

PENSION FUND ANNUAL REPORT AND ACCOUNTS

2007–2008



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I am pleased to present the Suffolk County Council Pension Fund's Annual Report and Accounts for 2007-2008.

Governance Arrangements

The Suffolk County Council Pension Fund is run by the County Council, as the statutory administering authority, on behalf of around 50 local authority and other employers in Suffolk with members in the Local Government Pension Scheme. The Pension Fund Committee has overall responsibility for the fund under the County Council's constitutional arrangements. It discharges these responsibilities with the assistance of the Head of Strategic Finance and external professional advisors.



*Cllr Stefan
Oliver*

The Government issued guidance during the year regarding the governance arrangements that administering authorities for local authority pension funds should put in place to discharge their responsibilities. We have reviewed our own arrangements against the guidance and made a number of changes following a consultation exercise with employers and other interested parties. I am confident that the Pension Fund Committee has effective management and reporting arrangements in place to discharge its responsibilities for the pension fund going forward.

Investment Returns

The Suffolk Pension Fund produced a negative investment return of -2.6% in 2007-2008 and the fund's value stood at £1,305 million at March 2008. This reflects the impact of sharp falls in most major equity markets over the past year. The longer term investment performance of the fund is positive, just under 5% per year over the past 10 years, ahead of both inflation and the growth of earnings over this period.

Investment Strategy

In late 2006, the Pension Fund Committee undertook a review of the fund's investment strategy, and agreed a number of changes in the fund's asset allocation. These involved the creation of three new equity mandates and JP Morgan, Newton Investment Management and BlackRock were appointed for these mandates during 2007-2008. In addition the Committee agreed to establish an allocation to currency management, and we appointed two specialist currency managers, Record Currency Management and Millennium Global Investments, during the year.

Actuarial Valuation

The statutory triennial actuarial valuation of the Pension Fund was undertaken during the year. The Pension Fund's funding position improved to being 89% funded at March 2007. The Pension Fund Committee consulted with employers during the year on the Funding Strategy for Pension Fund. The Committee was conscious of the need to balance the affordability of employer contributions with the need to take a prudent long-term approach to funding the pension fund's liabilities. The Committee confirmed its long-term strategy to return the pension fund to a fully funded position within 15 years and the individual employer contributions to the fund for the three years starting April 2008 have been set on that basis.

Since the completion of the statutory valuation of the fund at March 2007, there has been a deterioration in the funding level of the pension fund as a result of the disappointing investment returns in 2007-2008. The Committee continues to keep the funding position under regular review. However it is satisfied that the Funding Strategy continues to be a prudent approach to funding the liabilities of the fund.

New Look Local Government Pension Scheme

Major changes to the structure of the Local Government Pension Scheme have come into effect from April 2008. During 2007-2008, a considerable amount of work was done to prepare our systems and procedures for the operation of the new scheme. There were delays in the issue of a number of regulations governing the operation of the new scheme by the Department of Communities and Local Government, which in some cases were not finalised until late in the year. However the County Council's pensions staff have worked closely with employers to ensure that, as far as possible, scheme members and pensioners have not been affected by these teething problems.

I welcome comments and views from interested parties on this annual report and on the stewardship of the Pension Fund by the Pension Fund Committee.

Cllr Stefan Oliver

Chairman of Pension Fund Committee

November 2008

Explanation of Financial Statements

The County Council is responsible for the administration of the local government pension scheme in Suffolk. We manage two pension funds of which the No. 1 Fund is the main fund, covering most employees and pensioners in the local government pension scheme in Suffolk. This report sets out the pension funds' income and expenditure, and assets and liabilities for the financial year ended 31 March 2008.



Geoff Dobson

The report also provides information about the management structure of the funds, their membership and administration and an analysis of investment performance. The appendices show an analysis of the investments, the largest shareholdings and the participating employers in the main No. 1 fund.

Investment Performance of the No.1 Pension Fund

The Suffolk No. 1 Pension Fund produced a negative investment return of -2.6% in 2007-2008. This was a disappointing result in absolute terms, although the fund outperformed compared with its benchmark (based on the index of the markets that the fund is invested in) which produced a negative return of -3.6% in the year.

Despite the negative return in 2007-2008, over the past three years, the No. 1 Fund produced an investment return of 10.0% per year, a strong performance in absolute terms and better than the fund's benchmark of 9.5% per year.

Over the past 10 years, the investment return has been quite modest in absolute terms, 4.8% per year, which reflects the significant falls in equity markets in the first three years of the decade after the end of the dotcom bubble. However the long term investment returns of the fund are better than both retail price inflation (2.8% per year) and growth of earnings (4.1% per year) over the past 10 years. The long term investment return of the Suffolk Pension Fund is broadly in line with the average local authority fund, which returned 5.1% per year over the past 10 years.

Changes to Investment Strategy

In the autumn of 2006 the Pension Fund Committee agreed a number of changes to its investment strategy following a review undertaken by our investment advisors, Hymans Robertson. The rationale for the changes was to give the fund's investment managers the opportunity to seek investment returns from a broader range of stock markets across the world. The pension fund will in future have around 40% of its equity holdings in the UK stock market and 60% in overseas equities. The changes to the investment strategy for the fund have involved appointments to three new equity mandates, JP Morgan and Newton Investment Management for overseas equities and BlackRock for UK equities. The Pension Fund employed specialist transition managers, Lehman Brothers, to manage the transfer of assets from the outgoing managers, Societe Generale Asset Management and Capital International, to the new managers. The new managers started their investment mandates at the end of July 2007.

In addition, the Committee agreed to make an allocation of assets to currency management, in order to further diversify the fund's investments and to gain access to a potential area of high investment returns. Two mandates for active currency management were awarded and the new managers, Record Currency Management and Millennium Global Investments, started their mandates towards the end of 2007-2008.

The performance of the fund's investment managers is assessed against the benchmark for their specific asset class over rolling three year periods. As a result of the changes to the investment management arrangements of the fund, only two of the fund's active managers have a long-term track record to compare with their benchmark index. Both Aberdeen Asset Management and Schroders have outperformed compared with their benchmark over the past three years.

Income and expenditure

There was a small increase in the pension fund's value during 2007-2008 from £1,301 million to £1,305 million. The increase is made up of net additional income from employer and employee contributions of £40 million offset by negative investment returns of -£36 million. The Fund's net income from employer and employee contribution was similar to the previous year. The negative investment returns of -£36 million represent a substantial decrease compared with the positive returns in the previous year (£92 million). This mainly reflects the sharp falls in most equity markets during 2007-2008.

Actuarial Valuation and Funding Strategy Statement

We are required to obtain an independent actuarial valuation of the fund's assets and liabilities every three years. The fund had an actuarial deficit at actuarial valuation at March 2004 of £260 million and the fund's assets represented 75% of its liabilities at that date. Since 2004, there have been three years of strong investment returns, well in excess of the actuary's assumptions about long-term returns. As a result, the position of the fund as a whole improved to a 89% funded level at March 2007 and the actuarial deficit at that date had fallen to £158 million.

The Funding Strategy sets out the approach determined by the Pension Fund Committee to funding the liabilities of the fund and setting the contributions of individual employers. The Committee has confirmed its long-term strategy to return the pension fund to a fully funded position within 15 years and the individual employer contributions to the fund for the three years starting April 2008 have been set on that basis.

The Committee monitors the actuarial position of the Pension Fund on a quarterly basis. The poor investment performance of the fund during 2007-2008 has been reflected in a deterioration of the funding level from 89% funded at March 2007 to 77% funded at March 2008. The Committee is continuing to keep the funding position of the fund under scrutiny and it is satisfied that the long-term investment and funding strategy for the fund continue to be a prudent approach to meeting the fund's liabilities.

The County Council's Statement of Accounts for 2007-2008, which includes the summary pension fund accounts, has been subject to audit and received an unqualified audit opinion. The more detailed financial statements in the Pension Fund Annual Report and Accounts have not been the subject of a separate audit.

Geoff Dobson

Head of Strategic Finance

November 2008

Management Structure of the Fund

Administering Authority	Suffolk County Council Endeavour House 8 Russell Road Ipswich Suffolk IP1 2BX
Pension Fund Committee	Councillor Stefan Oliver - Chairman Councillor John Klaschka Councillor Keith Rawlingson Councillor Richard Kemp Councillor Rae Leighton Suffolk Local Government Association (SLGA) representatives: Councillor Peter Bellfield Councillor Paul Farmer UNISON representative: Mr. Andrew Monro
Investment Managers	Aberdeen Asset Management Limited AllianceBernstein Institutional Investments BlackRock Investment Management JP Morgan Asset Management Legal & General Investment Management Millennium Global Investments Newton Investment Management Pantheon Ventures Record Currency Management Schroder Property Investment Management Wilshire Associates
Actuaries	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB
Auditors	Audit Commission Springvale Court Hadleigh Road, Sproughton Ipswich IP8 3AS
Fund Administration	Investments Head of Strategic Finance Endeavour House 8 Russell Road Ipswich Suffolk IP1 2BX Tel. (01473) 264337 Benefits Pensions Manager Human Resources Customer Service Direct Constantine House 5 Constantine Road Ipswich Suffolk IP1 2DH Tel. 08456 053000

Summaries

The following table shows a summary of the financial position at the end of the year.

