions administration

The Director of 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.

Governance

Effective stewardship and governance of the Fund's affairs is one of our main objectives. The following documents set out our arrangements.

- The overall Governance Statement, including a new 'Statement of Compliance' against the Government's best-practice standards
- The Statement of Investment Principles (SIP) (this shows, in detail, how we manage the Fund's investments)
- The Funding Strategy Statement (FSS) (a summary of how we will fund our pension liabilities)

You can see all three documents at www.staffordshire.gov.uk/yourcouncil/humanresources/retirement/pensionfund/

Advice

The **Pensions Committee** and **Pensions Panel** take advice from the Director of Finance and consultants appointed by the **Pensions Panel**.

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.

A copy of the Fund communications strategy is available at www.staffordshire.gov.uk/yourcouncil/humanresources/retirement/pensionfund/

Benefits statements

All members receive a benefit statement each year.

Newsletters

We send regular newsletters to members to keep them informed of what is new in the pension scheme.

Investment report



Investment report

Investment background

Worldwide

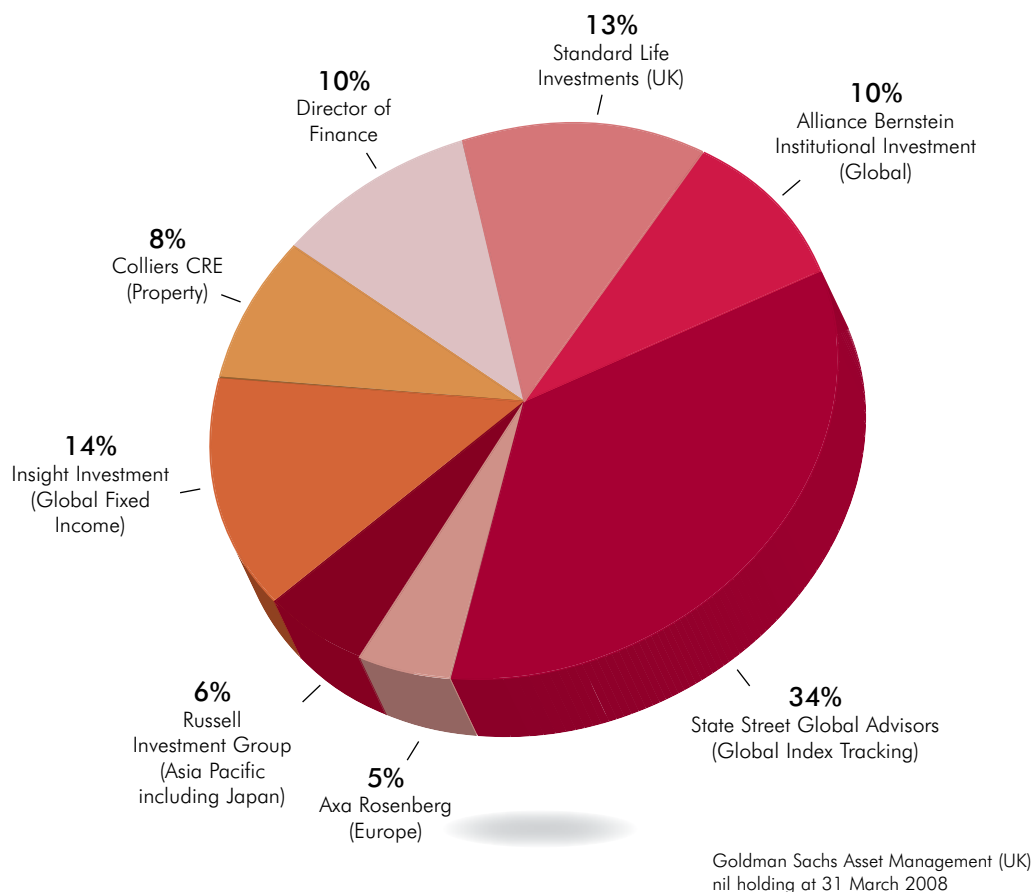
After a strong start to the financial year, markets were uncertain from summer 2007 onwards due to concerns over mortgage repayments in the US, which then led to a global shortage of cash. In particular, financial and consumer-related stocks performed badly. Central banks across the world placed cash in the market which, together with the US government's proposals to protect struggling mortgage payers, helped financial markets to recover some losses. However, concerns over the US economy continued into the start of the 2008, causing global markets to fall considerably in January. Markets remained uncertain, due to the chance of further debt recovery problems for the banks.

US

US equities started well in 2007, although this only lasted until the summer, as concerns increased over consequences from the mortgage crisis. As the uncertainty remained and fears of a recession increased, the US Federal Reserve twice cut interest rates in January 2008, by 0.75% and then 0.5% to try to relieve concerns. However, low consumer confidence, resulting in falling house prices and rising food and energy costs, led to the economy weakening further and meant problems continued. In March 2008, the Federal Reserve provided financing for JPMorgan's purchase of Bear Stearns and again reduced interest rates by 0.75%.

How much of the investments each manager looks after

By market value on 31 March 2008



Investment report

Investment background (continued)

UK

During 2007, stable economic growth and the strength of the UK's corporate sector provided some support to UK stocks during this period of global uncertainty. As the year went on, UK equity prices were unpredictable due to the global credit crisis and weaker economic data and this trend continued into 2008, as negative economic data in the UK and US saw investors avoid equities.

Europe

European equities experienced the same instability as the rest of the world's major markets, performing well at the beginning of the period, before performing poorly towards the end. The European market did stabilise towards the end of 2007, until concerns about inflation, interest rates and problems in the US mortgage market saw European investors avoid uncertain investments. From January 2008, European markets generally fell.

