Suffolk County Council

Pension Fund

Annual report 2010-2011

Contents

Additional Statements

(published on Suffolk County Council website www.suffolk.gov.uk)

- Governance Policy Statement
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Actuarial Report
- Administration Strategy
- Voting Policy Statement

Chairman's Report

I am pleased to present the Suffolk County Council Pension Fund Annual Report and Accounts for 2010-2011.

The past year has been a good year for stock markets and our investments have produced a return of 7.2% in 2010-11. The medium-term performance of the Fund is still adversely affected by the impact of the credit crunch in 2007 and 2008. Over the past 5 years the overall investment return was 3.2% per year, well below the level needed for the fund to maintain its long-term funding level. This is reflected in the deterioration of the funding level of the Fund from 89% funded in 2007 to 82% funded at March 2010. This is a factor that has affected pension funds in both the public and private sector over this period. Over the longer-tem the investment returns are better, 5.1% per year over the past 10 years, although the performance is still below the actuary's long-term expectations from investment markets.

The Committee has carried out a comprehensive review of the investment strategy for the Fund during the year. We will continue to maintain a significant allocation to equities as part of the overall investment strategy for the Fund, but we will also increase the Fund's allocation to alternative assets, including absolute return and infrastructure, in order to diversify the fund's investments and reduce the volatility of future investment returns.

The actuarial valuation and funding strategy for the Fund were completed during the year, and I am pleased to report that the Fund has been able to limit contribution increases for the major employers in the Fund. In setting employer contribution rates the Committee has sought to balance the competing objectives of stability, affordability and prudence for the Fund. The funding strategy is expected to return the Fund to a fully funded position over a period of 20 years.

The affordability of public service pension schemes for employers and ultimately taxpayers was one of the considerations in the decision of the Government to establish the Independent Public Service Pensions Commission (the Hutton Commission) during the year. The Government has proposed that employee contributions will increase over the three years from April 2012. This will help to improve the affordability of the scheme for employers, although I hope that the scheme will continue to remain attractive for the large number of lower paid employees who are currently in the scheme. We will ensure that employers and scheme members are kept informed as more details of the Government's proposals for the future of the scheme become available.

Councillor Peter Bellfield
Chairman of Pension
Fund Committee
September 2011

"I am pleased to report that the Fund has been able to limit contribution increases for the major employers in the Fund"

> “The Annual Report and Accounts sets out the Pension Fund’s income and expenditure and its assets and liabilities for the financial year ended 31 March 2011”

Report from the Head of Strategic Finance

Explanation of Financial Statements

The County Council is responsible for the administration of the local government pension scheme in Suffolk. The Annual Report and Accounts sets out the Pension Fund’s income and expenditure and its assets and liabilities for the financial year ended 31 March 2011. The Report also provides information about the management structure of the Fund, its membership and administration arrangements and an analysis of investment performance.

Investment Performance of the Pension Fund

The Suffolk Pension Fund produced an investment return of 7.2% in 2010-2011. This was a satisfactory result in absolute terms. The medium-term performance of the Fund still remains below the actuary’s long run expected return. Over 5 years the Fund produced a return of 3.2% per year, which is less than the increase in retail prices, showing the Fund has not kept pace with the growth of liabilities over this period. The Fund’s return over 10 years is better, 5.1% per year, which shows that investment markets have made some progress in recovering the losses incurred during the credit crunch of 2007-2008.

The Fund assesses its own investment performance and the performance of its managers by making a comparison between the Fund’s investment return and its benchmark, based on the indices of the markets that the Fund is invested in. On the basis of this comparison, the Fund underperformed its benchmark by -1.2% in 2010-2011. This reflects the underperformance of several of our investment managers in the year. The Pension Fund Committee would normally expect to assess the performance of its managers over a full business cycle. However the Committee decided to remove the currency mandate managed by Record Currency Management during the year in response to the difficulties the manager has encountered in volatile currency markets.

Over the past five years, the Fund’s investment return (3.2% per year) was worse than its benchmark, by 0.9% per year. This reflects mainly the impact of the underperformance by AllianceBernstein over this period. The Committee is keeping the performance of this manager under regular review.

Over the past 10 years the fund’s investment return (5.1% per year) underperformed by 0.5% per year, relative to the fund’s benchmark. The Committee has made a number of changes to the Fund’s management arrangements over this period, including the appointment of three new equity managers in 2007.

> *"The investment strategy has a significant level of diversification between different equity markets and between different asset classes"*

The Fund's investment return over 10 years is slightly worse than the average local authority fund, which produced 5.3% per year over this period.

Review of Investment Strategy

The Fund's investment strategy is set out in its statement of investment principles, and this is subject to a regular review by the Pension Fund Committee. The investment strategy has a significant level of diversification between different equity markets and between different asset classes. At 31 March 2011 the Fund had a target allocation of 65% to listed equities, 18% to bonds (gilts and corporate bonds), 12% to property and 5% to private equity.

The Pension Fund Committee has carried out a wide-ranging review of the investment strategy for the Fund during 2010-2011. The Fund's objective is to achieve a long-term investment return in line with the actuarial assumptions for the Fund, 6.1% per year in cash terms (2.8% per year in real terms) at the 2010 actuarial valuation, with an acceptable level of risk in the investment strategy. The Committee has agreed to reduce the risks of equity markets by making additional allocations to alternative asset classes, including absolute return, infrastructure and timber, while reducing the share of the Fund invested in listed equities. The revised investment strategy will be implemented on a phased basis over the next two years as appropriate investments in the new asset classes are identified.

Actuarial Valuation and Funding Strategy Statement

We are required to obtain an independent actuarial valuation of the Fund's assets and liabilities and to approve a Funding Strategy for the Fund every three years. The Fund had an actuarial deficit at the actuarial valuation at March 2010 of £306 million and the fund's assets represented 82% of its liabilities at that date.

The Funding Strategy sets out the Pension Fund Committee's approach to funding the liabilities of the Fund, recovering the deficit and setting the future contributions to the fund for each of the individual employers. The Committee has balanced the desire of employers for stability and affordability in their contributions to the Fund with the need for a prudent approach to funding the liabilities of the Fund. The Committee has agreed a funding strategy which limits the increases in the contributions required for the major employers to a maximum of 1% of pay per year. The funding strategy is expected to recover the deficit of the Fund over a 20 year period.

Audit

The Pension Fund accounts are included within the County Council's Statement of Accounts for 2010-2011, which is subject to audit by the Audit Commission. The full Pension Fund Annual Report and Accounts is not subject to a separate audit. The County Council's Statement of Accounts for 2010-2011 has received an unqualified audit opinion.

Geoff Dobson
Head of Strategic Finance
September 2011

“There were no concerns raised by the internal auditors in the statement of internal control for 2010-2011”

Governance Report

Governance of the Suffolk County Council Pension Fund

The Local Government Pension Scheme (LGPS) is a pension scheme established under statute, which provides pension benefits for local government employees and certain other groups of workers involved in the provision of local government services. Administering authorities for the LGPS were established by the Local Government Superannuation Act 1972 and Suffolk County Council is the administering authority for the LGPS within Suffolk.

The County Council is required to approve a Governance Policy Statement, which sets out how its statutory responsibilities for the LGPS pension funds will be met. Under this statement, the Suffolk County Council Pension Fund Committee has been made responsible for the management of the Pension Fund.

Pension Fund Committee

The Pension Fund Committee's key responsibilities are:

(a) the effective and prudent management of the Suffolk County Council Pension Fund.

(b) the approval of the Fund's investment strategy and the appointment of the investment managers.

(c) the approval of the funding strategy following the triennial actuarial valuation, and the determination of the employers' contributions to the Fund.

Delegations to the Head of Strategic Finance

Under the Governance Policy Statement for the Pension Fund Committee, the Head of Strategic Finance, the County Council's responsible financial officer under section 151 of the Local Government Act 1972, is responsible for all decisions concerning the pension fund within the scope of the policies that have been approved by the Pension Fund Committee.

Membership of the Committee

The Pension Fund Committee consists of five county councillors, who are appointed by the County Council. In addition there are two district council representatives, who are appointed by the Suffolk Local Government Association. A scheme member representative, who is nominated by UNISON, is also co-opted to the Committee.