<u>Financial Summary</u>	2003-04 £'000	2004-05 £'000	2005-06 £'000	2006-07 £'000	2007-08 £'000
Contributions	71,079	73,890	82,988	87,963	85,775
Other Income	8,706	10,633	11,201	7,040	7,632
	<u>79,785</u>	<u>84,523</u>	<u>94,189</u>	<u>95,003</u>	<u>93,407</u>
Benefits Payable	-37,565	-39,869	-42,521	-46,636	-49,023
Other Expenditure	-5,214	-8,598	-14,056	-5,577	-4,417
	<u>-42,779</u>	<u>-48,467</u>	<u>-56,577</u>	<u>-52,213</u>	<u>-53,440</u>
Net additions / withdrawals (-) from dealings with members	37,006	36,056	37,612	42,790	39,967
Investment Income (net of fees)	16,530	15,705	18,301	21,826	20,475
Change in Market Value of Investments	124,714	68,687	216,255	72,866	-55,877
Net Return on Investments	141,244	84,392	234,556	91,253	-35,402
Change in Fund during year	178,250	120,448	272,168	134,043	4,565
<u>Net Assets at 31 March</u> <u>(Market Value)</u>	<u>773,986</u>	<u>894,434</u>	<u>1,166,602</u>	<u>1,300,645</u>	<u>1,305,210</u>

<u>Membership Summary</u>	2003-04	2004-05	2005-06	2006-07	2007-08
Members	16,270	16,782	17,517	17,977	18,336
Employee Pensioners	6,602	6,983	7,417	7,721	8,157
Widow / Widower Pensioners	1,330	1,444	1,533	1,545	1,599
Deferred	6,242	6,403	9,189	10,748	11,861

Introduction

1. The County Council is the administering authority for the Suffolk County Council Pension No. 1 Fund. Its duties are fulfilled by delegating the necessary powers to the Pension Fund Committee, with day-to-day decision-making undertaken by the Head of Strategic Finance. All enquiries about the scheme generally or about an individual's entitlement to benefit should be sent to the Pensions Manager at the address shown at the bottom of page 5.
2. The County Council is required by the Local Government Pension Scheme Regulations to maintain a Pension Fund for some of its own employees and those of the district councils within Suffolk. In addition non-teaching staff of the further education colleges in Suffolk, civilian employees of Suffolk Police Authority and employees of the Suffolk Probation Board are entitled to become scheme members. Parish and town councils may decide by resolution to allow their employees to join the pension fund. The regulations also permit the County Council to admit to the fund certain other bodies providing public services. The County Council also administers a separate smaller No. 2 pension fund, which provides pension benefits for certain employees and pensioners of Ipswich Buses Ltd.
3. The Pension Fund does not cover teachers, firefighters or police officers; other statutory schemes provide for their pension benefit arrangements.
4. The scheme is financed through contributions from employees and employers and by earnings from the fund's investments. The surplus of contributions and investment income over benefits currently being paid is invested in compliance with the regulations.
5. The contributions from employees is prescribed by regulation. Most employees contributed at the rate of 6% of pensionable pay during 2007-2008, with a small number of former manual workers contributing at a rate of 5%. There are changes to the scheme arising from the introduction of the new look local government pension scheme at 1 April 2008, which mean that employees will contribute at a range of rates from April 2008 onwards.
6. The employers' contributions are assessed periodically by the Fund's Actuary and have to be enough to maintain the long term solvency of the Fund. The law requires these reviews (actuarial valuations) to be carried out every three years. The last statutory actuarial valuation was carried out as at 31 March 2007.
7. Most of the benefits payable under the regulations are mandatory but in certain instances discretion is given to employing bodies. Pensions payable from the Fund are defined as "official pensions" for the purposes of the Pensions (Increase) Act 1971, the effect of which is to increase the pension annually in line with movements in the Retail Price Index.
8. The local government pension scheme pays more than the minimum pension requirements of the State Second Pension (S2P) scheme (formerly the State Earnings Related Pension Scheme, SERPS) and the pension scheme is therefore classified as being 'contracted out'.

Contributions and Benefits

9. The employers' contributions are determined by the scheme's actuary as:-
 - a) A common rate, generally expressed as a percentage of employees' pensionable pay, which is required to ensure the solvency of the fund having regard to the circumstances common to all the participating employers; and
 - b) An individual adjustment to the common rate, which is related to the Fund's liabilities specific to any individual employer.
10. Employers' contributions are recommended by the Fund's Actuary for the period between actuarial valuations. The common rate of employers' contributions for 2007-2008 was determined as part of the valuation at 31 March 2004.
11. The individual adjustments to the common rate vary between employing authorities and include the cost of all pensions increase liabilities to date.
12. Details of the contributions payable to and benefits receivable from the Fund are contained within the Employees' Guide issued to all new employees who are allowed to join the scheme. The guide also gives information on what the pension entitlements are when a member leaves local government, or which rights can be transferred to other funds on a change of employment.

Membership

13. Membership of the scheme is automatic for all eligible employees (except casual employees), unless they choose to opt out. Casual employees can choose to opt in to the scheme if they want to.
14. The total number of employee and pension members of the pension fund increased by 1,664 (4%) from 37,991 to 39,953 during 2007-2008. The number of employee members was broadly unchanged at 18,336 at March 2008 (17,977 at March 2007).

New Look Pension Scheme

15. A new-look local government pension scheme came into effect in April 2008. The detailed administrative changes were the subject of regulations which were issued during 2007. The County Council's Pensions Section has worked closely with employers to ensure that they are aware of the impact of the changes on them.

Financial Development of the Scheme

16. During the year the value of the fund has risen by £5m, which represented a net addition from dealings with members of £40m, and a negative return on investments of £35m.
17. The net addition from dealings with members of £40m reflects the positive cash flow that arises from both the normal contributions from employers and employees and also additional contributions of around £20m towards the pension fund deficit by employers. The fund received net income of £4m from transfer values paid over by other funds in respect of scheme members transferring into the Suffolk fund.

18. The negative return of £35m from the fund's investments reflects the fall in the market value of investments of £56m and investment management expenses of £3m, offset by investment income (principally dividends and interest) of £24m.
19. Although investments shown in this report are at their market values as at 31 March 2008, these values will change from time to time, as market conditions alter. However, short term variations should not have a significant effect on the long term financial position of the fund. The financial health of the fund depends not so much on the current market value of the assets, as on whether the income from these assets is likely to be sufficient to meet future liabilities. This is taken into account in the actuarial valuation which determines the contributions to the fund that the scheme employers are required to make.

Voting Policy In Respect Of Pension Fund Investments

20. The pension fund investments in UK and overseas equities give us the right to vote on the resolutions at company general meetings. We have adopted a voting policy which covers our holdings in the top 350 UK companies. This represents around 90% of our UK equities by value. A copy of the detailed voting guidelines can be obtained from the Head of Strategic Finance.
21. The general principles we have followed in our voting guidelines are:-
 - We will vote in favour of proposals at annual and extraordinary general meetings which comply with good practice on corporate governance.
 - We will vote against proposals which breach the code where the company is unable to provide a satisfactory explanation of its policy.

Investment Powers

1. The principal powers to invest pension fund assets are contained within the Local Government Pension Scheme (Investment and Management of Funds) Regulations 1998 (as amended) which allow a wide range of investments.
2. The significant restrictions are that:-
 - (a) Not more than 15% may be invested in securities which are not listed on either the UK Stock Exchange or a foreign stock exchange of international repute.
 - (b) With the exception of gilts and bank deposits no more than 10% may be invested in a single holding.
 - (c) Not more than 10% may be deposited with any one bank.
 - (d) Loans from the fund, including money used by us or lent to other local authorities, but not including loans to the government, may not in total exceed 10%.
 - (e) Not more than 10% may be invested in an individual bond with the exception of the UK or Isle of Man governments.
 - (f) The total investment in funds managed by a single manager may not exceed 35% of the value of the fund.

The fund operated within these limits throughout 2007-2008.

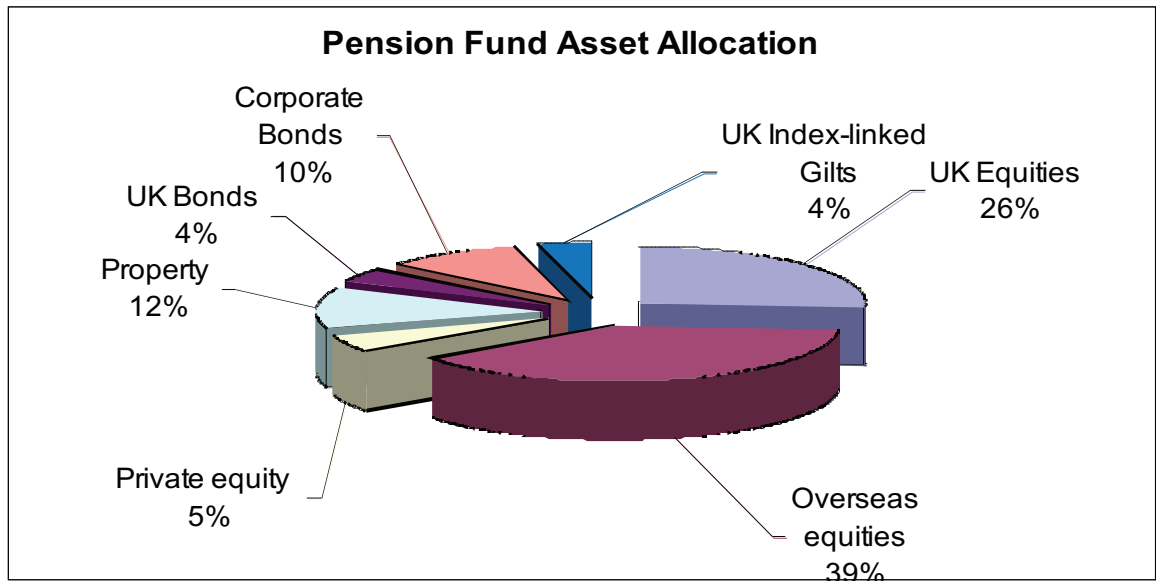
Statement of Investment Principles

3. The County Council adopted a bespoke investment strategy for the Pension Fund in 2000, following an asset-liability review, which it commissioned from the fund's actuary. This review set a framework for the investment of the fund's assets, and this has been incorporated into a formal policy statement for the fund, the Statement of Investment Principles. The statement is published on the County Council's website (www.suffolkcc.gov.uk). The investment strategy has been reviewed on a number of occasions since 2000, and some further changes have been made, although the overall balance between the main asset classes (equities, bonds and property) has been maintained.
4. The main rationale for holding equities is that over the longer term they are expected to outperform bonds, which are a closer match to the Fund's liabilities. Any investment in equities implies a departure from the matching portfolio in the pursuit of higher expected returns. The equity allocation accounts for the majority of the investment risk taken by the Fund. The equity benchmark is structured in such a way as to generate the highest return for a given level of risk, and to provide appropriate diversification, rather than being considered as matching the fund's liabilities in any way. The Fund currently invests around 70% of its assets in equities with a target of 65% in quoted equities and 5% in private (unquoted) equities.

Investment Report

5. The strategic asset allocation benchmark for the Fund is shown below. Cash flow from employer and employee contributions is used to re-balance any variation in allocation caused by market movements back towards the strategic asset allocation.