The 10 UK largest shareholdings

Name of company	Market values on 31 March 2008
BP plc	£18,383,268
Vodafone Group	£17,138,673
HSBC Holdings plc	£16,391,355
Xstrata plc	£12,716,140
Royal Dutch Shell	£11,133,371
Royal Bank of Scotland Group plc	£10,661,231
GlaxoSmithKline	£10,267,019
BG Group	£8,526,020
Anglo American	£8,386,530
BHP Billiton plc	£8,105,696

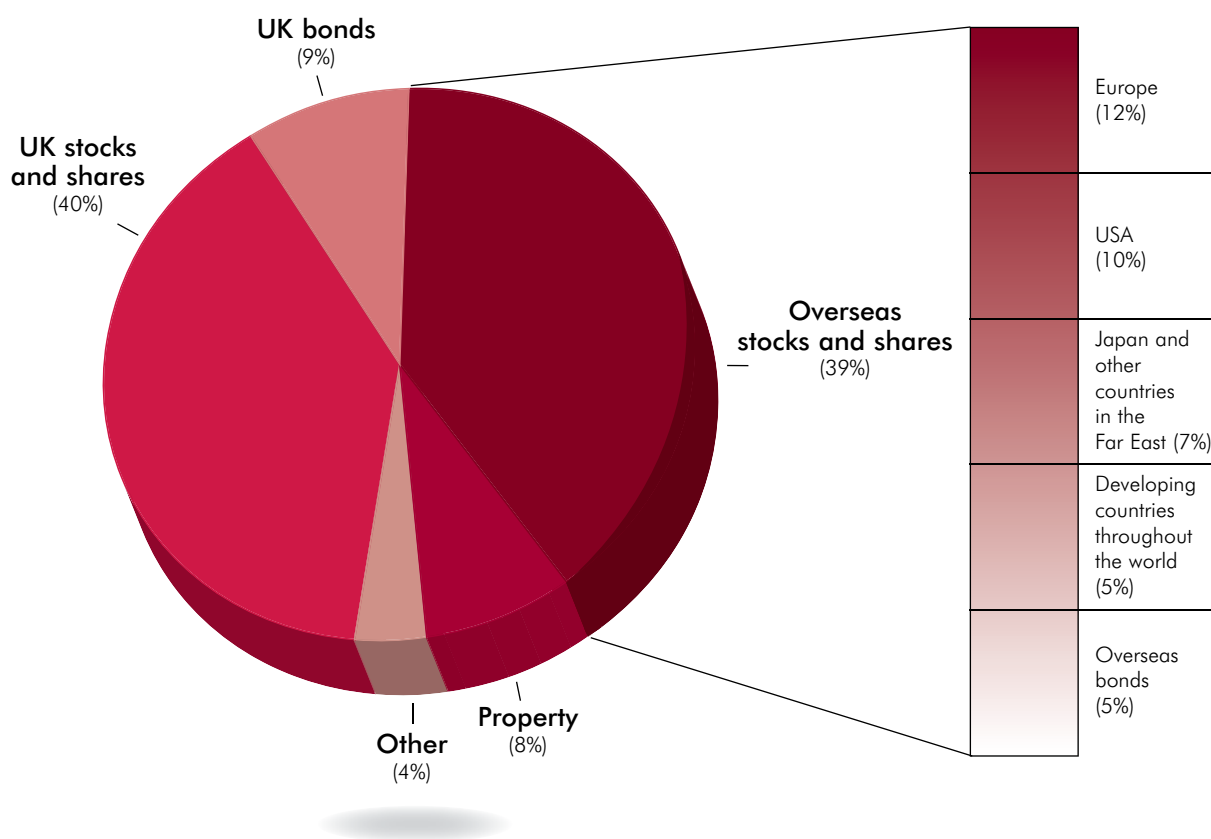
Investment background (continued)

Pacific Basin

The problems affecting the global financial system during 2007 did not affect Asian markets to the same degree, which were generally isolated from the credit crisis. China's economy grew strongly and demand for equities remained high. In January 2008 markets did suffer sharp falls, because of the prospect of the US economy slowing down. Also, the Chinese government started to reduce the availability of credit, while limiting the prices of commodities like gasoline and food. Despite an improvement in February, with Chinese and Indonesian markets in particular driven higher by strong commodity and energy prices, the market fell sharply in March due to concerns over the worsening global economic conditions.

Japan

During the period, Japanese markets were affected by a combination of domestic and global events mentioned previously. Earnings and domestic consumption suffered poor growth, the housing market continued to decline and exports to the US fell while surveys of business sentiment were negative. Toward the end of 2007, investor confidence was also affected by a series of high-profile government mistakes, resulting in the resignation of Prime Minister Shinzo Abe. Into 2008, problems in global credit markets and concerns that the US was entering a recession continued to have a negative effect on Japanese equities.



Investment background (continued)

Bonds

Bond markets fell throughout the first half of 2007, due to rising interest-rate expectations and concerns over global inflation. This dramatically reversed in the third quarter of 2007 as investors bought government bonds as a safe investment. Global government bond markets continued to perform well at the start of 2008, even following poor US economic data and weakening equity markets.

Property

Returns from the UK commercial property market fell because of low investor confidence, a fall in the number of purchases and sales, and concerns over the UK economy. Many property funds and UK property investors reduced their property holdings. The reduction in prices of UK commercial property was larger than expected and made worse by limited credit availability. Banks were reluctant to finance purchases, and those that did offer credit lent at much higher prices than investors could afford. As a result, property transactions fell sharply.



Investment report

Largest direct property holdings		Market values on 31 March 2008 £thousands
Hayes Road, Hayes	Retail	£13,700
12/26 Lexington Street, London	Offices	£12,125
20/22 Stukeley Street, London	Offices	£11,900
Oasis Park, Eynsham	Offices	£11,375
Centurion Park, Southampton	Industrial	£11,350

Fund values

2007/08 was a mixed year for investment performance. UK equities returned -7.7%, although UK bond markets were positive at 7.6%. Overseas, the US returned -4.8% and Japan -15.4%, although Asia (not including Japan) was positive at 11.2%.