The following county councillors served on the Pension Fund Committee during the year: Peter Bellfield (Chairman), John Klaschka (Vice-chairman), Jeremy Pembroke, Guy McGregor and Richard Kemp. The district councillor representatives were Derrick Haley

(Mid-Suffolk District Council) and John Hale (St Edmundsbury Borough Council). Steve Warner was UNISON's nominated representative on the Committee.

Advisers to the Committee

The Pension Fund Committee is advised by the County Council's Head of Strategic Finance, Geoff Dobson. The Pension Fund Committee is also assisted by a number of external professional advisers, with the principal adviser being Hymans Robertson LLP, the fund's actuary and investment adviser.

Systems and internal control

Suffolk County Council's statement of accounts, including the accounts of the pension fund, is subject to external audit by the Audit Commission. The Audit Commission produce an audit opinion on the Council's accounts. The Pension Fund Annual Report and Accounts is not subject to an audit separate from that carried out on the Council's accounts. The auditors produce a statement for the Pension Fund Annual Report to confirm that it is consistent with the Council's accounts. The Pension Fund is also subject to an internal review by the Council's internal auditors who produce an annual Statement of Internal Control. This comments on the robustness of the Pension Fund's systems, procedures and controls. There were no concerns raised by the internal auditors in the statement of internal control for 2010-2011.

Reporting to stakeholders

The Pension Fund Committee invites all employers in the Fund to an annual meeting to receive reports on the Fund's performance in the year and on other developments relating to the pension fund. The annual meeting for 2009-2010 was held on 14 July 2010 and included presentations from the Head of Strategic Finance, the fund's actuary, Hymans Robertson, one of the investment managers and the pensions and benefits manager, Lynn Wright.

The Pension Fund Committee consults with the employers whenever any significant changes in the Pension Fund's investment strategy or funding strategy are under consideration. During the year the Committee has consulted employers on the proposals for employer contributions set out in the Funding Strategy following the actuarial valuation of the Fund at March 2010. In addition the Council's officers maintain a regular dialogue with individual employers during the year on fund administration issues.

Committee Training

As the body responsible for the administration of the Local Government Pension Scheme in Suffolk, the Pension Fund Committee recognizes the importance ensuring that all members and officers who are charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The Committee has made the Head of Strategic Finance responsible for ensuring that appropriate training is undertaken by members and officers with responsibilities relating to the administration of the pension fund.

The Committee has adopted the CIPFA Pensions Knowledge and Skills Framework as the basis for its future training and development. All new committee members are given initial training on the operation of the Fund and their responsibilities. This is supplemented by external training provided by the Local Government Employers and investment seminars organised by fund managers and other organisations. Committee members and officers have access to the on-line training and reference material contained in the CIPFA Pensions Knowledge and Skills 'tool-kit'.

"The Committee has adopted the CIPFA Pensions Knowledge and Skills Framework as the basis for its future training and development"

During the year, the Committee has received training delivered by Hymans Robertson on the following topics in relation to the review of the investment strategy that it carried out during the year:

- Funding and investment objectives
- Asset allocation
- Risk and diversification

The Committee has received presentations on infrastructure and absolute return products from investment managers as part of its consideration of the suitability of these asset classes within the Fund's overall investment strategy.

Pension Fund Annual Report and Accounts

The Pension Fund Annual Report and Accounts comprises the Annual Report and a number of additional policy statements described below, whose publication is prescribed under the regulations governing local authority pension funds. The additional documents are published in electronic form on the County Council's website.

Governance Policy Statement. The governance policy statement sets out the arrangements approved by the County Council for the discharge of its responsibilities for the local government pension scheme in Suffolk.

Governance Compliance Statement. The governance compliance statement sets out the extent to which the County Council's governance arrangements for the pension fund complies with the Government's best practice guidance and provides explanations of any variations from that guidance.

Statement of Investment Principles. The statement of investment principles provides an overview of the investment strategy for the pension fund's investments.

Funding Strategy Statement. The funding strategy statement sets out the approach taken by the Pension Fund Committee to meeting the long-term liabilities of the fund. It includes the determination of the individual employers' contributions to the fund for the three years following the triennial actuarial valuation.

Administration Policy Statement. The administration policy statement, which includes the pension fund's communication policy, sets out the arrangements for the administration of the pension fund, including the performance standards which the County Council and the fund's employers are expected to achieve in administration of the scheme's benefits.

Voting Policy. The voting policy sets out the pension fund's policies in relation to voting the shareholder rights attached to the fund's shareholdings.

Governance Compliance Statement

The Government has issued guidance setting out best practice on the governance arrangements for LGPS funds and administering authorities are required to report on any variations from the best practice guidance. The Suffolk Pension Fund Committee's governance arrangements comply with the Government's guidance in all material respects. The Governance Compliance Statement is published on the County Council's website.

Management Report

Work of the Pension Fund Committee during the year

The Pension Fund Committee has met on six occasions during 2010-2011. The main activities of the Committee during the year has been the approval of the funding strategy following the 2010 actuarial valuation, the review of the fund's investment strategy and the monitoring of the investment performance of the fund. The Committee has also responded to the review of the future of public service pensions carried out by the Independent Public Service Pensions Commission (the Hutton Commission).

The Pension Fund Committee has a business plan which sets out its performance management framework and its priorities for service development, and this is reviewed on an annual basis. The Committee has adopted a formal framework for the identification and management of the risks that the pension fund is exposed to, and the risk register has been reviewed and updated during the year.

Actuarial Valuation 2010 and Funding Strategy

The actuarial valuation as at March 2010 reported a reduction in the funding level for the Fund from 89% funded as at March 2007 to 82% funded at March 2010. The Funding Strategy sets out the Committee's approach to meeting the funding requirements of the Fund and specifies the employer contributions for each employer in the Fund. The Committee agreed to adopt a long-term deficit recovery plan, which is expected to return the Fund to a fully funded position over a period of 20 years. As a result of this approach, the Committee has been able to stabilise employer contribution rates and to limit increases in contributions for the major scheme employers to a maximum of 1% of pay per year for the three years from April 2011.

Investment Strategy

The Fund's investment strategy is set out in its statement of investment principles. The Pension Fund Committee agreed to undertake a review of the investment strategy during 2010-2011, to take account of changes to the investment landscape and the outcome of the actuarial valuation at March 2010. The Committee considered a number of reports on this from the fund's investment advisers, Hymans Robertson LLP, and it also received presentations on alternative asset classes, including infrastructure and hedge funds during the year.

"The Pension Fund Committee has a business plan which sets out its performance management framework and its priorities for service development"

Pension Fund Committee

Councillor Peter Bellfield - Chairman
Councillor John Klaschka
Councillor Guy McGregor
Councillor Jeremy Pembroke
Councillor Richard Kemp

Suffolk Local Government Association (SLGA) representatives:

Councillor Derrick Haley
Councillor John Hale

UNISON representative:

Mr. Steve Warner

Pension Fund SCC Contacts

Investments
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5 Constantine Road
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Pension Fund Advisers

Actuaries
Hymans Robertson LLP

Investment Consultancy Service
Hymans Robertson LLP

Investment Custodians
State Street

Auditors:
Audit Commission

Investment managers
Aberdeen Asset Management Limited
AllianceBernstein Institutional Investments
BlackRock Investment Management
JP Morgan Asset Management
Legal & General Investment
Millennium Global Investments
Newton Investment Management
Pantheon Ventures
Record Currency Management (to June 2010)
Schroder Property Investment
Wilshire Associates

The Committee has agreed to make allocations amounting to 17% of the Fund to absolute return, infrastructure and timber and to reduce the fund's allocation to listed equities accordingly. The implementation of the changes to the investment strategy is expected to be undertaken on a phased basis over the next one to two years. Scheme employers and other stakeholders have been invited to comment on the changes to the future investment strategy for the fund.

“The Committee has agreed to review the mandates of its equity managers as part of the process of the implementation of the revised investment strategy for the Fund”

Investment Performance Monitoring

The Committee has received reports on the performance of all its investment managers on a quarterly basis throughout the year. The Committee agreed during the year to make a small reduction in the Fund’s allocation to active currency management by the removal of the allocation to one of its currency managers, Record Currency Management. The Committee has agreed to review the mandates of its equity managers as part of the process of the implementation of the revised investment strategy for the Fund.