Asset Class	Benchmark Allocation	
	%	%
UK Equities	26	
Overseas equities	39	
Total equities		65
Private equity	5	
Property	12	
Total Alternatives		17
UK Bonds	4	
UK Corporate Bonds	10	
UK Index-linked Gilts	4	
Total Bonds		18
Total		100

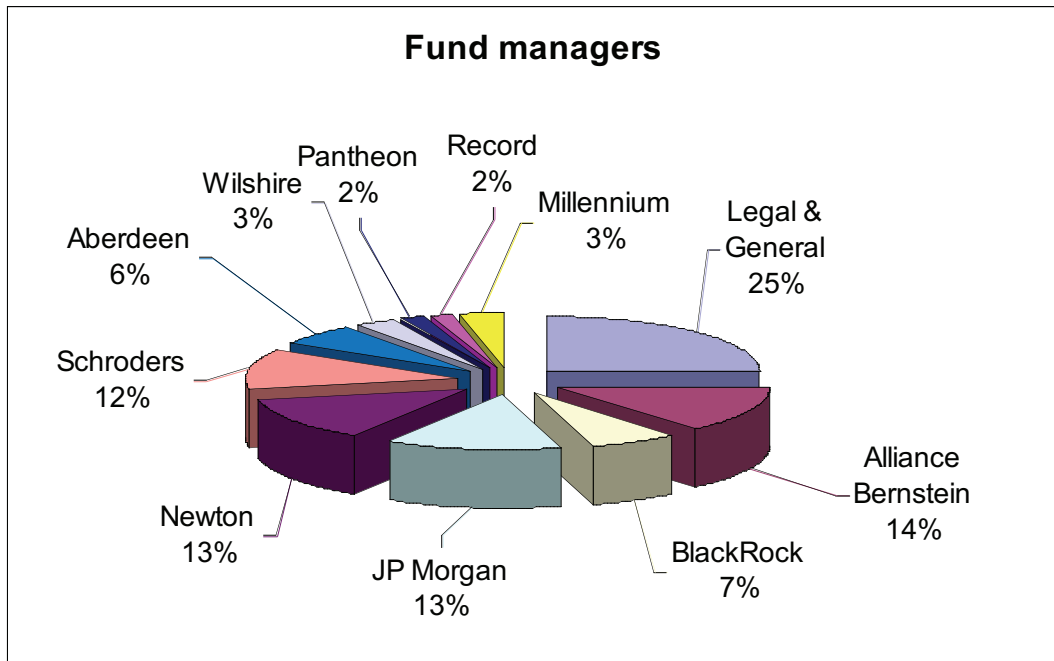


Investment Management Arrangements

6. The following investment managers managed the fund's assets during 2007-2008:

- Legal & General Investment Management manage a multi-asset index tracking mandate (25% of the fund);
- JP Morgan Asset Management manage a global equity mandate from July 2007 (13.2% of the fund);
- Newton Investment Management manage a global equity mandate from July 2007 (13.2% of the fund);
- AllianceBernstein Institutional Investments manage a UK equity mandate (14% of the fund);
- BlackRock Investment Management manage a UK equity mandate from July 2007 (13.2% of the fund);
- Schroder Property Investment Management manage a property mandate (12% of the fund);
- Aberdeen Asset Management manage a bonds mandate (6% of the fund);
- Wilshire Associates (3% of the fund) and Pantheon Ventures (2% of the fund) manage private equity mandates;
- Record Currency Management (1.8% of the fund) and Millennium Global Investments (3.2% of the fund) have been appointed to manage currency mandates that started towards the end of 2007-2008.

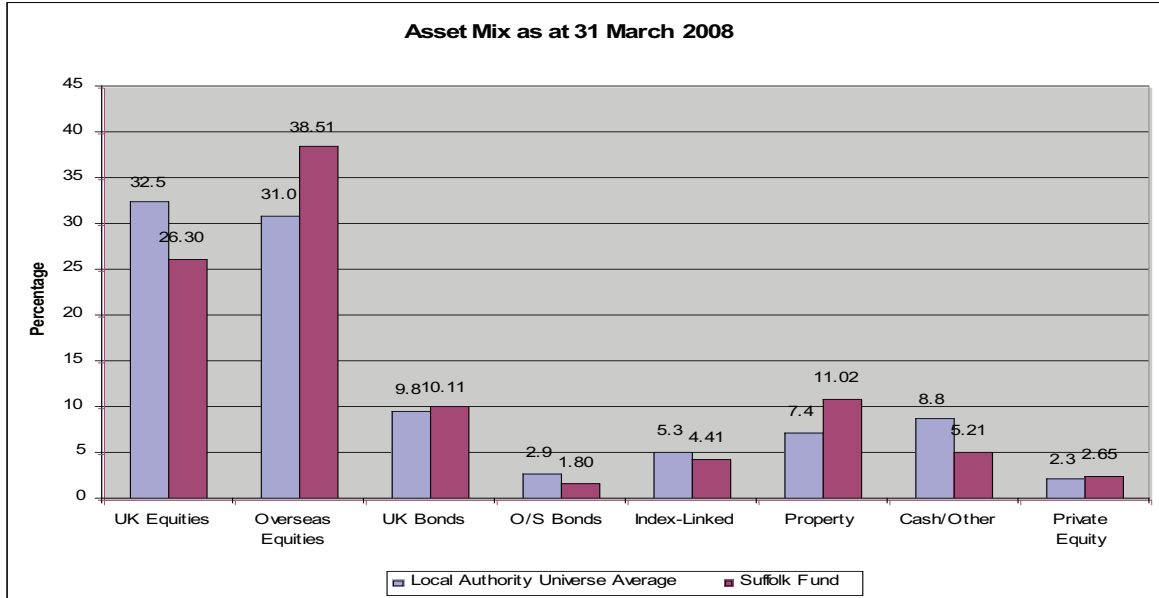
7. Capital International managed an overseas equity mandate and Societe Generale Asset Management managed a UK equity mandate up to the end of June 2007, when new equity mandates, to be managed by JP Morgan, Newton and BlackRock, were established.



Investment Report

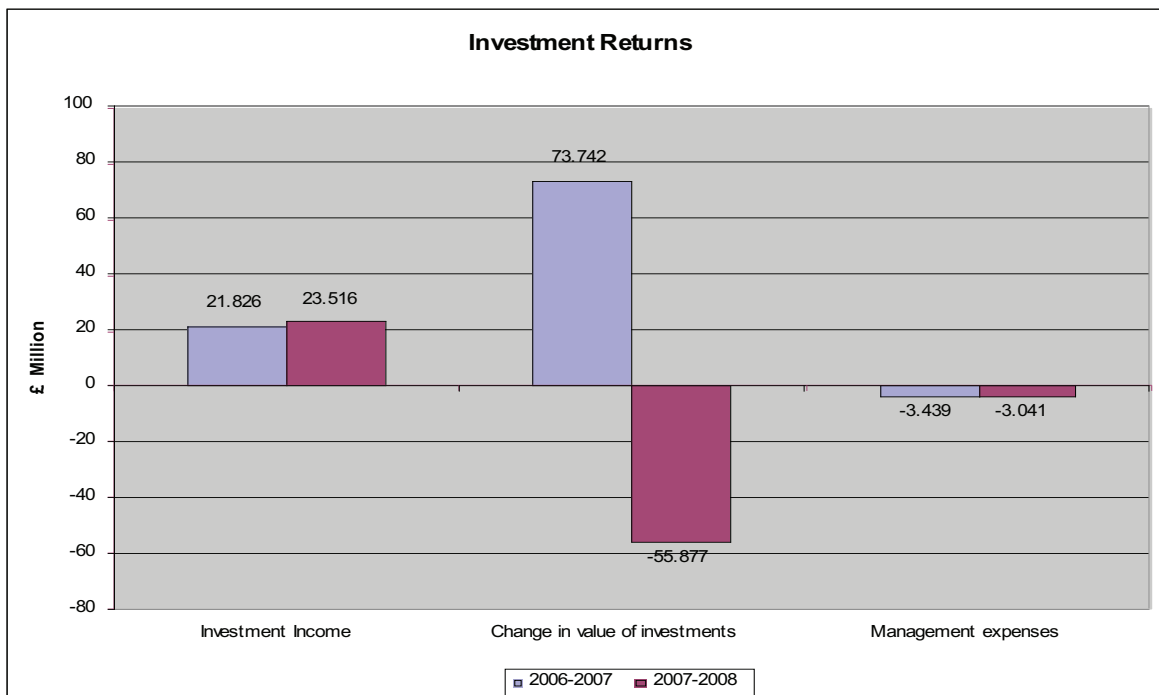
Asset Allocation

8. The fund had 26.3% of its assets in UK equities in March 2008, 38.5% in overseas equities and 4.4% in index linked securities. The fund had 11.9% of its assets in bonds, 11.0% in property, 2.7% in private equity and 5.2% in other investments and temporary cash.
9. The chart below compares the fund's asset allocation with the average of local authority pension funds in 2007-2008.



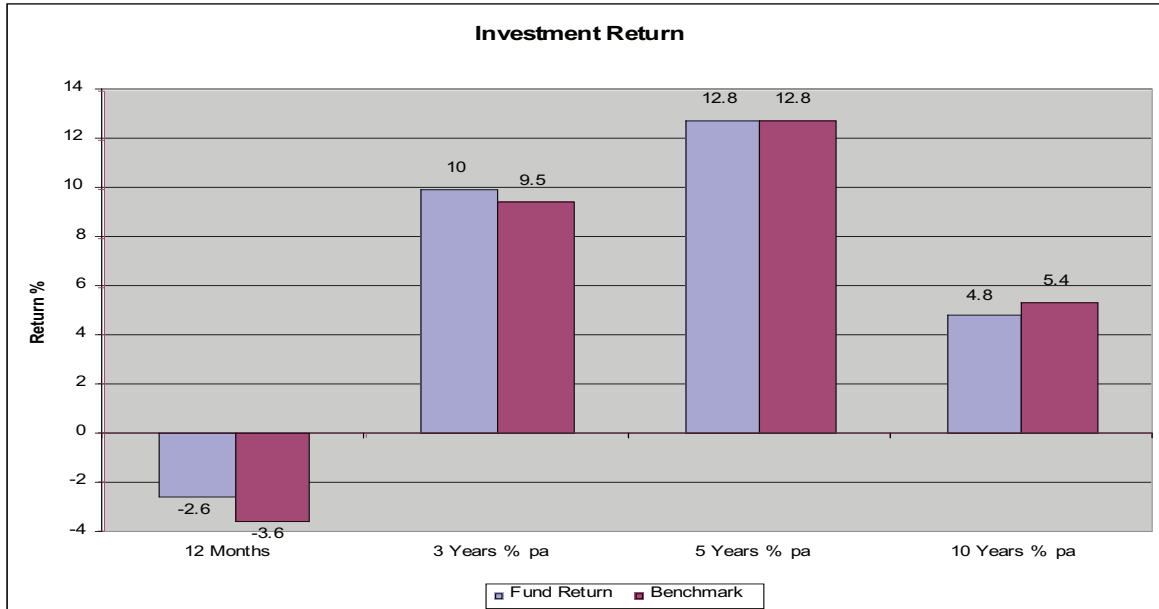
Investment Performance

10. The chart below shows the main source of investment returns during 2007-2008. The change in the value of the investments includes realised and unrealised gains and losses.