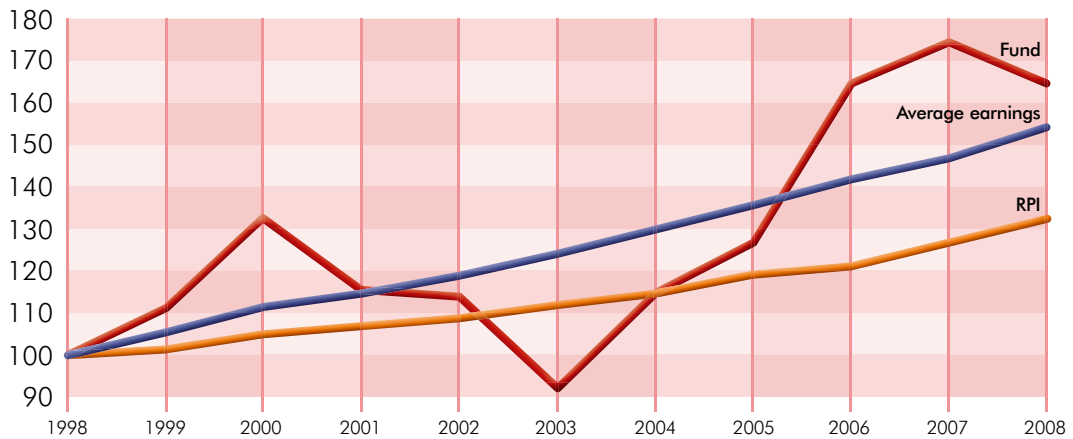
Over the last financial year the Fund value decreased by £123m to £2,189m on 31 March 2008. However, over the long-term, the Fund's market value has increased by over 40% between 1998 and 2008.



Investment report

Investment performance

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:

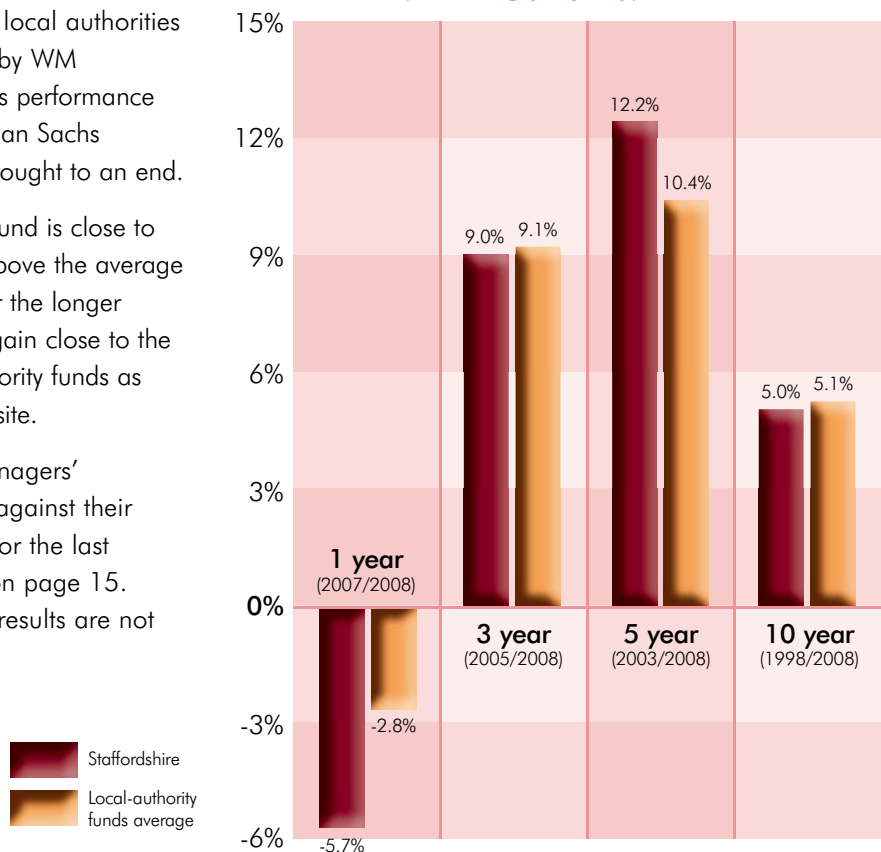
- average earnings
- the Fund

For the year ended 31 March 2008, the Fund's investments earned a return of -5.7% including property. The average return for the year for all local authorities was -2.8% as measured by WM Performance Services. This performance has led to the two Goldman Sachs investment briefs being brought to an end.

In the medium-term the Fund is close to the average return and above the average over five years, while over the longer term the Fund return is again close to the average for all local-authority funds as shown on the chart opposite.

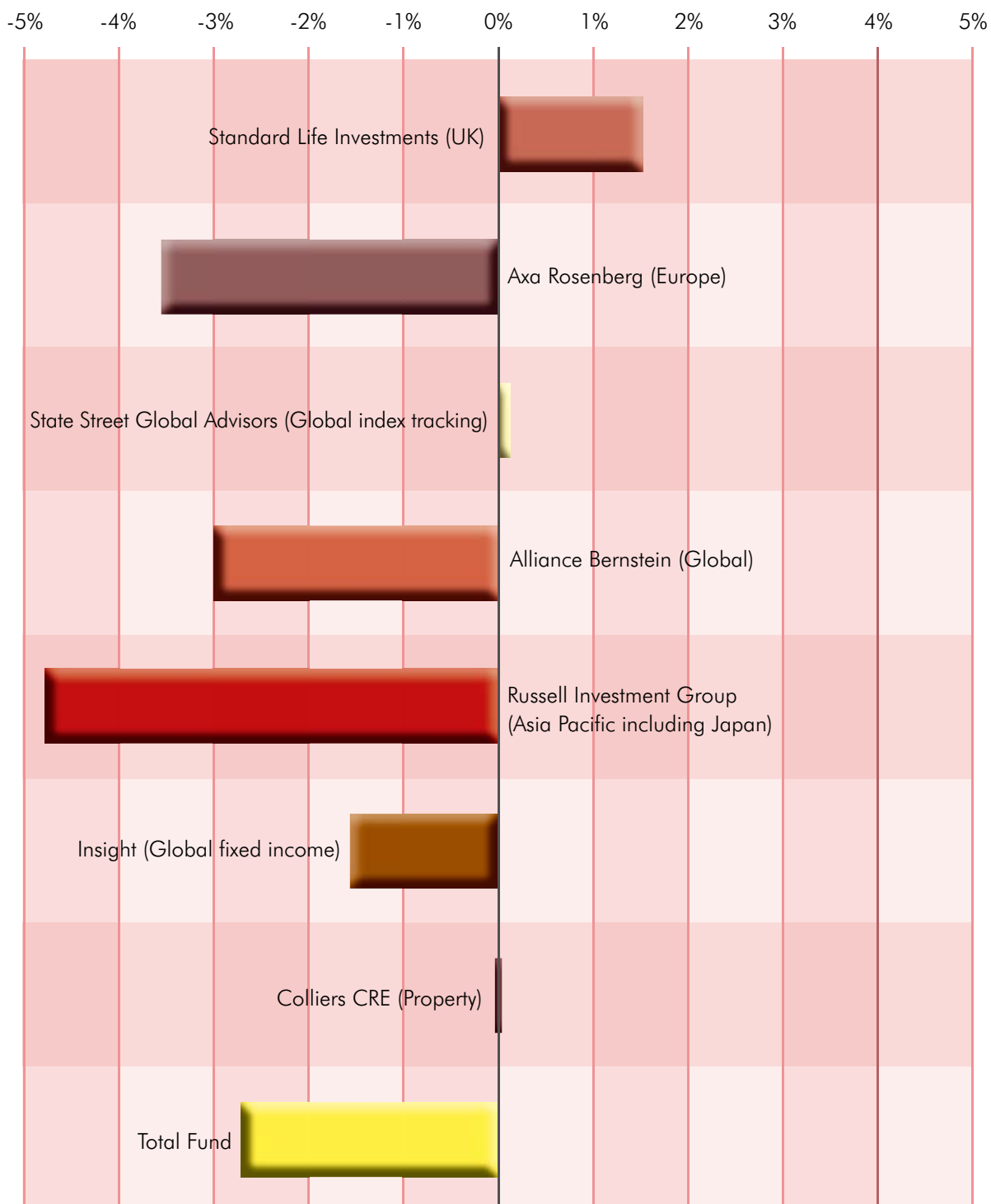
Individual investment managers' performance, measured against their appropriate benchmark for the last financial year, is shown on page 15. Three-year performance results are not yet available.