Changes to scheme employers

Five schools in Suffolk were established as academies during 2010-2011 and these automatically became statutory employers in the local government pension scheme with respect to their non-teaching employees. Further academies are expected to join the scheme in 2011-2012.

Pension Fund No. 2

The Pension Fund No. 2 existed to provide retirement benefits for scheme members employed by Ipswich Buses Ltd, a company wholly owned by Ipswich Borough Council. With the agreement of Ipswich Buses and the Borough Council, the admission agreement has been terminated and the assets and liabilities relating to the No. 2 Fund have been transferred to the main Pension Fund with effect from 1 April 2010.

"The cost of administration and investment management has decreased by £168,000 (3%) in 2010-2011"

Cost of Running the Fund

The Pension Fund Committee reviewed the management costs of the fund during 2010-2011. The cost of administration and investment management has decreased by £168,000 (3%) in 2010-2011. The main factor that caused the decrease was the reduction in AllianceBernstein fees in 2010-2011. Also in 2009-2010 we paid BlackRock performance fees for 2008-2009 for which provision had not been made in the accounts for 2008-2009 causing the cost to be incurred in 2009-2010.

The total administration and investment management costs represent about 0.4% of the value of the Fund at 31 March 2011, which is broadly in line with the local authority average.

Administrative and Management Expenses	2009-10 £000	2010-11 £000
Administrative Costs		
Suffolk County Council	1,081	1,259
Actuarial and Investment Advisory Services	148	242
Audit Fees	48	39
Other Charges	162	84
	1,439	**1,624**
Fund Management Expenses		
Aberdeen	187	205
Legal & General	418	473
Schroders	158	106
AllianceBernstein	458	259
BlackRock	232	242
Blackrock performance fee	1,104	801
Newton	812	856
JP Morgan	623	690
Millennium	6	5
Custodian (State Street Bank and Trust)	96	103
	4,093	**3,740**
Total	**5,532**	**5,364**

Corporate Social Responsibility and Voting Report

Environmental, Social and Governance Issues

The Pension Fund is required to disclose in its statement of investment principles to what extent the it takes account of environmental, social or ethical considerations in the selection, realisation or disposal of investments. The Pension Fund Committee considers that the primary duty of the Fund is to ensure that the long-term return from its investments is sufficient to meet the Fund's liabilities and that the selection of investments should be undertaken to achieve the best financial return for the Fund, subject to an appropriate level of risk. It has not placed any requirements on the Fund's investment managers in the selection or retention of investments by reference to environmental, social or ethical criteria. All investments that are made for the Fund are made in compliance with the legal and regulatory requirements that apply to the local government pension scheme.

Voting Policy

The Pension Fund seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of the companies that it invests in. The Fund's equity holdings in equities give the Fund the right to vote on the resolutions at company general meetings. The Pension Fund Committee has a voting policy which covers its holdings in UK companies. In addition with effect from April 2010, the Committee has extended the voting by the Fund to include its overseas equity holdings. Voting is carried out on the Fund's behalf by our governance and voting advisers, Pension Investments Research Consultants (PIRC). A copy of the Fund's voting guidelines can be obtained from the Head of Strategic Finance.

The general principles 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. The definition of good practice is based on the guidelines in the UK Corporate Governance Code.

- We will vote against proposals which breach the Code and where the company is unable to provide a satisfactory explanation of its policy.

Voting activity in 2010-2011

The Fund voted at 107 UK company general meetings during 2010-2011, which involved 1570 resolutions. The Fund voted against the company's proposals on 223 occasions (14%).

"All investments that are made for the Fund are made in compliance with the legal and regulatory requirements that apply to the local government pension scheme"

"The last twelve months have seen the level of shareholder engagement with UK companies remain high"

Suffolk Pension Votes at UK Company General Meetings 2010-2011			
Resolution Type	**Oppose**		**Total**
Remuneration Reports	99	51%	193
Articles of Association	1	1%	84
Auditors	15	9%	170
Corporate Donations	5	10%	49
Directors	73	14%	528
Dividend	0	0%	60
Executive Pay Schemes	18	38%	47
Share Issue\Re-purchase	9	3%	300
Other	3	2%	139
Total	**223**	**14%**	**1570**

The Fund also voted at 342 overseas company general meetings. The Fund's UK voting record is analysed below. Full details of the voting by the Fund are contained within the reports to the Pension Fund Committee which are published on the County Council's website.

UK corporate governance issues in 2010-2011

The last twelve months have seen the level of shareholder engagement with UK companies remain high. On a number of core issues, such as remuneration and the role of auditors, there were some important challenges to companies, and some notable shareholder resolutions were filed.

In 2010 two companies lost the votes on their remuneration reports. Suffolk held shares in one of these, the property company Grainger, and opposed the report. Overall the average oppose vote on a remuneration report during the whole of 2010 was 6%.

Shareholder pressure over pay has continued into 2011. In February 2011 budget airline easyJet lost the vote on its remuneration report, as a result of concerns about payments to the former chief executive. Also early in 2011 there was a vote of over 40% against the remuneration report of Enterprise Inns. In February at Thomas Cook there was also a 40% votes against the remuneration report, driven by investor concerns about the group's performance share plan. After taking abstentions into account, there was only a 53% vote in favour of the report.

The role of auditors at companies that have experienced difficulties has also come in for greater scrutiny. In February 2011 TUI Travel saw significant shareholder dissent over the reappointment of Pricewaterhouse Coopers (PwC) as its auditor. PwC was the incumbent at the predecessor company where fundamental flaws in internal controls led to the reporting inaccuracies which in turn led to the resignation of KPMG, when it subsequently uncovered these issues.

High fees paid to the auditor for non-audit work can also often trigger investor concern. In 2010 supermarket chain Morrisons was subject to one of the highest oppose votes, seeing an 11% vote against the reappointment of its auditor KPMG. This is well above the average 1% vote against a FTSE100 auditor appointment during the year.

Environmental concerns also came to the fore in 2010. Oil majors BP and Shell were both the subject of shareholder resolutions relating to the development of oil sands. The resolutions, filed by the campaign group Fair Pensions, sought to encourage greater disclosure by the companies of the assumptions underlying these developments. Neither resolution attracted significant support, with the BP resolution achieving a vote of 6% in favour with a further 9% abstaining, and that at Shell receiving around 5% with similar abstentions. However a number of investors felt the resolutions did draw attention to important issues and encouraged both companies to be more transparent. Suffolk abstained on both resolutions.

Administration Report

Introduction to the Fund

The Local Government Pension Scheme (LGPS) exists to provide pension benefits for certain employees within local government. It is governed by statute and the statutory responsibility for regulating the scheme lies with the Minister of State for the Department for Communities and Local Government.

The LGPS is administered within Suffolk by Suffolk County Council, via the Suffolk County Council Pension Fund. The County Council's statutory responsibilities for the scheme 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.

The Scheme is open to all County Council employees (except teachers and fire fighters who have their own scheme), employees of the Suffolk district councils and employees of certain other public bodies (known as scheduled bodies) within Suffolk. Parish and Town Councils may decide by resolution to allow their employees to join the pension fund. The regulations also permit the Pension Fund Committee to admit to the fund certain other bodies which provide public services.

All local government employees automatically become members of the scheme unless they choose to opt out.

"LGPS exists to provide pension benefits for certain employees within local government"

How the Fund Works

The LGPS is a funded scheme. This means the scheme is financed through contributions from employees and employers and by income from the Fund's investments. The surplus of contributions and investment income over the benefits currently being paid is invested in a range of investments in compliance with the LGPS investment regulations.

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 2010.

Pensions administration

The pension administration team is led by Lynn Wright, the Pensions Manager, and consists of 18 FTE staff who carry out the full range of pension benefit calculations and administration functions. There is a range of experience within the team from 11 months to 25 years, with the majority of staff having pension

“With effect from April 2011, the Government has determined that pension increases for the LGPS should be in line with movements in the Consumer Price Index.”

experience in excess of 5 years. Within the pensions administration team is a help desk facility, which maintains a call abandonment rate of less than 5% of calls. All calls to the team are recorded and regular quality monitoring is undertaken of the calls and e-mails received. 75% of all calls are answered by the helpdesk team at first point of contact.