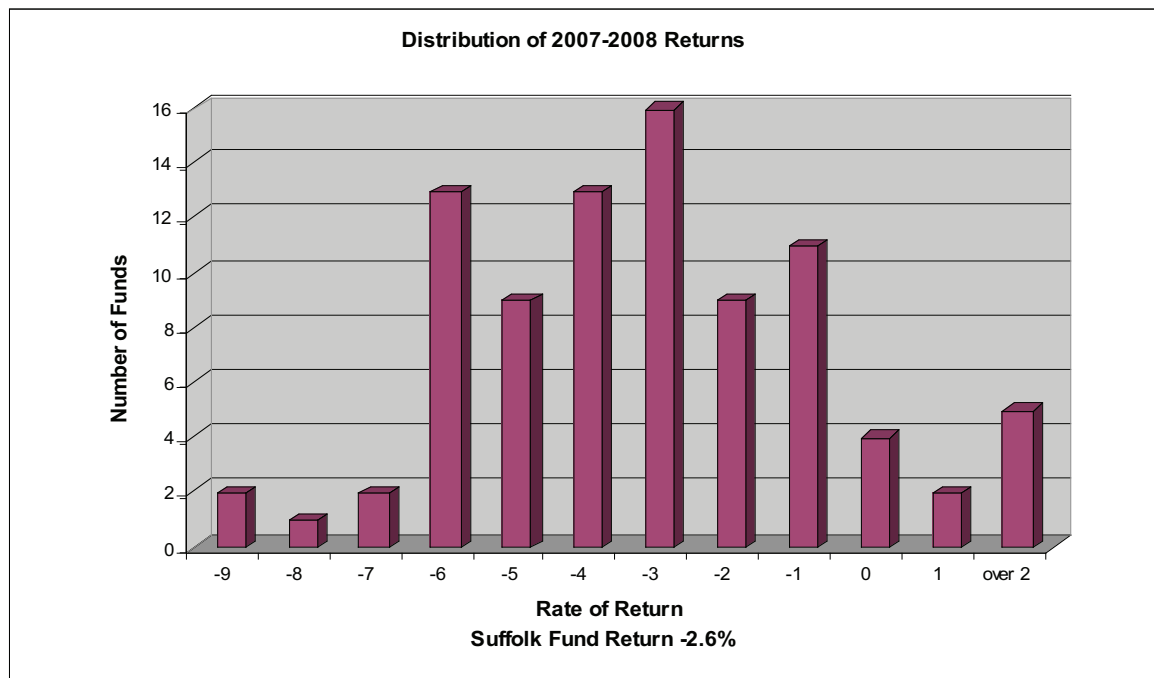


Investment Report

11. The fund's assets increased from £1,301 million to £1,305 million during 2007-2008. After allowing for the net cash flow from additional employer and employee contributions in the year, this represented a negative investment return of -2.6%, compared with the fund's own benchmark target of -3.6%. The fund's own benchmark is based on the index returns for the markets that the fund invests in. The fund's investment return compared with its benchmark index over one, three, five and 10 years is shown below.

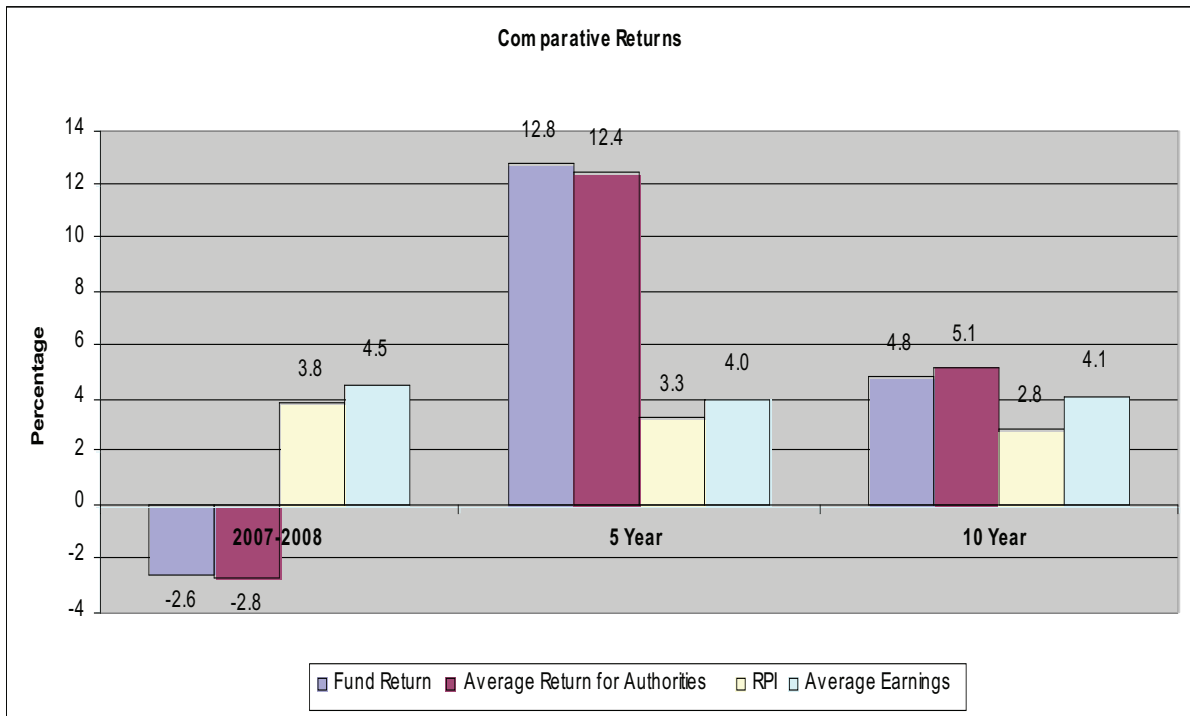


12. The fund's return of -2.6% was better than the average local authority return of -2.8% in 2007-2008. The chart below shows the range of returns for local authority pension funds for 2007-2008 (WM Company survey). The majority of local authority funds produced an investment return in the range of -6.0% and -1.0% during 2007-2008.



Investment Report

13. The chart below compares the investment returns achieved by the Suffolk Pension Fund over one year (-2.6%), five years (12.8% per year) and 10 years (4.8% per year) with the average local authority pension fund, and with price and pay increases in the respective periods. The fund's return of 12.8% per year over five years puts the fund in the top quarter of local authority funds over this period. Over the past ten years the fund has achieved an average return of 4.8% per year, below the local authority average of 5.1% per year, which reflects the fund's underperformance in the years 2000 and 2001. The Suffolk Pension Fund's investment return over 10 years was better than both price inflation (2.8% per year) and pay increases (4.1% per year) over the period.

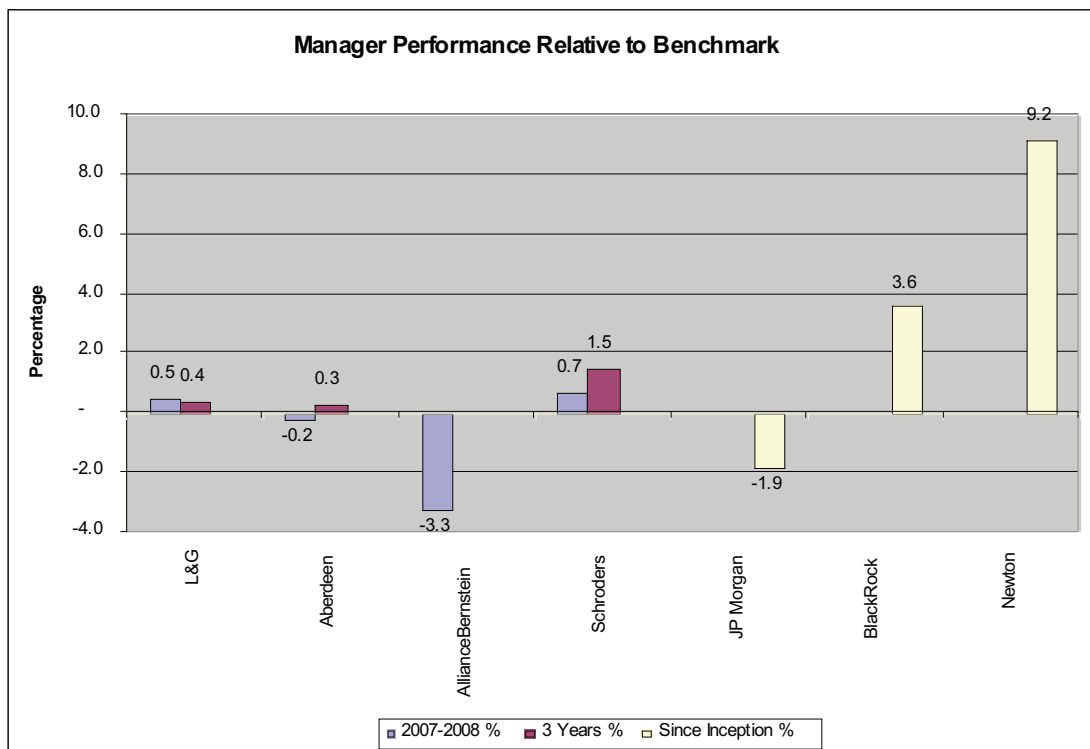


Manager Performance

14. The table and chart below show the investment returns achieved by the fund managers relative to their own benchmarks, together with that of the total fund over one year and three years. JP Morgan, Newton and BlackRock's mandates started in July 2007, so the performance figures for these managers relate to a part year only. AllianceBernstein's mandate started in June 2005, so there is not yet 3 years' performance to report for this manager.
15. Although very short-term performance is not considered significant, BlackRock and Newton outperformed and JP Morgan underperformed for the part year that the mandates were in effect in 2007-2008. Alliance Bernstein and Aberdeen underperformed against their benchmarks in 2007-2008, while Legal & General and Schroders outperformed. Over three years Legal & General, Aberdeen and Schroders, the only managers with a long-term performance record, all outperformed against their benchmarks. The performance of the fund's private equity investments will be assessed over the longer term, but the investments have outperformed over both one and three years compared with listed equity markets.