Pension Fund investment returns WM local-authority portfolio performance statistics (including property)



Investment report

Manager performance one-year return against benchmark (2007/2008)



Fund membership



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 law. 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 2004 and the results of this valuation applied from 1 April 2005. The contribution rates the actuaries recommended for the period from 1 April 2005 to 31 March 2008 were as follows.

Common rate +16.2%

Individual adjustments ranging from - 8.6% to +3.7%

The contribution rates the actuaries recommended have, in some cases, been increased gradually over the three years which began on 1 April 2005. At the valuation date, the value of the assets was 85% of the value of total liabilities.

The **actuarial valuation** carried out as at 31 March 2007 will be applied from 1 April 2008.



Fund membership

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 be reduced. If the employee is aged 50 or over and the employer confirms that the person is leaving because of redundancy, 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 $\frac{1}{80} \times$ final pay \times period of membership; and
- a retirement grant of $\frac{3}{80} \times$ final pay \times 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 an 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 husband's, wife's, or civil partner's short-term pension and 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 been a member of the LGPS for three months or more 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 been a member of the LGPS for less than three months 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.

- 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 regulations

This year saw further changes to the existing scheme rules and the introduction of the 2008 'Benefit' Regulations for the New-Look Local Government Scheme from 1 April 2008.

Three sets of regulations were issued. The first two corrected drafting mistakes and included further amendments to make sure the scheme keeps to the 2006 tax changes. The third set was more important in that it dealt with the way the pension scheme is run. The administering authority must now:

- provide a Governance Compliance Statement; and
- provide an annual fund report.

The regulations also allowed funds to publish a pension administration strategy and included the power to make extra administration charges for those employers whose levels of performance fall below agreed standards.

In February 2008 the final two sets of regulations were issued, dealing with administration and transitional provisions.

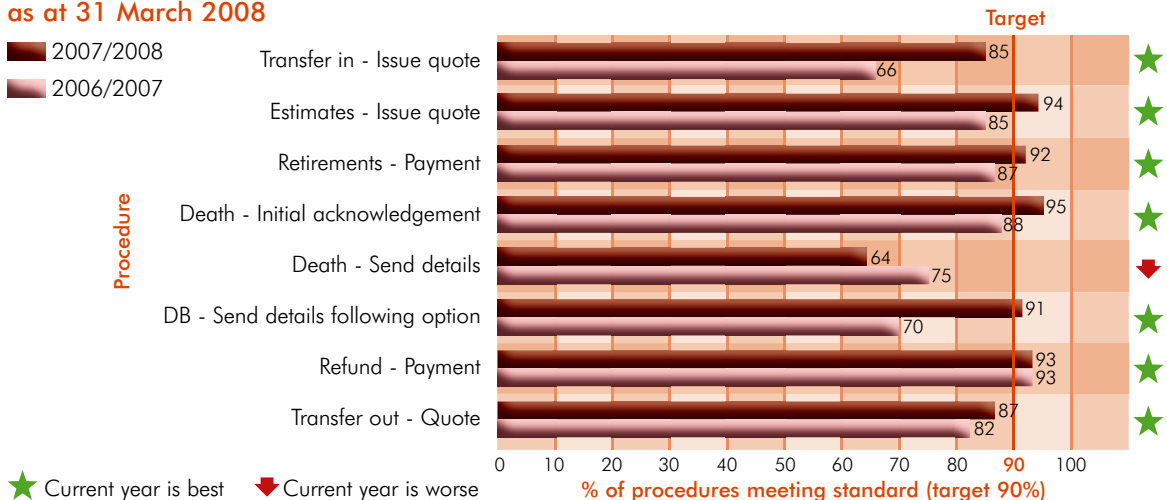
Some important features of the New-Look 2008 Scheme are as follows.

- Employers' contributions are banded according to pay, contributions ranging from 5.5% to 7.5%.
- Improved accrual rate of 1/60 pension (no automatic lump sum).
- Life cover increased to three times the employee's pay.
- Nominated partner's pension.
- Better targeted ill-health retirement benefits.
- The facility to exchange part of the pension for a tax-free lump sum.

Fund administration

Pension Services monitors its performance throughout the year, in the main areas of administration. We publish our service standards on our website, www.staffordshire.gov.uk/pensions, and we aim to achieve the stated targets in at least 90% of cases. While almost all of the areas are showing an improvement each year, we are constantly looking at ways to improve our performance and we expect an improvement in 2008/2009.