Pensions administration involves:

- Maintaining an accurate database of pension scheme members, deferred members and pensioners;
- Calculating service credits from incoming transfer values and notifying scheme members accordingly;
- Calculating and paying outgoing transfer values to other pension schemes and providers;
- Calculating and notifying amounts of deferred pension benefits when a member leaves before normal retirement age;
- Calculating and paying pension benefits when a member retires;
- Calculating and paying dependent pensions and lump sums when a member, deferred member or pensioner dies;
- Paying pensioners monthly;
- Providing estimates of benefits, information on entitlements and implementing pension sharing orders on divorce;
- Assessing the impact of, and implementing amending legislation when received and also communicating the effect of those changes to members, deferred members, pensioners and scheme employers.

Regular 6-monthly meetings are held with employer representatives on administration matters, which this year included legislation updates, updates on the progress of the review by the Independent Public Service Pensions Commission (the Hutton Commission), information on the proposed HMRC (HM Revenues and Customs) legislation changes, and training sessions on additional voluntary contributions, purchase of additional service and retirements.

The local government pension scheme web pages for members were launched in October 2010 (http://www.suffolk.gov.uk/Jobs/SuffolkPensionFund/) . The pages on the Suffolk web site contain full information on the local government pension scheme as well as providing tools to enable pension scheme members to forecast aspects of their pension benefits. The web pages were advertised to all scheme employers at the employer’s liaison meeting in December 2010 and communicated to all scheme members. Pensioners were notified of the launch in the pensioners newsletter sent out during the year. The web pages contain links to the other main public service pension schemes, as well as other useful links such as the Department for Work and Pensions and HMRC.

The Local Government Pension Scheme (Miscellaneous) Regulations 2010 were laid in Parliament on 25 August 2010 and came into force on 30 September 2010. The regulations incorporate some 56 separate changes, mostly technical clarifications, to four separate Statutory Instruments which are the main provisions for regulating and providing benefits to members of the local government pension scheme. A significant number of the changes have been introduced either correcting or amplifying regulations in order to make clear the original intention of the current 2007 and 2008 regulations.

Benefits of the Pension Fund

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 inflation. With effect from April 2011, the Government has determined that pension increases for the LGPS should be in line with movements in the Consumer Price Index.

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’ of the S2P arrangements.

The core benefits are

- A guaranteed pension based on final pay and the length of service in the scheme.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the member's yearly pay from the day they join the scheme.
- Pensions for spouses, civilly registered partners and qualifying co-habiting partners. Eligible children are also entitled to a pension.
- An entitlement paid early if a member has to stop work permanently due to permanent ill health.
- Pensions increases in line with inflation (measured by the Consumer Price Index).
- Pensions are payable from age 55 with employer's consent, including flexible retirement.

Costs of Membership

Employees pay between 5.5% and 7.5% of the pay they receive for their contractual hours. The rate that employees pay depends on the pay band they fall into. Here are the pay bands that applied during 2010-2011.

If your Whole time Pay Rate is:	You pay a contribution rate of:
Up to £12,600	5.5%
£12,601 to £14,700	5.8%
£14,701 to £18,900	5.9%
£18,901 to £31,500	6.5%
£31,501 to £42,000	6.8%
£42,001 to £78,700	7.2%
More than £78,700	7.5%

Independent Public Service Pension Commission (Hutton Commission)

The Government established the Independent Public Service Pensions Commission, chaired by Lord Hutton, to review the future arrangements for public service pensions, including the local government pension scheme. The Commission's Final Report in March 2011 produced 27 recommendations, which address both the design principles for the future public service pension schemes and the proposals for implementation, future scheme governance and administration. A key proposal in the report was a recommendation for a career average revalued earnings (CARE) defined benefit scheme for future service within the public service pension schemes. The Commission recommended that the local government pension scheme continues to operate as a funded scheme, administered locally by the existing administering authorities. The Commission has recommended that the new scheme arrangements be introduced by 2015. The Government has accepted the Commission's recommendations and stated that it will consult on detailed proposals for implementation in the autumn of 2011.

Administration of the Fund - Key facts and figures

18,505 number of members paying into fund.

11,627 number of pensioners and dependants currently receiving benefits from the scheme.

61 number of employers in the fund in 2010-2011

£73.6m the amount paid in by employers in 2010-2011

£20.4m the amount paid in by members in 2010-2011.

£50.1m paid out in pensions in 2010-2011.

£4,306 average annual pension paid to retired members.

Employers in the 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
Debenham Academy
Forest Academy
Hartismere School
Ipswich Academy
Lowestoft College
Otley College
Suffolk New College
Suffolk Police Authority
Suffolk Valuation Tribunal
Samuel Ward Academy
West Suffolk College

Resolution Bodies

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

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

Admitted Bodies

Abbeycroft Leisure
Anglia Community Leisure Trust
Association of Colleges in the Eastern Region
Coastal Homeless Action Group
Churchill Contract Services
Care Quality Commission (formerly Commission for Social Care Inspection)
Design Clean Ltd
Hadleigh Market Feoffment Charity
Havebury Housing Partnership
Housing 21
Kings Forest Housing Ltd.
Leiston Long Shop
Papworth Trust
Partnership In Care Ltd.
Seckford Foundation
Sports and Leisure Management Ltd
Suffolk Association of Local Councils
Suffolk Coastal Leisure Community Assn. Ltd.
University Campus Suffolk
Waveney Norse

Other Employers (no active members)

Aldeburgh Town Council
Community Council For Suffolk
Ely, Mildenhall & Newmarket Water Board
Felixstowe Dock and Railway Company
Ipswich and District Citizens' Advice Bureau
Lakenheath Internal Drainage Board
Leiston Town Council
Mid Suffolk MIND
Mildenhall Fen Internal Drainage Board
Museum of East Anglian Life
National Care Standards Commission
Suffolk Archaeological Unit
Suffolk Development Agency
Suffolk Heritage Housing Association
Suffolk Magistrates' Courts Committee
Suffolk Old People's Welfare Association
Suffolk Trust for Nature Conservation
West Suffolk Water Board

Summary of Financial Position and Membership

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

Financial Summary	2006-07 £'000	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
Contributions	87,963	85,775	90,622	93,826	94,028
Other Income	7,040	7,632	5,467	8,895	7,417
	95,003	**93,407**	**96,089**	**102,721**	**101,445**
Benefits Payable	-46,636	-49,023	-55,537	-62,923	-68,415
Other Expenditure	-5,577	-4,417	-5,422	-6,115	-42,858
	-52,213	**-53,440**	**-60,959**	**-69,038**	**-111,273**
Net additions / withdrawals (-) from dealings with members	**42,790**	**39,967**	**35,130**	**33,683**	**-9,828**
Investment Income (net of fees)	18,387	20,475	21,442	24,906	22,984
Change in Market Value of Investments	72,866	-55,877	-324,595	325,247	73,377
Net Return on Investments	**91,253**	**-35,402**	**-303,153**	**350,153**	**96,361**
Change in Fund during year	**134,043**	**4,565**	**-268,023**	**383,836**	**86,533**
Addition of No 2 Pension Fund 31 March 2010				**15,505**	
Net Assets at 31 March	**1,300,645**	**1,305,210**	**1,037,187**	**1,436,528**	**1,523,061**
Membership Summary	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Members	17,977	18,336	19,058	19,759	18,505
Employee Pensioners	7,721	8,157	8,635	9,261	9,810
Widow / Widower Pensioners	1,545	1,599	1,671	1,771	1,817
Deferred	10,748	11,861	12,442	13,861	14,593
Total	**37,991**	**39,953**	**41,806**	**44,652**	**44,725**

Investment Report

Market Review by Hymans
Year to 31 March 2011

“One major influence on markets over the 12-month period was increasing inflationary pressure, particularly in emerging markets”

The year started with a significant setback for equity markets, on concerns over the economic outlook and on tensions within the Euro-zone following the emergency funding package extended to Greece. Sentiment changed during the summer of 2010, particularly following the speech by the Chairman of the US Federal Reserve in August prefiguring a second round of US quantitative easing. From that time, equity markets performed strongly, Japan being the exception, further assisted by evidence of continued economic ‘healing’.