Investment Report

Fund	Manager	Asset	6 month Relative Return	2007-2008 Relative Return	3 Year Relative Return
			%	%	% p.a.
32	Legal & General	Multi Asset Passive		+0.5	+0.4
7	BlackRock	UK Equities	+3.6	na	Na
13	Alliance Bernstein	UK Equities		-3.3	Na
14	Newton	Global Equities	+9.2	na	Na
12	JP Morgan	Global Equities	-1.9	na	Na
6	Aberdeen	Bonds		-0.2	+0.3
11	Schroder	Property		+0.7	+1.5
3	Pantheon and Wilshire	Private Equity		+10.6	+3.4
100					



Pension Fund No. 1 Accounts

Fund Account for the year ended 31 March 2008

2006-07 £000	Contributions and Benefits`	Notes	2007-08 £000
	Contributions receivable:	2	
	From employers		
66,390	Normal		63,650
4,878	Special		4,691
16,695	From employees or members	2	17,434
6,986	Transfers in		7,588
54	Other Income		44
	Benefits Payable		
-37,662	Pensions	2 & 15	-40,711
-7,983	Commutations of pensions & lump sum benefits		-7,703
-991	Lump sum death benefits		-609
	Payments to and on account of Leavers		
-26	Refunds of contributions		-26
-6	State scheme premiums		3
-130	Group transfers out to other schemes		
-4,253	Individual transfers out to other schemes		-3,247
-1,162	Scheme Administration Expenses	16	-1,147
42,790	Net addition from dealings with members		39,967
	Returns on Investments		
	Investment Income	14	
546	Interest from fixed interest securities		680
16,558	Dividends from equities		18,108
5,365	Income from pooled investment vehicles		4,579
446	Interest on cash deposits		860
15	Other		188
-1,104	Tax – Irrecoverable withholding tax		-899
72,866	Change in Market value of Investments		-55,877
3,439	Investment Management Expenses	16	-3,041
91,253	Net returns on Investments		-35,402
134,043	Net change in the fund during the year		4,565
1,166,602	Opening net assets of the scheme		1,300,645
1,300,645	Closing net assets of the scheme		1,305,210

Pension Fund No. 1 Accounts

Net Asset Statement as at 31 March 2008

31/3/2007		Notes	31/03/2008
£000			£000
	Investment Assets	3,6 &17	
	Bonds		
	U K Government		
31,874	Fixed Interest Securities		39,065
47,885	Index Linked Securities		56,455
16,655	Overseas Fixed Interest Securities		22,998
122,020	Corporate Bonds		129,367
227,045			247,885
	Equities		
	U K Companies		297,425
451,171	Overseas Companies		492,689
431,777	Private Equity		33,869
16,436			
890,773			823,983
163,207	Property Unit Trusts		141,027
4,391	Other Managed Funds		4,929
0	Derivative Contract – Futures		41,672
0	Active Currency		20,042
1,285,416	TOTAL INVESTMENTS		1,279,538
	<u>Net current assets and liabilities</u>		
11,803	Sundry Debtors	10	12,747
0	Margin Variation		100
0	Cash backing Open Futures Contracts		-41,672
0	Cash held by broker for Futures Contracts		3,159
831	Cash temporarily lent to/(by) the Council		-35,984
5,060	Cash held by investment managers		90,460
-2,465	Sundry Creditors	10	-3,138
15,229	NET CURRENT ASSETS		25,672
1,300,645	NET ASSETS		1,305,210

The notes on pages 19 to 31 form part of these accounts.

Notes on the Accounts

1. Running the Fund

The fund is administered by Suffolk County Council and provides retirement benefits for all employees who are members of the Local Government Pension Scheme. Also included in the fund are employees of all District Councils and Town Councils in Suffolk, the Suffolk Probation Board, civilian employees of the Suffolk Police Authority and several other organisations. Teachers, Firefighters and Police Officers have their own pension schemes and are not included in the fund.

2. Membership

The fund has the following numbers of members and pensioners:

31 March 2007			31 March 2008	
17,977		Members	18,336	
7,721		Employee pensioners	8,157	
1,545		Dependent pensioners	1,599	
10,748		Deferred	11,861	

Contributions received and benefits paid during the year were as follows:

2006-2007				2007-2008		
Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million		Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million
39.392	9.714	-17.596	Suffolk County Council	40.033	10.148	-19.207
30.597	6.538	-19.751	Other Scheduled Bodies	26.828	6.758	-20.868
1.279	0.443	-0.315	Admitted Bodies	1.480	0.528	-0.636
<u>71.268</u>	<u>16.695</u>	<u>-37.662</u>	Total	<u>68.341</u>	<u>17.434</u>	<u>-40.711</u>

Notes on the Accounts

The scheduled and resolution bodies contributing to the fund are:

County and District Councils Suffolk County Council Babergh District Council Forest Heath District Council Ipswich Borough Council Mid Suffolk District Council St. Edmundsbury Borough Council Suffolk Coastal District Council Waveney District Council	Town Councils Beccles Town Council Brandon Town Council Bury St. Edmunds Town Council Felixstowe Town Council Framlingham Town Council Hadleigh Town Council Haverhill Town Council Kesgrave Town Council Newmarket Town Council Stowmarket Town Council Sudbury Town Council Woodbridge Town Council
Parish Councils Great Cornard Parish Council Mildenhall Parish Council Onehouse Parish Council Pinewood Parish Council Woolpit Parish Council Nayland and Wissington Parish Council Boxford Parish Council Leavenheath Parish Council Lakenheath Parish Council	Other Bodies Suffolk New College West Suffolk College Lowestoft College Otley College Suffolk Police Authority Suffolk Probation Service

3. Managing the Fund

We invest the fund in compliance with the Local Government Pension Regulations.

The Fund's investments are managed by:

- Aberdeen Fund Management
- Alliance Bernstein Institutional Investments
- BlackRock Investment Management
- JP Morgan Asset Management
- Legal and General Investment Management
- Millennium Global Investments / MAN Financials
- Newton Investment Management
- Record Currency Management
- Schroders Investment Management
- Pantheon Ventures
- Wilshire Associates
- Cambridge Research and Innovation Limited

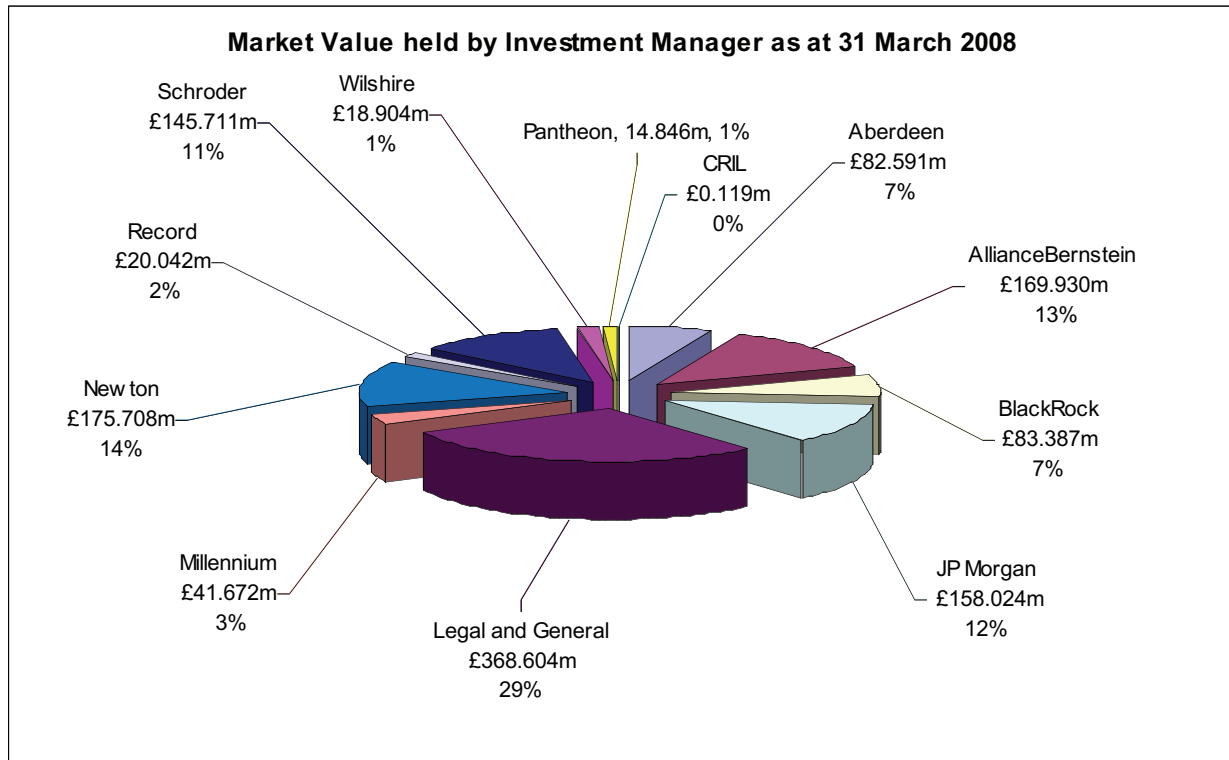
The managers invest within a broad policy agreed with the Pension Fund Committee, who they report to at intervals during the year. The long term nature of the fund's liabilities means that capital growth potential and likely income, within acceptable levels of risk, are the main investment considerations. You can get a copy of the fund's Statement of Investment Principles from the Head of Strategic Finance or from the Suffolk County Council website.

Notes on the Accounts

The following table shows the market value of investments held by each manager at 31 March 2008.

	Market Value £ million	Percentage of Assets %
Aberdeen Fund Management	82.591	6.45
AllianceBernstein Institutional Investments	169.930	13.28
BlackRock Investment Management	83.387	6.52
JP Morgan Asset Management	158.024	12.35
Legal and General Investment Management	368.604	28.81
Millennium Global Investments / MAN Financials	41.672	3.26
Newton Investment Management	175.708	13.73
Record Currency Management	20.042	1.57
Schroder Property Investment Management	145.711	11.39
Pantheon Ventures	14.846	1.16
Wilshire Associates	18.904	1.48
Cambridge Research & Innovation Limited	0.119	0.01
	1,279.538	100.00

100% (£368.604 million) of the Legal and General Investments are invested in its own index pooled funds (100%, £420.751 million as at 31 March 2007). Similarly 73.7% (£60.858 million) of Aberdeen investments are in its own pooled funds (79.3%, £59.984 million as at 31 March 2007). The pooled funds are one step removed from direct ownership of the assets.