National benchmarking: Service standards result for 2006/2008 as at 31 March 2008



Fund membership

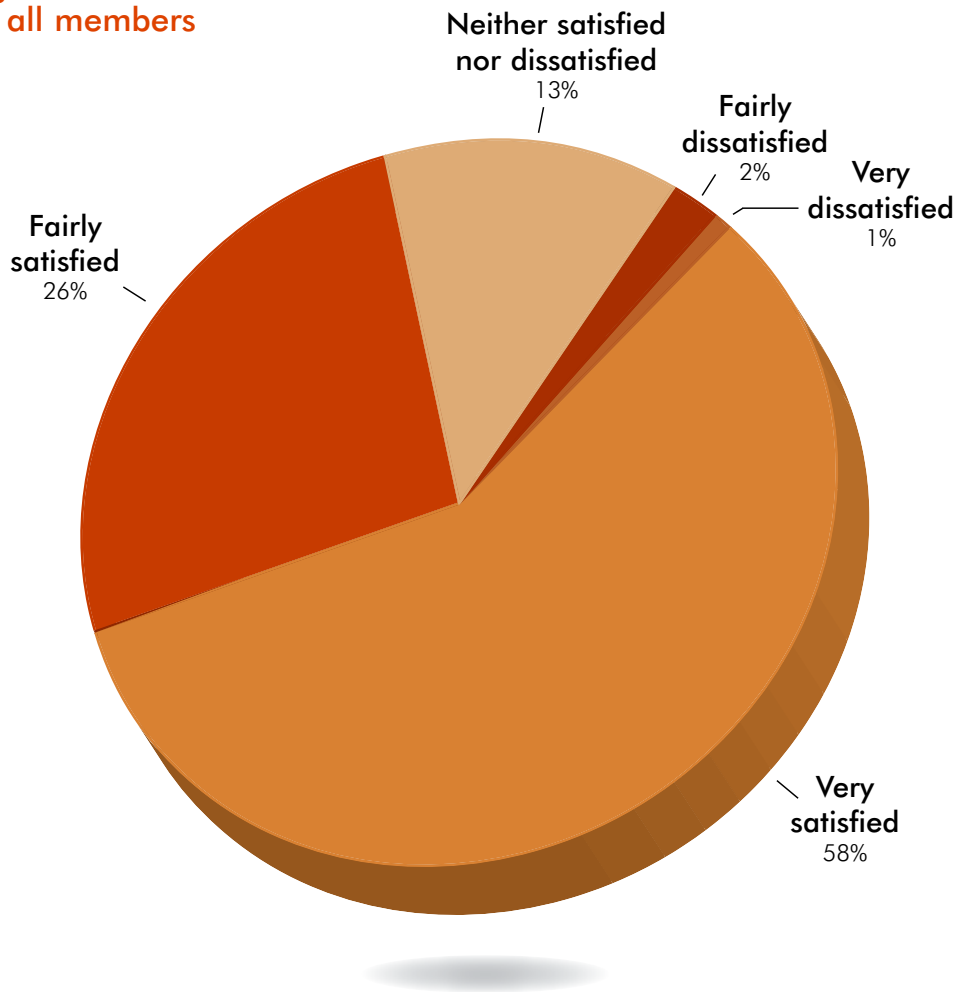
The Fund is also a member of the CIPFA Benchmarking Club and measures its performance and costs against other Local Government Pension Scheme Funds.

CIPFA Benchmarking Fund Costs for 2007/2008	
	Cost for each member
Staffordshire County Council	£20.84
National average	£21.40

Customer satisfaction

We welcome ideas from Scheme members about how the service can be improved. Customer feedback questionnaires were issued this year and the charts below show a positive feedback. We take comments from members who were not satisfied with the service seriously and where possible we make changes to our processes.

Average satisfaction levels across all members



Fund membership

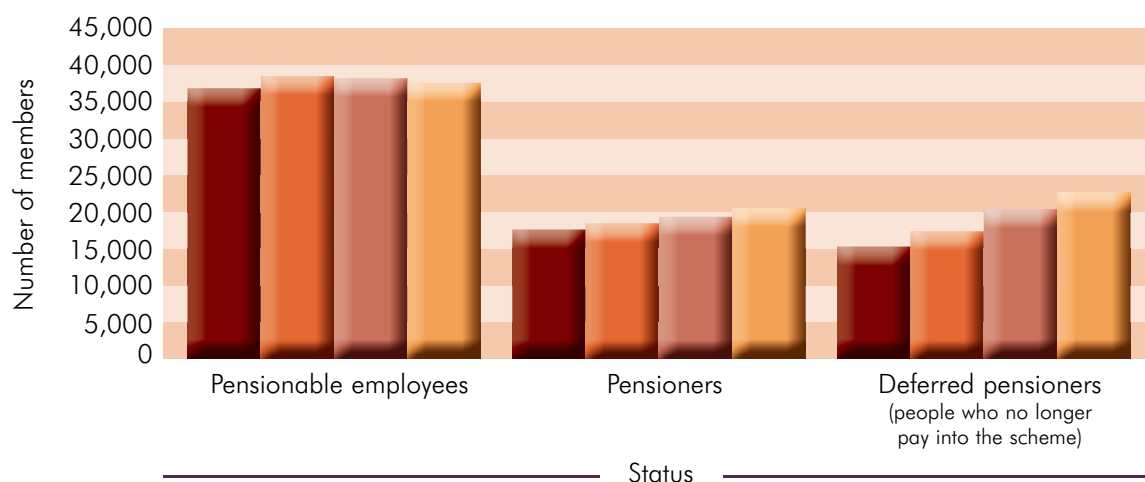
Scheme membership

The total membership of the Fund has continued to increase this year. The number of deferred benefits shows the largest increase. This increase is mainly due to the regulation changes, which reduced the qualifying period for benefits from two years to three months.

Scheme membership figures				
	31 March 2005	31 March 2006	31 March 2007	31 March 2008
Pensionable employees	37,325	38,405	38,243	37,751
Pensioners	17,800	18,311	19,093	20,265
Deferred pensioners (people who no longer pay into the Scheme)	15,162	17,282	20,431	22,710
Total membership	70,287	73,998	77,767	80,726

Scheme membership figures

■ 31 March 2005 ■ 31 March 2006 ■ 31 March 2007 ■ 31 March 2008



New organisations

During 2007/2008, the following employers joined the Fund.