Strong earnings growth and the re-building of balance sheets supported the corporate sector. The emergence of political tension in Arab countries, and events in Japan, during the first quarter of 2011 were accepted with equanimity by investors. In contrast, large deficits and sovereign debt problems troubled the government sector. Austerity packages were introduced in a number of areas, including the UK.

One major influence on markets over the 12-month period was increasing inflationary pressure, particularly in emerging markets. The main contributors were sharp rises in food and oil prices. In the early months of 2011, a number of central banks in Asia tightened policy, either by increasing short-term interest rates or raising the reserve requirements of commercial banks.

Bond returns in major markets were positive over the year. In the UK, index linked outperformed fixed interest issues, reflecting concerns over inflationary pressures. Strong corporate results and demand for higher yielding assets provided support to corporate bonds.

Key events during the year:

Global Economy

- Short-term interest rates in ‘developed’ markets remained at historic lows
- The IMF upgraded its global economic growth forecast for 2011
- The influence of China and India on world market increased
- The US extended its asset purchase programme to support its economy
- Sovereign debt problems in Spain, Ireland and Greece threatened the stability of the Euro

Currencies

- The US$ fell against Sterling, the Euro and the Yen
- China and USA 'clashed' over alleged 'undervaluation' of the renminbi

Bonds

- Index linked gilts outperformed fixed interest issues on concerns over inflation
- UK government bonds gained support from measures to reduce public debt
- Yield differentials between highly indebted Euro countries and Germany widened to very significant levels

There are grounds to take a more optimistic view of economic prospects; however, a number of factors have the potential to deliver a 'shock', not least the scale of the US deficit and the implications of continuing political instability in Arab countries. In the UK, the full impact of spending cuts and higher taxes has yet to be revealed. Meanwhile, households face the worst 'squeeze' on income since the 1920s.

John Hastings
Hymans Robertson

18 May 2011

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 2009 (S.I. 2009/3093) which allow a wide range of investments.

2. The most significant restrictions in the regulations are that:-
   (a) Not more than 10% of the fund (15% where a higher limit is approved) 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 with an institution authorised under the Financial Services and Markets Act 2000, 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 made from the fund, but not including loans to the UK 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 25% of the fund (35% where a higher limit is approved).
   (g) All securities which are lent under stocklending arrangements may not exceed 25% of the fund (35% where a higher limit is approved).
   The Pension Fund Committee has adopted the higher limit of 35% for the investments managed by a single manager, to allow it to invest in the index-tracking funds of Legal and General Investment Management up to this limit.

The Suffolk Pension Fund complied with the regulatory limits throughout 2010-2011.

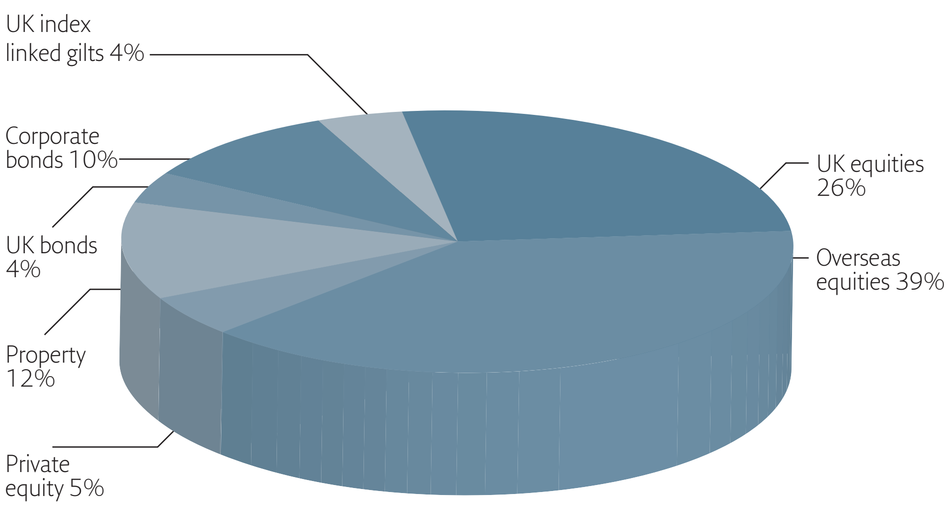
Statement of Investment Principles

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.suffolk.gov.uk). The investment strategy has been reviewed on a number of occasions since 2000, most recently in May 2011.

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 a portfolio which matches the fund's liabilities 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.

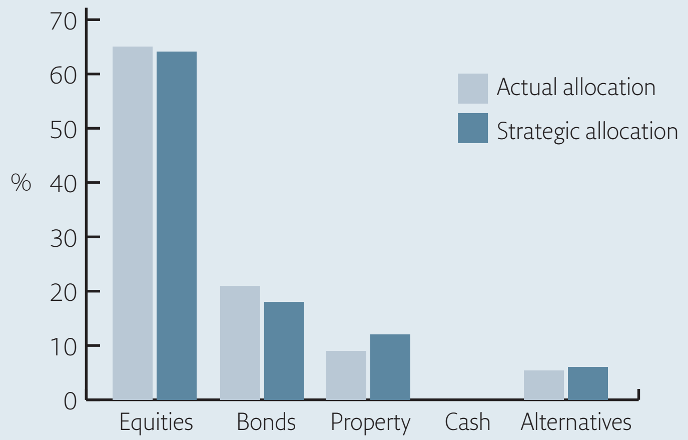
5. The strategic asset allocation benchmark for the Fund is shown below. Cash flow from employer and employee contributions is used to re-balance any variation in allocation caused by market movements back towards the strategic asset allocation.

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**



Asset Allocation

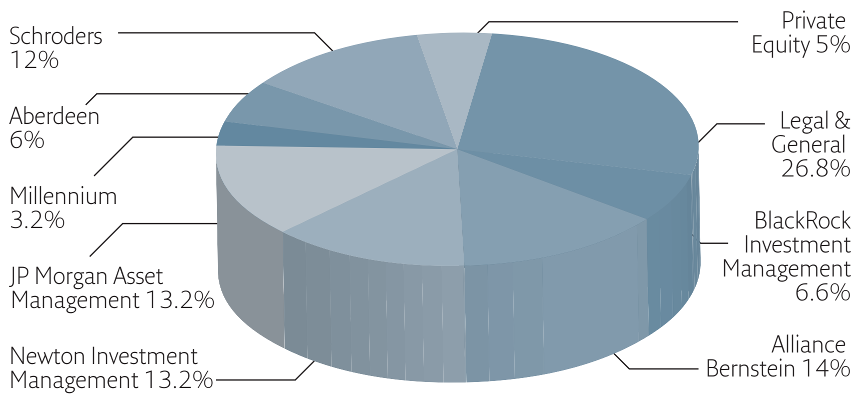
6. The fund had 65.5% of its assets in equities in March 2011. The fund had 20.5% of its assets in bonds (2.5% over the strategic allocation), 9.2% in property (2.8% under the strategic allocation), 4.9% in other investments and temporary cash (0.1% over the strategic allocation).