Notes on the Accounts

During 2007-2008 the Pension Fund made the following changes to its Global and UK Equity investment managers:

Previous Managers	Asset Class	Percentage of the Fund Managed
Capital International	Overseas Equities	18.0%
Societe Generale	UK Equities	15.0%
		33.0%
New Managers		
JP Morgan Asset Management	Global Equities	13.2%
BlackRock Investment Management	UK Equities	6.6%
Newton Investment Management	Global Equities	13.2%
		33.0%

The transition process was managed by Lehmans Brothers (Europe).

A further change to the management of the fund was agreed at the Pension Fund Committee on the 9 May 2007. Record Currency Management and Millennium Global Investments were appointed to manage active currency mandates. Legal and General realised funds in their North America and UK Equity index tracking funds to enable the pension fund to invest in these currency mandates in December 2007 and March 2008 respectively. A separate arrangement is also in place alongside holdings in the Millennium fund to equitise the holdings through Futures Contracts with MAN Financials, which are benchmarked to the FTSE 100.

At the 31 March 2008 MAN Financials had the following open Futures Contracts:

Type of Future	Expiration	Economic Exposure Value £ million
UK FTSE exchange traded	Less than 1 Year	41.672

4. Actuarial Position

The last formal three-yearly actuarial valuation was carried out as at 31 March 2007. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2008. The valuation was based on:

- Meeting the requirements of the Local Government Pension Regulations
- 100% funding of future liabilities for service completed to 31 March 2007.
- The 'projected unit method' of actuarial valuation.
- Projected investment returns of 6.1% per year, increases in future salaries of 4.7% a year and for pension increases of 3.2% a year.
- The actuarial assessment of the value of the fund's assets was £1,301.2 million as at 31 March 2007 (the market value of assets in the draft accounts), plus £1.3 million for augmentation and redundancies, making a total of £1,302.5 million.
- The actuarial assessment of the fund's liabilities was £1,460.9 million at 31 March 2007.

Notes on the Accounts

The valuation showed that the fund's assets covered 89.2% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £158.4 million. The actuary has confirmed that the employer's common contribution rate should be 19.0% of pensionable pay for the three years starting 1 April 2008. The aim is to recover the pension fund deficit over a period of fifteen years.

An interim valuation was carried out as at 31 March 2008. The valuation was based on the following assumptions:

- Projected investment returns of 6.06% per year, increases in future salaries of 5.07% a year and pension increases of 3.65% a year.
- The actuarial value of the fund's assets was £1,298.1 million and the liabilities £1,683.5 million at 31 March 2008.

The valuation at 31 March 2008 showed that the fund's assets covered 77.1% of its estimated liabilities at the valuation date and the deficit was £385 million.

5. Accounting Policies

The Fund Account and Net Asset Statement have been prepared in accordance with the provisions of Section 2 *Recommended Accounting Practice* of the Pension SORP – *The Financial Reports of Pension Schemes* issued by the Pensions Research Accounts Group and the associated guidance notes issued by CIPFA.

Expenditure and income are accounted for on an accruals basis with the exception of individual transfers into and out of the scheme which are accounted for on a cash basis. Group transfers into and out of the scheme are accounted for on an accruals basis. The cost of acquiring investments is included in the purchase price.

Administration costs are charged to the pension fund based on time spent by our staff.

Investment management expenses are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end. The ability to meet these future liabilities is considered by the actuary as part of the valuation.

All investments are valued at their market value at the balance sheet date, as follows:

- Listed securities are valued at the mid market value.
- Unit trusts and managed fund investments are shown at the mid-point of the latest prices quoted by the managers before 31 March.
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate on the balance sheet date.
- Futures are shown at market value which is the total exposure to the stock market that the futures contracts effect.

Notes on the Accounts

7. Holdings above 5 % of the Fund

This is a summary of the individual holdings within the fund which exceed 5% of the total value of the fund at the balance sheet date.

Value 2006 - 2007 £ million	% of fund 2006 - 2007	Asset Type	Manager	Value 2007 - 2008 £ million	% of fund 2007 - 2008
68.717	5.35%	European Equities Index North	Legal and General	69.159	5.24%
61.211	5.31%	American Equities	Legal and General	n/a	n/a
65.812	5.12%	Corporate Bond Index	Legal and General	74.904	5.67%

8. Stock Lending

The fund has an arrangement with its custodian, State Street Bank and Trust, to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Lending is limited to a maximum of 25% of the total value. Collateralised lending generated income of £0.062 million in 2007-2008 (£0.004 million 2006-2007) the second year that securities lending has occurred within the fund. This is included within 'other' investment income in the Fund Account. At 31 March 2008 £51.461 million worth of stock (3.94% of the Fund) was on loan, for which the fund was in receipt of £54.145 million worth of collateral.

9. Related Parties

The pension fund is a related party to its administering authority and other participating employers. During 2007-2008 the material transactions were as follows:

2006-2007 £ million		2007-2008 £ million
0.817	Suffolk County Council - Administration Expenses	0.880
-0.137	Interest on money lent to Suffolk County Council	-0.133

There are no significant related party transactions involving members or officers.

10. Net Current Assets and Liabilities

This is a breakdown of the Listed Debtors and Creditors in the Net Asset Statement:

2006-2007 £ million		2007-2008 £ million
	<u>Listed Debtors:</u>	
6.059	Employer & Employee Contributions	7.500
5.163	Investment Assets	4.981
0.004	Stock Lending Income	0.018
0.093	Interest on Cash Deposits	0.098
0.484	Income due from Employers for Benefits Paid	0.150
<u>11.803</u>		<u>12.747</u>
	<u>Listed Creditors:</u>	
0.011	Investment Assets	0.000
-0.728	Investment Manager Expenses	-0.753
-0.861	Administration Expenses	-0.975
-0.001	Employer Contributions	-0.721
-0.305	Individual Transfers Into the Scheme	-0.677
-0.581	Payments for Lump Sums on Retirement	-0.012
<u>-2.465</u>		<u>-3.138</u>

11. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions (AVCs) to enhance their pension benefits. In accordance with regulation 5 (2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), additional voluntary contributions have been excluded from the Fund Account and Net Assets Statement. These contributions are held by the AVC providers and therefore do not form part of the pension fund's investments. A total of £0.165m was paid over to the providers, Clerical Medical, Standard Life, Equitable Life and Century Life in 2007-2008.

12. Contingent Liabilities

At the 31 March 2008 there was a pending determination of the transfer value from the Pension No. 1 Fund to the Civil Service Pension Scheme due to a staff transfer which occurred in April 2005 of employees of the Suffolk Magistrates Courts Committee. The determination of the amount of any payment from the Suffolk Pension Fund to the Civil Service Pension Scheme is subject to the outcome of national discussions between the Government Actuary and the actuaries acting on behalf of local authority pension funds.

At the 31 March 2008 there was a pending bulk transfer of 41 employees from the Pension No. 1 Fund to the National Health Service. The value of the transfer is still to be determined by the actuaries of the respective schemes.

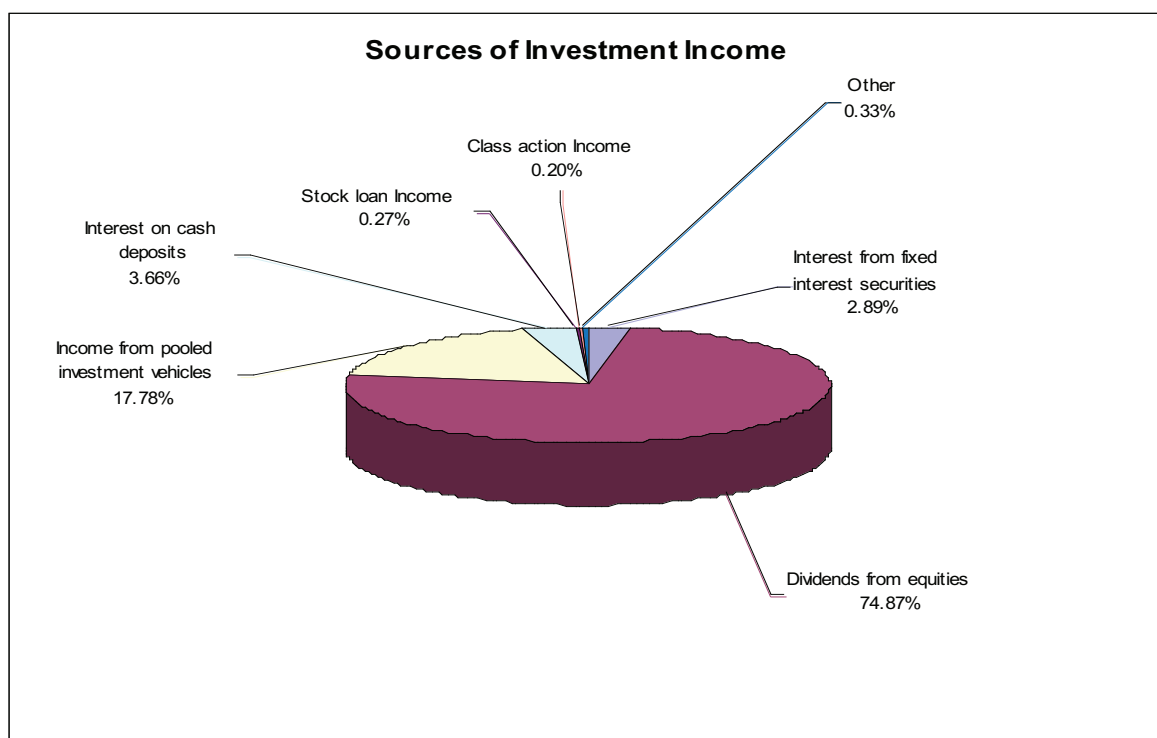
At the 31 March 2008 there was a pending bulk transfer of 28 employees from the Pension No. 1 Fund to Essex County Council. The value of the transfer is still to be determined by the actuaries of the respective schemes.