Leek Town Council, from 17 April 2007

Staffordshire Parish Councils Association, from 18 July 2007

Kier Group (Contractor) from 4 February 2008

Fund membership

Fund administration

The Staffordshire County Pension Fund is for people who provide local government services in Staffordshire. Under the constitution, the County Council has appointed a Pensions Committee and a Pensions Panel. The Pensions Committee sets the overall strategy and objectives for the Fund while the Pensions Panel decides how to best deliver this strategy in terms of allocating assets, and setting benchmarks and performance targets for the various investment managers they appoint. The Director of Finance and his staff co-ordinate the administration and accounting functions that relate to the Fund.

Organisations which were members of the Fund at 31 March 2008

Staffordshire County Council (as employing authority)	Staffordshire Parish Councils Association
Staffordshire Moorlands District Council	Rolleston-on-Dove Parish Council
Newcastle-under-Lyme-Borough Council	Stoke-on-Trent Education Action Zones
Stoke-on-Trent City Council	Shenstone Parish Council
Stafford Borough Council	Hednesford Town Council
East Staffordshire Borough Council	Eccleshall Parish Council
South Staffordshire District Council	Kings Bromley Parish Council
Cannock Chase District Council	Kidsgrove Town Council
Lichfield District Council	Eccleshall Parish Council
Tamworth Borough Council	Madeley Parish Council
Staffordshire Probation Service	Cheddleton Parish Council
Staffordshire and Shropshire Valuation Tribunal	Rugeley Town Council
Cheadle Town Council	Stoke-on-Trent and Staffs Fire Authority
Burntwood Town Council	Staffordshire Police Authority
Great Wyrley Parish Council	Community Council of Staffordshire
Shoal Hill Common Joint Committee	Keele University
Bretby Crematorium Joint Committee	Connexions Staffordshire
Uttoxeter Town Council	South Staffordshire Housing Association
Lichfield City Council	Homezone Housing Ltd (Lichfield)
Penkridge Parish Council	Moorlands Housing
Wombourne Parish Council	Aspire Housing Ltd (Newcastle)
Stone Town Council	Stafford and Rural Homes Ltd
Brereton and Ravenhill Parish Council	Trent and Dove Housing Association
Codsall Parish Council	Flow Foods Ltd
Brewood and Coven Parish Council	Superclean Services Ltd
Kinver Parish Council	J + S Seddon (Building) Ltd
Staffordshire University	Accord Operations
Sixth Form College, Stoke-on-Trent	Connaught Property Services Ltd
Leek College of Further Education and School of Art	Inspace Partnerships
Newcastle-under-Lyme College	Biddulph Town Council
Stoke-on-Trent College	Horninglow and Eton Parish Council
Stafford College	Colwich Parish Council
Burton-on-Trent College	Draycot-in-the-Clay Parish Council
Rodbaston College	Alrewas and Fradley with Streethay Parish Council
Cannock Chase Technical College	Morrisons Facilities Services Ltd
Tamworth and Lichfield Colleges	Mencap
Leek Town Council	Kier Group
Perton Parish Council	

Financial statements



Staffordshire County Pension Fund

Financial statements
1 April 2007
to 31 March 2008

Financial statements

Pension fund account

Staffordshire County Pension Fund account for the year ended 31 March 2008

Contributions and benefits	Notes	2006/2007 £ thousands	2007/2008 £ thousands
Contributions receivable	4	107,741	120,397
Transfers in	5	15,502	9,914
		123,243	130,311
Benefits payable	6	85,850	104,087
Leavers	7	11,206	8,888
Administrative expenses	8	1,828	2,091
		98,884	115,066
Net additions from dealings with Fund members		24,359	15,245
Returns on investments			
Investment income	9	52,001	57,130
Change in market value of investments	10	90,858	(190,317)
Investment management expenses	11	(10,304)	(5,474)
Net returns on investments		132,555	(138,661)
Net increase / (decrease) in the Fund during the year		156,914	(123,416)
Opening net assets of the Fund		2,155,284	2,312,198
Closing net assets of the Fund		2,312,198	2,188,782

Financial statements

Net assets statement

Net assets statement at 31 March 2008

Investments	Notes	2006/2007 £ thousands	2007/2008 £ thousands
Fixed-interest securities		276,920	287,114
Equities		910,072	586,506
Index-linked securities		1,435	0
Pooled investment vehicles		796,479	989,594
Property		185,533	184,711
Cash deposits		62,399	45,200
Other investment balances		80,814	94,292
		2,313,652	2,187,417
Current assets	12	8,380	10,088
Current liabilities	13	(9,834)	(8,723)
Net assets of the Fund at 31 March		2,312,198	2,188,782

The financial statements provide a summary of the transactions of the Fund and deal with the net assets available to us. They do not take account of our duties to pay pensions and benefits which become due after the end of the Fund year. The actuarial position on the Scheme, which does take account of these duties, is set out in the Actuary's Report.

Financial statements

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

Actuary's statement

Name of the scheme: Staffordshire County Pension Fund ("The Fund")

Date of the valuation: 31 March 2007

Security of prospective rights

In my opinion, the resources of the Fund are likely, in the normal course of events to meet the liabilities of the Fund, as required by the regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:-

- Contributions by the members in line with the Local Government Pension Scheme Regulations 1997 until 31 March 2008 and then in line with the Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007.
- Contributions by the employers in accordance with the Rates and Adjustments Certificate dated 24 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 31 March 2008.

Summary of the methods and assumptions we have used

The valuation report dated 31 March 2008 describes the valuation method and assumptions.

My opinion on the security of the prospective rights 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 market value of assets.

Since I have taken assets into account at their market value it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities, this ensures compatibility between the two.

The main financial assumptions are as follows (at 31 March 2007):

	Increase including inflation (percentage each year)	Increase over inflation (percentage each year)
Discount Rate	6.10%	2.90%
Pay Increases	4.70%	1.50%
Price Inflation / Pension Increases	3.20%	-

Future liability payments are converted into a capital value today by assuming a return on Fund assets of 6.1% a year.

The 2007 valuation revealed that the Fund's assets as a whole at 31 March 2007 were sufficient to meet 89% of the liabilities accrued up to that date. The market value of the assets was £2,332 million. Employers' contributions rates have been set in accordance with the Fund's Funding Strategy Statement. The next valuation of the Fund will be carried out as at 31 March 2010.

Financial experience since the 31 March 2007 valuation has been worse than assumed. Assets have underperformed against the assumptions set, whilst liabilities have risen mainly due to inflation.