Investment Management Arrangements

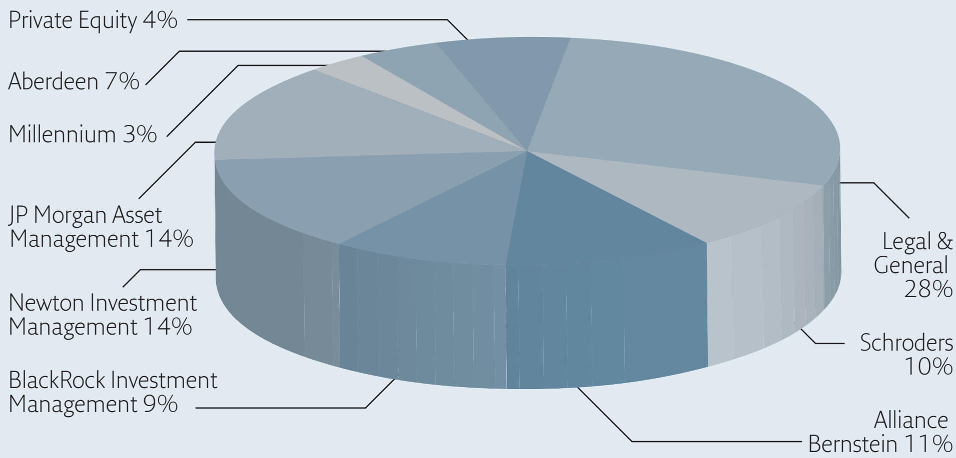
7. The following investment managers managed the fund's assets during 2010-2011:

- Legal & General Investment Management manage a multi-asset index tracking mandate (target allocation 26.8% of the fund);
- JP Morgan Asset Management manage a global equity mandate(13.2% of the fund);
- Newton Investment Management manage a global equity mandate (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 (6.6% of the fund);
- Schroder Property Investment Management manage a property mandate (12% of the fund);
- Aberdeen Asset Management (6% of the fund) manage a bonds mandate;
- Wilshire Associates (3% of the fund) and Pantheon Ventures (2% of the fund) manage private equity mandates;
- Record Currency Management managed a currency mandate of 1.8% of the fund up to June 2010. Following the removal of the mandate, the mandate of Legal and General has increased by the amount realised by the disinvestment from Record.
- Millennium Global Investments (3.2% of the fund) manage a currency mandate. Man Financials undertake an equitisation programme as part of Millennium's currency mandate.



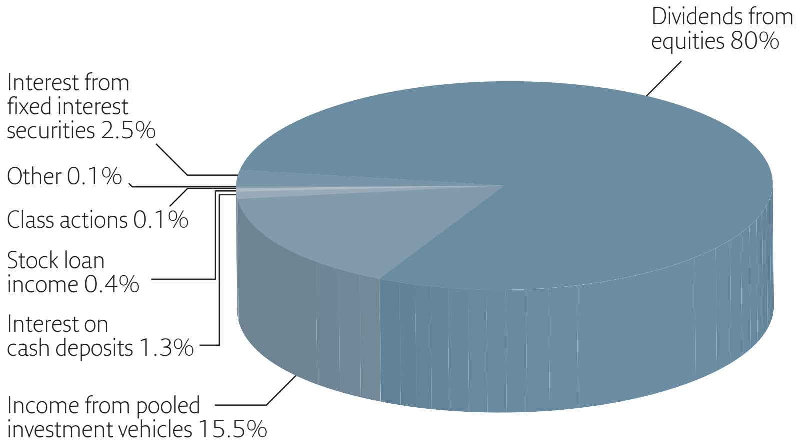
Investment Manager Allocation at March 2011

8. In practice the value of the holdings managed by individual managers may vary from their target allocations, because of market movements of different asset classes. The shares of the pension fund held by the fund's investment managers at March 2011 were as follows.



Investment Income

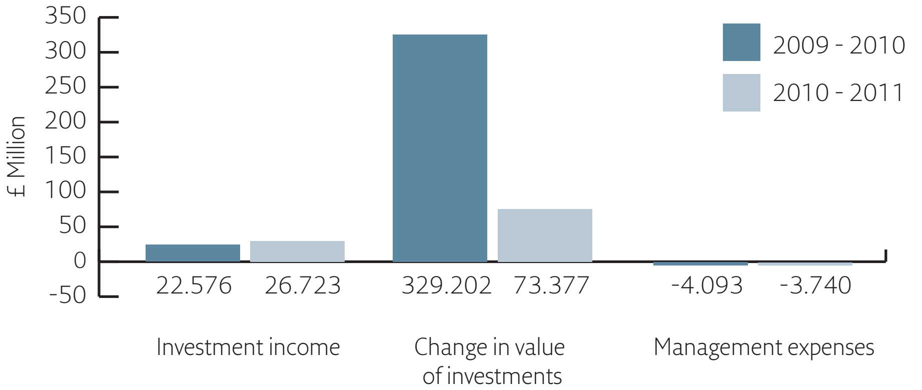
9. The following chart shows the sources of Investment Income earned by the Fund in 2010-2011.



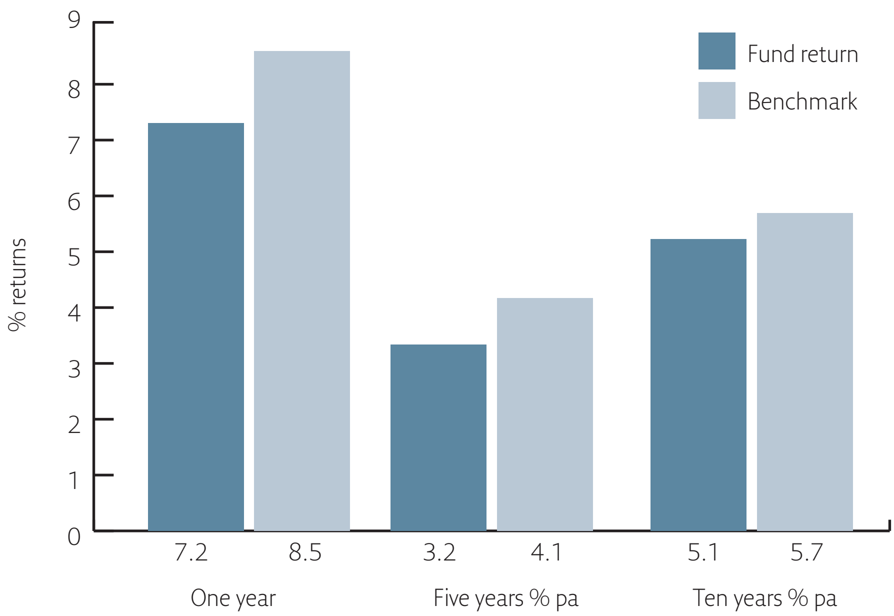
Investment income	£m	%
Interest from fixed interest securities	0.693	2.5
Dividends from equities	21.796	80.0
Income from pooled investment vehicles	4.213	15.5
Interest on cash deposits	0.347	1.3
Stock Loan Income	0.116	0.4
Class Actions	0.031	0.1
Other	0.038	0.1
Taxes on Income	-0.511	
	26.723	**100.0**

Investment Performance

10. The chart below shows the main source of investment returns during 2010-2011. The change in the value of the investments includes realised and unrealised gains and losses.



11. The fund's assets increased from £1,436 million to £1,523 million during 2010-2011. After allowing for the net cash flow from additional employer and employee contributions in the year, this represented a positive investment return of 7.2%, compared with the fund's own benchmark target of 8.5%. 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, five and 10 years is shown below.



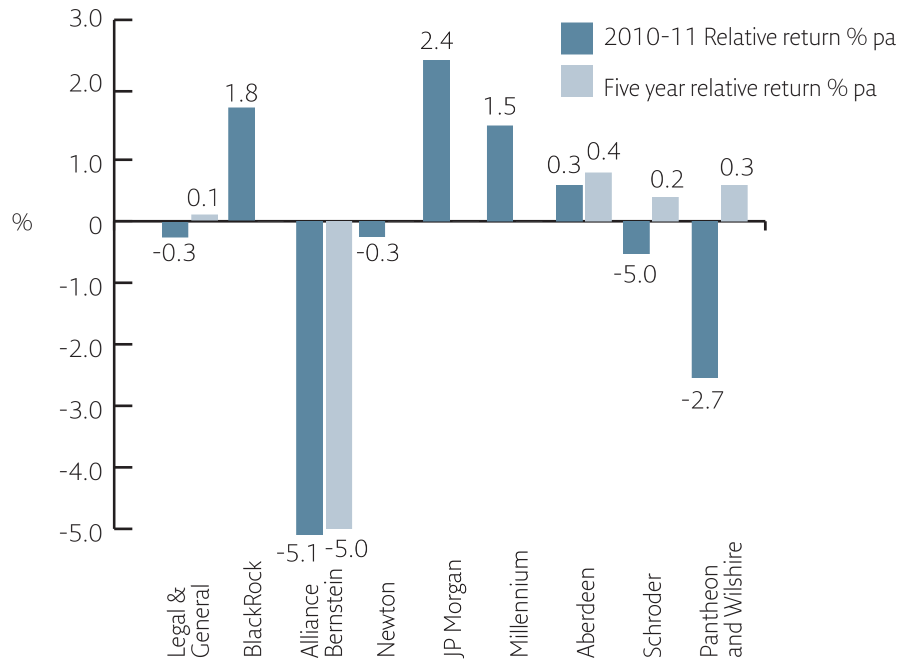
Manager Performance

12. The table and chart below shows the investment returns achieved by the fund managers relative to their own benchmarks over one year and five years. AllianceBernstein's mandate started in June 2006, JP Morgan, Newton and BlackRock's mandates started in July 2007, and Millennium started in March 2008. As a result longer-term performance figures for these managers are not yet available.