13. Post Balance Sheet Event

The underlying value of the Funds assets has decreased from £1,279.538m in March 2008 to £1,268.861m in June 2008. The performance of the Fund to June 2008 resulted in a return of -1.0%. The fall in the value is due to the fall of most major markets which has continued through to September 2008. Further information on the performance of the Fund is reported in the Pension Fund Committee reports which are published on the Suffolk County Council website.

14. Investment Income

The following chart shows the sources of Investment Income earned by the Fund in 2007-08.



15. The following table provides a breakdown of the retirement benefits paid.

Retirement Pensions	2006-07 £000	2007-08 £000
Pensions to Retired Members : Statutory	24,817	26,896
: Supplementary	747	734
: Other	133	108
Pensions to Widows / Widowers : Statutory	1,737	1,922
: Other	61	63
Pensions Increases : Basic	8,426	9,189
: Widows / Widowers	1,728	1,785
: Other	13	14
TOTAL	37,662	40,711

Notes on the Accounts

16. Administrative and Management Expenses	2006-07	2007-08
	£000	£000
Administrative Costs		
Suffolk County Council	817	880
Actuarial and Investment Advisory Services	202	103
Other Consultancy Charges	143	164
	1,162	1,147
Fund Management Expenses		
Capital International	883	304
Aberdeen	118	133
Legal & General	362	401
Societe Generale	476	146
Schroders	570	217
AllianceBernstein	586	623
BlackRock	0	141
Newton	0	560
JP Morgan	0	428
Millennium	0	1
Wilshire	234	0
Pantheon	96	0
Custodian (State Street Bank and Trust)	114	87
	3,439	3,041
TOTAL	4,601	4,188

The costs of administration and investment management decreased by -£413,000 (-9.0%) in 2007-2008. The main factor that determines the investment management expenses of the fund is the value of the funds under management, which increased by 0.3% in 2007-2008. In addition during 2007-08 three investment managers (BlackRock, Newton and JP Morgan) were appointed for new mandates in place of Capital International and Societe Generale. The process of transition of the fund's assets from the old managers to the new managers was managed by Lehman Brothers (Europe). No investment management fees were charged by Lehmans in respect of the transferring assets. The investment management fees attributable to the private equity funds managed by Pantheon and Wilshire were not separately identified in 2007-08. The total administration and investment management costs represent about 0.3% of the value of the Fund at 31 March 2008, which is broadly in line with the local authority average.

17. Investments at Market Value	31 March 2007		31 March 2008	
	UK	Foreign	UK	Foreign
	£000	£000	£000	£000
Fixed Interest	31,874	16,655	39,065	22,998
Index Linked	47,885	-	56,455	-
Corporate Bonds	122,019	-	129,367	-
Equities and Unit Trusts	451,171	431,778	297,425	492,689
Private Equity	109	16,327	119	33,750
Property Unit Trusts	163,207	-	141,027	-
Other Managed Funds	4,391	-	4,929	-
Derivatives – Futures	-	-	41,672	-
Active Currency	-	-	-	20,042
	820,656	464,760	710,059	569,479

Notes on the Accounts

Analysis of Investments at 31 March 2008 by Industrial and Geographical Sector

Holdings	Book Value	Market Value	% of Market Value
	£000	£000	%
Bonds			
Fixed Interest UK Securities - Gilts	37,125	39,065	3.05
Index Linked Gilts	44,938	56,455	4.41
Overseas Fixed Interest Securities	19,710	22,998	1.80
Corporate Bonds	119,554	129,367	10.11
Total Bonds	221,327	247,885	19.37
UK Equities			
Resources	52,053	51,709	4.04
Basic Industries	14,504	11,229	0.88
General Industrials	18,423	19,828	1.55
Cyclical Consumer Goods	13,788	17,262	1.35
Non Cyclical Consumer Goods	34,069	29,766	2.33
Cyclical Services	31,892	24,970	1.95
Non Cyclical Services	26,751	25,675	2.00
Utilities	9,085	9,619	0.76
Financials	105,760	91,746	7.17
Information Technology	1,355	1,388	0.11
Pooled	10,613	14,233	1.11
Total UK Equities	318,293	297,425	23.25
Overseas Equities			
Europe	138,363	167,096	13.06
North America	178,814	188,538	14.74
Japan	62,684	60,559	4.73
Other Asia	44,402	58,765	4.59
Other International	16,008	17,731	1.39
Total Overseas Equities	440,271	492,689	38.51
Private Equity	27,073	33,869	2.65
Other Managed Funds	4,867	4,929	0.38
Active Currency	25,000	20,042	1.56
Futures Contract	41,672	41,672	3.26
Property Unit Trusts	103,152	141,027	11.02
Total	1,181,655	1,279,538	100.00

Pension No. 1 Fund's Largest Shareholdings as at 31 March 2008

Holding (no. of units)		Market Value £000	% of Market Value
47,413,637	L&G AAA Fixed Int. Over 15 Yr. Bond Index	74.904	5.85
8,875,119	L&G European Equity Index	69.159	5.41
15,838,760	L&G Over 5 Yr. Index Linked Gilts Index	56.455	4.41
44,207,234	Aberdeen Fixed Income Sterling Credit A	54.463	4.26
51,748,402	L&G Japan Equity Index	43.365	3.39
6,956,942	L&G North America Equity Index	42.157	3.29
3,855,346	L&G Other Pacific Basin Equity Index	26.723	2.09
477,824	Schroder Exempt Property Units	21.426	1.67
1,218,065	Royal Dutch Shell	20.658	1.61
298,016	Record Active Currency	20.042	1.57
12,120,668	Vodafone Group	18.290	1.43
5,936,182	L&G Over 15 Yr. Gilts Index	17.988	1.41
17,118,275	BP	17.118	1.34
8,854,830	L&G Overseas Bond Index	15.174	1.15
2,220,614	L&G UK Equity Index	14.234	1.11
6,199	UBS Triton Property Unit Trust	13.116	1.03
230,254	Standard Life Pooled Pension Property Fd	12.219	0.95
1,431,010	HSBC Holdings	11.877	0.93
1,889,823	Hermes Property Unit Trust	10.714	0.84
969,916	GlaxoSmithKline	10.339	0.81
2,273,538	Barclays	10.299	0.80
229,600	BlackRock Asset Management Property Unit Trust	10.149	0.79
2,719,031	Royal Bank of Scotland Group	9.170	0.72
8,999,508	HBOS	9.000	0.70
7,001	Hercules Property Unit Trust	8.744	0.68
1,890,352	L&G Global Emerging Markets Index	8.445	0.66
8,347,536	British American Tobacco	8.348	0.65
1,636,098	BAE Systems	7.939	0.62
256,698	Anglo American	7.773	0.61
2,438	Falcon Property Unit Trust	7.643	0.60
3,482	RReef Property Unit Trust	7.526	0.59
195,779	Xstrata	6.905	0.54
6,819,532	BHP Billiton	6.820	0.53
12,392	West End of London Property Unit Trust	6.692	0.52
20,746	Threadneedle Property Unit Trust	6.619	0.52
947,000	Prudential	6.302	0.49
6,310,000	Aberdeen UK Treasury	6.243	0.49
3,585,417	UBS South East Recovery Unit Trust	5.671	0.44
5,487,057	Unite UK Student Accommodation Property Unit Trust	5.498	0.43
4,807	Standard Life Investments Property Unit Trust	5.471	0.43

These 40 holdings make up £721.678m, 56.4% of the investment value of the portfolio.

Participating Authorities in Pension No. 1 Fund

Scheduled Bodies

Suffolk County Council

Babergh District Council
Forest Heath District Council
Ipswich Borough Council
Mid Suffolk District Council
St. Edmundsbury Borough Council
Suffolk Coastal District Council
Waveney District Council

Suffolk New College
West Suffolk College
Lowestoft College
Otley College
Suffolk Police Authority
Suffolk Probation Service

Resolution Bodies

Beccles Town Council
Brandon Town Council
Bury St. Edmunds Town Council
Felixstowe Town Council
Framlingham Town Council
Hadleigh Town Council
Haverhill Town Council
Kesgrave Town Council
Newmarket Town Council
Stowmarket Town Council
Sudbury Town Council
Woodbridge Town Council

Great Cornard Parish Council
Mildenhall Parish Council
Onehouse Parish Council
Pinewood Parish Council
Woolpit Parish Council
Nayland & Wissington Parish Council
Boxford Parish Council
Leavenheath Parish Council
Lakenheath Parish Council

Admitted Bodies

1st East
Abbeycroft Leisure
Anglia Community Leisure Trust
Association of Colleges in the Eastern Region
Coastal Homeless Action Group
Commission for Social Care Inspection
Hadleigh Market Feoffment Charity
Havebury Housing Partnership
Ipswich and District Citizens' Advice Bureau
Kings Forest Housing Ltd.
Leiston Long Shop Steam Museum
Mid Suffolk MIND
Museum of East Anglian Life
Papworth Trust
Partnership In Care Ltd.
Seckford Foundation
Sports and Leisure Management Ltd
Suffolk Coastal Leisure Community Assn. Ltd.
Suffolk Development Agency
Suffolk Valuation Tribunal
University Campus Suffolk
Urban Regeneration Company

Other Employers*

Aldeburgh Town Council
Community Council For Suffolk
Ely, Mildenhall & Newmarket Water Board
Felixstowe Dock and Railway Company
Lakenheath Internal Drainage Board
Leiston Town Council
Mildenhall Fen Internal Drainage Board
National Care Standards Commission
Suffolk Archaeological Unit
Suffolk Heritage Housing Association
Suffolk Magistrates' Courts Committee
Suffolk Old People's Welfare Association
Suffolk Trust for Nature Conservation
West Suffolk Water Board

*Other Employers have deferred or pensioner members, but no current employees in the Pension Fund

Pension No. 2 Fund (Ipswich Buses Ltd)

Fund Account for the year ended 31 March 2008

2006-2007 £'000	Fund account	2007-2008 £'000
	<u>Contributions and benefits</u>	
	Contributions receivable:	
	From employers	
510	Normal	507
	From members:	
46	Normal	46
	Benefits payable:	
-572	Pensions	-610
-84	Commutations of pensions & lump sum retirement benefits	-61
0	Lump sum death benefits	-9
	Payments to and on account of leavers	
-18	Scheme administration expenses	-27
<u>-118</u>	Net withdrawals from dealings with members	<u>-154</u>
	<u>Returns on investments</u>	
	Investment income	
60	Income from pooled investment vehicles	59
5	Other	0
850	Change in market value of investments:	310
-12	Tax – Withholding Taxation	-8
<u>-198</u>	Investment management expenses	<u>-14</u>
<u>884</u>	Net returns on investments	<u>-272</u>
766	Net increase in the fund during the year	-427
<u>15,029</u>	Opening net assets of the scheme	<u>15,795</u>
<u>15,795</u>	Closing net assets of the scheme	<u>15,368</u>

Pension No. 2 Fund (Ipswich Buses Ltd)

Net Asset Statement as at 31 March 2008

31 March 2007		31 March 2008
£'000	Net assets statement	£'000
	Investment assets	
3,002	Corporate Bonds index	3,151
4,023	UK Equity Index	3,856
3,776	Overseas Equity Index	3,818
3,264	UK Government Index linked Bonds Index	3,178
<u>1,640</u>	Property Unit Trusts	<u>1,393</u>
<u>15,705</u>	Total investments	<u>15,368</u>
	Net current assets and liabilities	
63	Sundry debtors	32
33	Cash (temporarily lent to the council)	-57
12	Cash (held by investment managers)	1
<u>-18</u>	Sundry creditors	<u>-4</u>
<u>90</u>	Net current assets	<u>-28</u>
<u>15,795</u>	Net assets	<u>15,368</u>

Notes on the Accounts

1. Running the Fund

The fund is administered by Suffolk County Council and provides retirement benefits for employees of Ipswich Buses Limited. The separate fund was started on 1 April 1987.