John Wright

For and on behalf of Hymans Robertson LLP

20 Waterloo Street
Glasgow G2 6DB

11 June 2008

Financial statements

Notes to the accounts

The financial statements 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 in 2007) and follow the 2007 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

Changes in the SORP in 2007 have been introduced early as recommended by the SORP. These mainly include a change in valuation methods and several extra pieces of information.

1 Basis of preparation

We have adopted the following principal accounting policies, which have been applied consistently, when preparing the Pension Fund financial statements.

2 Accounting policies

Investments

Stocks and shares traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid price. Other quoted investments are valued on the basis of the **bid-market price** value quoted on the relevant stock market.

Comparative figures for 2006/07 are valued at **mid-market price** in line with the SORP in force at the time. As allowed by the SORP, these figures have not been restated to **bid-market price** as the change is not material to an understanding of the accounts.

Pooled investment vehicles are valued at the bid price provided by the relevant fund managers, which reflect the market value of the underlying investments.

The value of fixed-interest investments in the Scheme's investment portfolio does not include interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.

Property investments are stated at open-market value based on an annual independent valuation.

Private-equity and hedge fund investments are valued by the investment manager based on the latest investor reports and financial statements provided by the fund managers of the underlying funds up to 31 March 2008. Quoted investments are valued at the bid price quoted on the relevant stock exchange.

Acquisition costs are included in the purchase cost of investments and note 10 gives transaction costs for the year.

Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at the rates given on the rates and adjustments certificate. Extra contributions from the employer are accounted for in line with the agreement under which they are paid, or when they are received if there is no agreement.

Financial statements

Notes to the accounts (continued)

Transfer values

Transfer values represent the capital sums either receivable in relation to members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Plan.

Foreign currency

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are given in sterling at the rates of exchange that apply at the year end.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Investment management expenses

Administration and investment management expenses are accounted for on an accruals basis including performance-related expenses. Expenses are recognised net of any recoverable VAT.

Benefits payable

Under the rules of the Scheme, members receive a lump-sum retirement grant on top of their annual pension. Lump-sum retirement grants are accounted for from the date of retirement.

Other benefits are accounted for on the date the member leaves the Scheme or dies.

Financial statements

Notes to the accounts (continued)

3 Pension Fund investments 2007/08

Surplus funds are invested through seven specialist external managers. Toward the end of the year, the Goldman Sachs portfolios (for UK and Tactical Asset Allocation) were brought to an end and funds placed into the State Street Global Index Tracking portfolio. The percentage of the market value of investment assets held by each of the external managers at the year end is shown below.

External fund manager	31 March 2007		31 March 2008	
	£ thousands	%	£ thousands	%
Standard Life Investments (UK)	308,053	13%	285,745	13%
Goldman Sachs Asset Management (UK)	298,362	13%	0	0%
Alliance Bernstein Institutional Investment (Global)	231,544	10%	213,626	10%
State Street Global Advisors (Global Index Tracking)	457,269	20%	733,824	34%
Axa Rosenberg (Europe)	106,695	5%	106,548	5%
Russell Investment Group (Asia Pacific including Japan)	176,865	8%	130,730	6%
Insight Investment (Global Fixed Income)	284,028	12%	311,402	14%
Goldman Sachs (Tactical Asset Allocation)	100,583	4%	0	0%
Colliers CRE (Property)	185,826	8%	184,946	8%
Director of Finance (centrally held)	154,228	7%	210,410	10%
	2,303,453	100%	2,177,231	100%

The Fund lends stock for a financial consideration. The table below summarises the value of the stock lent out by the Fund on 31 March 2008.

	£000
Equities - UK	35,773
Equities - overseas	8,632
Fixed interest - UK	94,217
Fixed interest - overseas	0
	138,622

Securities released to a third party under the stock lending agreement are included in the net assets statement to reflect the Fund's continuing economic interest in those securities.

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

Income received from stock lending activities was £0.335 million for the year ending 31 March 2008 (in 2007 this was £0.211 million). This is included within the investment income figure shown on the pension fund account.

Financial statements

Notes to the accounts (continued)

4 Contributions receivable

Employers	2006/2007 £ thousands	2007/2008 £ thousands
Normal	71,769	81,413
Actuarial strain	3,508	5,732
Scheme members		
Normal	32,464	33,252
Total	107,741	120,397

Employer normal contributions include deficit funding payments as agreed by the actuary. The 2004 valuation common contribution rate was 16.2% in total, of which 4.7% related to past deficit recovery.

These contributions can be analysed by type of member body as follows.

Staffordshire County Council	46,344	53,181
Scheduled bodies	56,090	61,458
Admitted bodies	5,307	5,758
Total	107,741	120,397

5 Transfers in

	2006/2007 £ thousands	2007/2008 £ thousands
Individual transfers in from other schemes	15,502	9,914

6 Benefits payable

	2006/2007 £ thousands	2007/2008 £ thousands
Pensions	68,313	74,978
Commutations and lump-sum retirement benefits	16,521	27,580
Lump-sum death benefits	1,016	1,529
Total	85,850	104,087

These benefits can be analysed by type of member body as follows.

Staffordshire County Council	38,498	46,974
Scheduled bodies	45,402	54,652
Admitted bodies	1,950	2,461
Total	85,850	104,087

Financial statements

Notes to the accounts (continued)

7 Payments to and on account of leavers

	2006/2007 £ thousands	2007/2008 £ thousands
Individual transfers to other schemes	11,142	7,933
Payments for members joining state scheme	5	5
Refunds to members leaving service	59	950
Total	11,206	8,888

8 Administrative expenses

	2006/2007 £ thousands	2007/2008 £ thousands
Administration and processing	1,733	1,878
Actuarial services	31	147
Audit fee	10	10
Other expenses	42	44
Printing and publications	12	12
Total	1,828	2,091

9 Investment income

	2006/2007 £ thousands	2007/2008 £ thousands
Fixed-interest securities	11,420	15,183
Dividends from equities	27,947	30,074
Income from index-linked securities	568	2
Income from pooled investment vehicles	507	1,842
Rents from property	8,495	8,684
Interest on cash deposits	5,349	2,705
Securities lending	211	335
Other	4	10
	54,501	58,835
Irrecoverable withholding tax	(2,500)	(1,705)
Total investment income	52,001	57,130