% of Fund	Manager	Asset	2010-2011 Relative Return	5 Year Relative Return %
			%	% p.a.
28	Legal & General	Multi Asset Passive	-0.3	0.1
9	BlackRock	UK Equities	1.8	N/A
11	Alliance Bernstein	UK Equities	-5.1	-5.0
14	Newton	Global Equities	-0.3	N/A
14	JP Morgan	Global Equities	2.4	N/A
3	Millennium	Active Currency/Futures	1.5	N/A
7	Aberdeen	Bonds	0.3	0.4
10	Schroder	Property	-0.5	0.2
4	Pantheon and Wilshire	Private Equity	-2.7	0.3
100				

13. Although very short-term performance is not considered especially significant, BlackRock, JP Morgan, Millennium, and Aberdeen outperformed in 2010-2011. All other managers underperformed against their benchmarks in 2010-2011. Over five years Aberdeen, Schroders and Legal and General have outperformed against their benchmarks. Legal and General manage a passive index-tracking mandate, which is not expected to outperform the benchmark. However the manager's performance may from time to time vary compared with the index for technical reasons.

14. The performance of the fund's private equity investments is shown relative to the indices for publicly listed equity markets. These investments have underperformed public equity markets over one year and slightly over performed over five years. In practice the performance of the fund's private equity managers will be assessed over the longer term based on the realised values of the holdings and the distributions received by the fund.



Analysis of Investments at 31 March 2011 by Industrial and Geographical Sector

Holdings	Pooled Investment Vehicles – Market Value	Segregated Holdings - Market Value	Total Market Value	% of Market Value
	£000	£000	£000	%
Bonds				
Fixed Interest UK Securities - Gilts	28,921	22,601	51,522	3.3
Index Linked Gilts	63,193		63,193	4.1
Overseas Fixed Interest Securities	34,615		34,615	2.2
Corporate Bonds	166,526		166,526	10.8
Total Bonds	**293,255**	**22,601**	**315,856**	**20.5**
UK Equities				
Basic Materials		47,234	47,234	3.1
Consumer Goods		37,995	37,995	2.5
Consumer Services		44,896	44,896	2.9
Financials		70,181	70,181	4.5
Health Care		29,534	29,534	1.9
Industrials		27,387	27,387	1.8
Oil and Gas		55,051	55,051	3.6
Technology		2,245	2,245	0.1
Telecommunications		25,101	25,101	1.6
Utililies		1,134	1,134	0.1
Pooled	7,896		7,896	0.5
Total UK Equities	**7,896**	**340,758**	**348,654**	**22.6**
Overseas Equities				
Europe	73,381	81,128	154,508	10.0
North America	87,076	207,072	294,147	19.0
Japan	20,736	21,969	42,705	2.8
Other Asia	30,394	35,166	65,560	4.2
Other International	0	44,692	44,692	2.9
Total Overseas Equities	**211,587**	**390,027**	**601,614**	**38.9**
Private Equity		59,518	59,518	3.9
Active Currency		32,414	32,414	2.1
Futures Contract		42,988	42,988	2.8
Forward Foreign Exchange Contracts (Net Asset Position)		-70	-70	0.0
Property Unit Trusts	142,227		142,227	9.2
Total Market Value*	**654,965**	**888,236**	**1,543,201**	**100.0**

Top 40 Holdings as at 31 March 2011

Holding (No of Units)		Market Value £ million	% of Market Value
64,037,757	L&G Investment Grade Corporate Bond	90.665	5.95%
51,899,222	North America Equity Index GBP hedged	87.052	5.71%
38,783,572	L&G European Equity Index Hedged	75.193	4.93%
47,013,122	Aberdeen Fixed Income Sterling Credit Fund	70.261	4.61%
15,496,686	L&G Over 5 Year Linked Gilts Index	62.722	4.12%
5,381,276	L&G Global Emerging Markets Index	45.428	2.98%
286,010	Millennium Active Currency Total	32.212	2.11%
11,106,703	L&G Pacific Basin Equity Index Hedged	30.517	2.00%
8,222,115	L&G Over 15 Years Gilts Index	29.467	1.93%
1,015,300	Royal Dutch Shell	28.711	1.88%
17,112,786	L&G Japan Equity Index	22.946	1.51%
11,229,788	Vodafone Group PLC	22.471	1.47%
427,158	Rio Tinto PLC	19.821	1.30%
2,724,355	HSBC Holdings PLC	18.701	1.23%
3,557,927	BP PLC	17.463	1.15%
489,108	Schroders Exempt Property Units	16.153	1.06%
592,661	British American Tobacco PLC	15.236	1.00%
289,748	Standard Life Pooled Pension Property Fund	14.825	0.97%
471,512	AstraZeneca PLC	13.642	0.90%
1,081,492	GlaxoSmithKline PLC	13.499	0.89%
414,615	L&G Managed Property Fund	11.908	0.78%
305,282	BlackRock Property Fund	10.462	0.69%
675,615	Xstrata PLC	9.844	0.65%
7,201	Lothbury Property Units	9.584	0.63%
458,071	Imperial Tobacco Group PLC	8.827	0.58%
3,063,281	Barclays PLC	8.502	0.56%
1,889,823	Hermes Property Unit Trusts	8.221	0.54%
1,189,889	BlackRock UK Smaller Companies Fund	7.942	0.52%
1,068,653	Wilshire US Private Markets Fund VII	7.771	0.51%
1,999,100	Tesco PLC	7.617	0.50%
459,881	Standard Chartered PLC	7.436	0.49%
12,420,792	Lloyds Banking Group	7.215	0.47%
9,440	Hercules Unit Trust	6.844	0.45%
210,565	Anglo American PLC	6.753	0.44%
250,737	BHP Billiton PLC	6.168	0.40%
11,754	IPIF Feeder Unit Trust	6.135	0.40%
15,045	West end of London Property Units	6.093	0.40%
7,127,477	Unite UK Student Accommodation	5.795	0.38%
6,242	Standard Life Investments	5.622	0.37%
3,980	UBS Global Asset Management	5.501	0.36%

These 40 holdings make up £881.225 m, 57.8% of the total portfolio.

Statement of Internal Controls 2010-2011

Scope of responsibility

1. Suffolk County Council (the County Council) is responsible for administering the Local Government Pension Scheme in Suffolk in accordance with Statutory Regulations. It has a fiduciary duty to the contributors and beneficiaries of the Fund to ensure contributions are collected, that benefits are calculated correctly and paid promptly, and that any surplus monies are properly invested. The County Council has established a Pension Fund Committee (the Committee) to carry out its duties and responsibilities as an administering authority within the Statutory Regulations.

2. In discharging its responsibilities the County Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, which includes arrangements for the management of risk.

The purpose of the system of internal control

3. The County Council's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

   The system of internal control is based on an on-going process designed to identify and prioritise risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The internal control environment, Establishing and monitoring the achievement of the Fund's objectives

4. The County Council has established objectives which are set out in its Statement of Investment Principles and it has also published a Funding Strategy Statement. The effectiveness of these is monitored throughout the year by the Committee. The Committee monitors investment performance relative to the growth in the liabilities by means of annual interim valuations and quarterly actuarial monitoring reports received by an independent performance analysis service. The County Council's internal auditors report the results of their work to the Committee. The Committee reports back to employers by means of the annual employers' meeting and communication of the interim valuation results.