2. Membership

The fund has the following number of members:

31 March 2007		31 March 2008	
47	Members	47	
124	Employee pensioners	126	
20	Dependent pensioners	22	
37	Deferred	33	

3. Managing the Fund

The balance of the fund is invested in line with the Local Government Pension Regulations. The fund is quite small and in order to keep administration costs down, the fund is invested in Legal and Generals' equity and bonds index pooled funds (£14.003 million, 91% of the fund as at 31 March 2008) and Schrodgers property units (£1.393 million, 9% as at 31 March 2008).

A copy of the fund's Statement of Investment Principles can be obtained from the Head of Strategic Finance or from Suffolk County Council's website.

4. Actuarial Position

The last formal three-yearly actuarial valuation was carried out as at 31 March 2007. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2008. The valuation was based on:

- Meeting the requirements of the Local Government Pension Regulations
- 100% funding of future liabilities for service completed to 31 March 2007.
- The 'attained age method' of actuarial valuation.
- Projected investment returns of 5.8% per year, increases in future salaries of 4.7% a year and pension increases of 3.2% a year.
- The actuarial assessment of the value of the fund's assets was £15.8 million as at 31 March 2007 (the market value of assets), and
- The actuarial assessment of the fund's liabilities, which was £16.6 million at 31 March 2007.

The valuation showed that the fund's assets covered 94.9% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £842,000. The actuary has confirmed that the employer's common contribution rate should be 26.2% of pensionable pay for the three years starting 1 April 2008. In addition, monetary payments of £130,000 per annum should be paid over the three years. A funding objective is to be 100% funded over the average future working lifetime of the employees in the fund.

Notes on the Accounts

5. Accounting Policies

The Fund Account and Net Asset Statement have been prepared in accordance with the provisions of Section 2 *Recommended Accounting Practice* of the Pension SORP – *The Financial Reports of Pension Schemes* issued by the Pensions Research Accounts Group and the associated guidance notes issued by CIPFA.

Expenditure and income are accounted for on an accruals basis with the exception of transfers into and out of the scheme and which are accounted for on a cash basis. Acquisition costs of investments are included in the purchase price.

Administration costs are charged to the pension fund based on time spent by our staff.

Investment management expenses are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end. The ability to meet these future liabilities is considered by the actuary as part of the valuation.

All investments are valued at their market value at the balance sheet date, as follows;

- Listed securities are valued at the mid market value
- Unit trusts and managed fund investments are shown at the mid-point of the latest prices quoted by the managers before 31 March
- Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate on the balance sheet date.

6. Buying and Selling Investments

This is a summary of the investments we bought and sold during the year.

	Value at 31 March 2007 £ million	Purchase £ million	Sales £ million	Change in Market Value £ million	Value at 31 March 2008 £ million
Property Unit Trusts	1.640	0.000	0.000	-0.247	1.393
UK Companies	4.023	0.215	-0.073	-0.309	3.856
UK Government Index Linked Securities	3.082	0.044	-0.357	0.409	3.178
Corporate Bonds	3.002	0.267	0.000	-0.118	3.151
Overseas Companies	3.958	0.215	-0.311	-0.044	3.818
Total	15.705	0.741	-0.741	-0.309	15.396

Notes on the Accounts

7. Holdings above 5% of the fund

This is a summary of the investments above 5% of the total value of the investments at the balance sheet date.

Value 2006-2007 £ million	% of the Fund 2006-2007	Asset Type	Manager	Value 2007-2008 £ million	% of the Fund 2007-2008
4.023	25.62%	UK Equities Index	Legal and General	3.856	25.05%
1.124	7.16%	North American Equities Index	Legal and General	1.104	7.17%
1.230	7.83%	European Equities Index	Legal and General	1.193	7.75%
0.761	4.85%	Japan Index	Legal and General	0.777	5.05%
3.082	19.63%	Over 5 Year Index Linked	Legal and General	3.179	20.65%
3.002	19.11%	Corporate Bond Index	Legal and General	3.150	20.46%
1.640	10.44%	Property Unit Trust	Schroders	1.392	9.04%

8. Related parties

The pension fund is a related party to its administering authority. During 2007-2008 the material transactions were as follows:

<u>2006-2007</u> <u>£ million</u>	<u>2007-2008</u> <u>£ million</u>
0.006	0.005
Suffolk County Council - Administration Expenses	

There are no significant related party transactions involving members or officers.

Glossary

Active Management – Investment management, where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection.

Actuarial Valuation – An independent assessment of the fund's assets and liabilities which is undertaken by the Fund actuary every three years for the purpose of determining the contributions required from the fund's employers in order to maintain the fund's long-term solvency.

Actuary – An independent professional advisor who advises Suffolk County Council on the actuarial position of the pension fund.

Admitted Bodies - The regulations allow an administering authority to make admission agreements with certain other employers to enable their employees to become (or remain) members of the local government pension scheme. This is particularly relevant in the case of transfers of staff where services may be transferring from a local government employer to the private sector and the private sector employer is required to provide a pension scheme which is broadly comparable to the local government pension scheme.

Asset Allocation – Apportionment of a fund's assets between asset classes and/or world markets.

Attained Age Method – An actuarial valuation methodology, whereby the actuarial liabilities of a fund are valued by reference to the pension entitlements that accrue to current scheme members up to the age when they retire, cease employment or die. It is a methodology which is suitable for a pension fund which is closed to new employees.

Benchmark – A yardstick against which the investment performance of a fund manager can be compared.

Bond – A security that pays interest. The issuer agrees to pay the bondholder a regular set sum based on the amount borrowed and the bond's coupon, and to repay the principal amount of the loan at a future date.

Corporate Bond – Debt issued by a corporation.

Currency management – A specialist investment manager who seeks to deliver investment returns by exploiting opportunities in international currency markets.

Custodian – The pension fund's custodian is State Street. The custodian provides safe-keeping of all the investment managers' securities, by holding and recording the investments and processing tax reclaims.

Diversification – An effective spread of investments so that the failure of a few, or even an individual market, would be less likely to have a serious effect on the integrity of the overall portfolio.

Equity – The risk capital of a business. Holders of equities of a company have the ability to influence the management of the company by the use of voting rights.

Funding Level – The proportion of the Fund's liabilities to pay current and future pension payments, as assessed by the Fund Actuary, which are covered by the Fund's current level of investments.

Funding Strategy Statement – A statement that the County Council is required to prepare every three years, in conjunction with the triennial actuarial valuation, which sets out its strategy to maintain the long-term solvency of the Pension Fund.

Government Bond – Debt issued directly by a country's government in its own currency.

Indexation – A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

Glossary

Index Linked – The UK Government issues stocks, the interest and ultimate capital repayment on which are recalculated on the basis of changes in the Retail Price Index (RPI). Index-linked stocks may be regarded as being the most secure investment available, the value of income and underlying capital being projected in real terms against the effects of inflation on the spending power of money over the full life of the stock: during this period the market price will be volatile, as it will be for any other security.

Listed Securities – Investments which are listed on a recognised stock exchange.

Market Value – The price at which an investment can be bought or sold at a given date.

Property Unit Trusts – Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Pooled Fund – A fund in which a number of investors hold units. The assets are not directly held by each client, but as part of a ‘pool’.

Private equity – A form of equity investment whereby the investment is typically not listed on a recognised stock exchange. This means that the ability to buy and sell such investments depends on finding a suitable counterparty to contract with. Such investments are typically more difficult to buy and sell than listed investments.

Projected Unit Method – An accrued benefits actuarial valuation methodology in which the scheme liabilities make allowance for projected future earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- The benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- The accrued benefits for members in service on the valuation date.

Proxy – A written authorisation given by a shareholder to someone else to vote on their behalf at a company’s annual general meeting.

Relative Return – The degree of out or under performance relative to the Fund’s or an investment manager’s benchmark index.

Resolution Bodies – Scheme employers with the power to decide if an employee or a group of employees can belong to the scheme.

Scheduled Bodies – A number of public sector bodies, mainly local authorities, but including bodies such as further education colleges and probation services, are required to offer membership of the Local Government Pension Scheme to certain groups of employees. These bodies are known as scheduled bodies. Teachers, firefighters and police officers are covered by separate public sector pension arrangements and are not eligible to join the Local Government Pension Scheme.

Stock Lending – The lending of a security by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration and secured by acceptable collateral.

Unit Trust – An open-ended pooled fund in which investors can buy and sell units on an ongoing basis.

Withholding Tax - An amount withheld by the party making payment to another and paid to the taxation authorities. Pension Funds are generally able to recover withholding tax in respect of their dividend income from overseas equity holdings, because of their tax-exempt status

Additional Information

The following documents related to the Pension Funds can be found on the Suffolk County Council Website.

Governance Policy Statement

Statement of Investment Principles for Pension Fund No. 1

Statement of Investment Principles for Pension Fund No. 2

Funding Strategy Statement for Pension Fund No. 1

Funding Strategy Statement for Pension Fund No. 2

Voting Guidelines for Pension Fund Investments

Communications Policy

See: www.suffolkcc.gov.uk