Financial statements

Notes to the accounts (continued)

10 Investments

	Value at 1 April 2007 £ thousands	Purchases at cost £ thousands	Sales proceeds £ thousands	Change in market value £ thousands	Value at 31 March 2008 £ thousands
Fixed-interest securities	276,920	910,307	(893,130)	(6,983)	287,114
Equities	910,072	676,328	(907,521)	(92,373)	586,506
Index-linked securities	1,435	30	(1,461)	(4)	0
Pooled investment vehicles	796,479	343,285	(86,618)	(63,552)	989,594
Properties	185,533	32,279	0	(33,101)	184,711
Other	70,615	12,122	(4,327)	5,696	84,106
	2,241,054	1,974,351	(1,893,057)	(190,317)	2,132,031
Cash deposits (central)	44,000				30,000
Managers and central cash	18,399				15,200
	2,303,453				2,177,231
Outstanding dividend entitlements and recoverable withholding tax	10,199				10,186
Total	2,313,652				2,187,417

A further analysis of the market value of investments is given below.

	31 March 2007 £ thousands	%	31 March 2008 £ thousands	%
Fixed-interest securities				
UK public-sector quoted	126,652	5%	149,450	7%
UK quoted	50,168	2%	52,370	2%
Overseas public-sector quoted	33,325	1%	4,395	0%
Overseas quoted	66,775	3%	80,899	4%
	276,920	11%	287,114	13%
Equities				
UK quoted	613,315	27%	300,274	14%
Overseas quoted	296,757	13%	286,232	13%
	910,072	40%	586,506	27%
Index linked				
UK public sector	1,334	1%	0	0%
Other	101	0%	0	0%
	1,435	1%	0	0%
Pooled investment vehicles				
UK	218,583	9%	510,781	24%
Overseas	477,350	21%	478,813	22%
Futures	100,546	4%	0	0%
	796,479	34%	989,594	46%
Property				
UK	185,533	8%	184,711	8%
	185,533	8%	184,711	8%
Cash				
External deposits	44,000	2%	30,000	1%
Sterling	17,127	1%	13,844	1%
Overseas cash	1,272	0%	1,356	0%
	62,399	3%	45,200	2%
Other				
Loans	167	0%	170	0%
Other investments - hedge funds	48,554	2%	51,237	2%
Other investments - private equity	21,894	1%	32,699	2%
	70,615	3%	84,106	4%
Total	2,303,453	100%	2,177,231	100%

Transaction costs are included in the cost of purchases and sales proceeds and included fees, commissions, stamp duty and other fees. Transaction costs we were charged during 2007/08 were £4m (in 2006/07 £2m). As well as the transaction costs shown, we were also charged indirectly through the bid-offer spread on investments and within pooled investment vehicles.

Financial statements

Notes to the accounts (continued)

11 Investment management expenses

A breakdown of the costs we had to pay in connection with the investment of the Fund is set out below.

	2006/2007 £ thousands	2007/2008 £ thousands
Administration, management and custody	9,982	5,145
Performance measurement services	59	16
Other	263	313
Total	10,304	5,474

12 Current assets

	2006/2007 £ thousands	2007/2008 £ thousands
Contributions due	6,029	7,312
Cash balances	2,341	2,765
HM Revenue & Customs	10	11
Total	8,380	10,088

13 Current liabilities

	2006/2007 £ thousands	2007/2008 £ thousands
Investment management expenses	(5,080)	(1,159)
Payments received in advance	(786)	(1,846)
Other	(3,968)	(5,718)
Total	(9,834)	(8,723)

Financial statements

Notes to the accounts (continued)

14 Additional voluntary contributions

As well as joining the Fund, scheme members can subscribe to an additional voluntary contributions (AVC) scheme run by three AVC providers. Contributions are paid directly from scheme members to the providers and are not included in the Pension Fund Accounts. The table below shows the activity for each provider in the year.

	Clerical Medical £ thousands	Equitable Life Assurance £ thousands	Standard Life £ thousands
Opening value of the fund	954	1,601	2,611
Income	211	2	206
Expenditure	(126)	(265)	(434)
Change in market value	(31)	39	19
Closing value of the fund	1,008	1,377	2,402

15 Related party disclosure

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 2008 was around £2.379 million.

Statement by the Appointed Auditor to Staffordshire County Council Responsibilities of Staffordshire County Council

The County Council is required:

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

Responsibilities of the Director of Finance

The Director of 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 2008.

In preparing this statement of accounts, 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 Director of Finance has also;

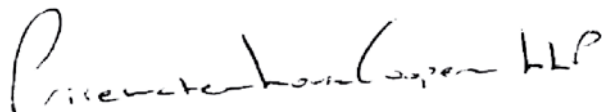
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibilities of the Auditor

PricewaterhouseCoopers LLP 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 County Council'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 25 to 36 of the annual report of the pension fund, which have been prepared by its Director of 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.



PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B32DT

Date 25 November 2008

Glossary

Accruals-based accounting

A common accounting method, where sales and expenses are recorded at the time they arise, no matter when the money is actually received.

Accrual rate

The rate a pension builds up at, expressed as a fraction of salary.

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.

Benchmarks

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

Bid-market price

Price a buyer pays for a stock.

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.

Fixed-interest investments

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

Forward foreign exchange contract

An agreement made in advance to purchase one foreign currency in exchange for another.

Governance

How a company makes sure that it is giving its shareholders an interest and influence in how the company is managed.

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.

Mid-market price

The price mid-way between the bid and offer price. The offer price is the price a seller receives for a stock.

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**.

Property

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

Refunds of contributions

The amount employees will receive if they stop their pensionable employment with less than three months' contributing service.

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.

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.

Transfer values

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

Withholding tax

A tax on dividend income that is charged at the source. Some of this may be recoverable and some may not.

WM (Universe)

A group of a number of pension funds against which the Staffordshire fund's performance is compared.

85-year rule

A test which decides whether or not retirement benefits should be reduced if paid before age 65.

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

Andrew Noonan – Human Resources Shared Service Centre

Phone: 01785 276347

E-mail: shared.service@staffordshire.gov.uk

Or, you can write to us at:

Technical and Pensions Services

Staffordshire County Council

Tipping Street

Stafford

ST16 2DH.

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 audio tape, please contact us at the address above.



Staffordshire
County Council