"The County Council's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives"

The facilitation of policy and decision-making

5. New members of the Committee receive initial training on the role and responsibilities of the Committee. The Head of Strategic Finance provides advice to the Committee and the County Council employs external advisors as necessary to advise on specific issues (e.g. on performance measurement, actuarial issues and corporate governance). The County Council has appointed specialist investment managers to manage the investments of the Fund.

6. Committee Members receive on-going training to help develop their awareness and ensure they have the necessary skills/knowledge base to fulfil their responsibilities effectively. Training needs are addressed by a variety of means including external training seminars, in-house briefings and the training provided to the Committee by the Fund's external advisors at the quarterly Committee meetings.

Ensuring compliance with established policies, procedures, laws and regulations

7. Customer Service Direct (CSD) manages the Local Government Pension Scheme on behalf of the County Council. This includes the management of records, calculation of benefits, and payment of pensioners. Day-to-day investment transactions are also made by CSD.

8. Compliance with established policies, procedures, laws and regulations, relating to the conduct of business by CSD is achieved through the contractual agreement between CSD and the County Council, and the County Council's internal control framework. This includes the County Council's Financial Regulations and Procedures, Statement of Investment Principles and Funding Strategy Statement. The Head of Strategic Finance (as the County Council's Section 151 Officer) also has a statutory responsibility for ensuring compliance with the regulatory framework.

9. The Fund Management and Advisory agreements with external managers are an important part of the internal control environment. Quarterly performance reports provide evidence of compliance and performance. In addition, through the Advisory agreement the County Council is kept up to date with developments relating to the exercise of its functions as an administering authority and of any changes required to its policies and procedures.

The financial management of the County Council

10. The system of internal financial control operated by the County Council is based on a framework of regular management information, financial regulations, administrative procedures, management supervision, and a system of delegation and accountability. The system includes regular reviews of periodic and annual financial reports which indicate financial performance and sets targets to measure financial and other performance. In addition, the County Council has appointed independent advisors on investment matters, and an actuarial consultant specifically for the Pension Fund.

11. Within the County Council's agreed internal audit plan, Audit Services carry out reviews of different aspects of the Pension Fund. Using the latest guidance produced by the County Chief Auditors Network and Lead Authority Working Group on the Audit of Investment Managers (LAWGAIM), two audits were completed during 2010-2011: a) a compliance review of the Pension Scheme Administration, and b) a review of the Pension Fund Investment Management arrangements against LAWGAIM's good practice guidance.

Review of effectiveness

12. Specific review processes applied in maintaining and reviewing the effectiveness of the system of internal control are indicated below.

The Committee:

a) Has met on a regular basis and has received regular reports from officers on issues concerning the Fund;
b) Receives and considers quarterly performance reports from its Fund Investment Managers and Custodian;
c) Receives regular monitoring reports of the Fund's asset allocation and investment returns relative to the benchmark;
d) Monitors the delivery of benchmark returns relative to liabilities at the triennial actuarial valuations and actuarial monitoring between valuations;
e) Receives annual interim valuations and quarterly actuarial monitoring reports;
f) Has reviewed the Statement of Investment Principles and approved the publication of a Funding Strategy Statement; and
g) Receives quarterly reports on investment performance from an independent performance analysis service.

Audit Services

14. Audit Services is an integral part of the County Council's internal control arrangements. The role, responsibility and objectives of Audit Services are specified in the County Council's Constitution. The Head of Strategic Finance (Section 151 Officer) has delegated responsibility, under the Accounts and Audit (Amendment) (England) Regulations 2006, to maintain a continuous, adequate and effective internal audit of the County Council's accounting, financial and other processes.

15. Audit Services work to the professional standards specified by the Chartered Institute of Public Finance and Accountancy (CIPFA). Internal audit reports address identified weaknesses in internal control arrangements. The work includes auditing the Fund, as described in 3.8 above, and a summary of the key findings from this work is detailed below.

Pension Scheme Administration

16. The main findings from this Audit review relate to the issue of the annual pension statements. A change in key staff involved in the annual production of the statements caused a delay in 2010 however this should be rectified for 2011.

17. There was a backlog of work due to the Pensions team waiting to hear back from the Government Actuary about the change over from RPI factors to CPI, which will affect the calculation factors. The information has now been received and a project plan is in place to complete the backlog of work.

> *“The Annual Governance Statement is published within the County Council’s Statement of Accounts.”*

Pension Fund Investment Management

18. The review of this area found that, although Pension Fund monies are now identified and invested separately from the County Fund monies, interest on invested cash had not been paid out by the investment company as stipulated within the contract. No income had been lost as the company had automatically reinvested the interest but the income had not been reflected within Oracle or the manual records of investments maintained. As this also relates to the financial year 2009-2010 an accrual was set up in the accounts for the interest. Following the audit review this has been rectified.

19. The review also recommended that the statement of investment principles be updated to reflect changes to the Local Government Pension Scheme since its last revision in September 2009. Since the audit review an updated version of this document was presented to the Pensions Committee in March 2011 and the revised document appears on the Suffolk County Council website.

20. Formalisation of a programme and evaluation of training for both Councillors and Officers was raised as an area which required implementation last year and it is understood that training using material on the CIPFA pension’s website is now being undertaken by all relevant Councillors and staff.

21. Overall, the audits concluded that the internal controls within the Pension Scheme Administration and Pension Fund Investment arrangements were effective.

Annual Governance Statement

22. The County Council is required to publish an Annual Governance Statement each year, which summarises the annual review of the effectiveness of its governance framework, including the system of internal control. The Annual Governance Statement is published within the County Council’s Statement of Accounts.

23. Within the Annual Governance Statement, the Head of Audit Services, gave the following opinion:

- Independent assurance providers, such as Audit Services, help the Council by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. This entails independent challenge, audit of key controls, formal reporting on assurance, and the audit of assurance providers' controls assurance.

- Audit Services seeks to provide assurance that the organisation has the necessary control framework and sufficiently robust processes to achieve its objectives. This applies equally to the existing governance structures and those that will be developed through the NSD.

- Cuts in public sector spending result in pressures that increase internal and external control risks. At the same time, internal audit resources have been reduced by 30%. This has impacted on audit coverage for the Authority and the need to draw on the work of other assurance providers.

- This opinion relies on the key financial controls being in place and the corporate governance framework operating effectively. Based on the findings of the managed audit and governance reviews together with other operational audits carried out throughout 2010-2011, and the outcomes of external assurance provider reports, it is the opinion of the Head of Audit Services that overall systems of control within the County Council are acceptable and financial administration systems are effective. However, Councillors should note that assurance cannot be absolute.

24. Where internal audit work has identified that controls were not operating effectively, improvements and recommendations to correct these were made and accepted by management. Follow-up work undertaken to date has identified that improvements as specified have been implemented. Outstanding matters will be subject to further audit review.

25. Looking forward, as the public sector continues through a period of severe financial constraint, and the Council implements its New Strategic Direction, there will be a need to ensure that appropriate and efficient controls remain in place to maintain the governance standards within the organisation, commensurate with the organisation's risk appetite. Reductions in external regulation can be supported by the demonstration of appropriate governance arrangements within the Council.

Significant internal control issues

26. In my view, no significant weaknesses requiring corrective action have been identified in the system of internal control with regard to the County Council's Pension Scheme Administration and Pension Fund Investment Management arrangements.

Geoff Dobson
Head of Strategic Finance
September 2011

HYMANS ROBERTSON LLP

Suffolk County Council Pension Fund (“the Fund”) Actuarial Statement for 2010/11

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

The funding policy is set out in the Suffolk County Council’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Pension Fund Committee can seek to maximise investment returns (and hence minimise the cost of the benefits) with an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer’s contributions where the Pension Fund Committee considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of different employers or groups of employers to the extent that it is practical and cost-effective to do so.

The FSS sets out how the Administering Authority seeks to balance the potentially conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund’s assets, which at 31 March 2010 were valued at £1,415 million, were sufficient to meet 82% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £306 million.

Individual employers’ contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund’s funding policy as set out in its FSS.

HYMANS ROBERTSON LLP

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 24 March 2011.

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.4 years	23.3 years
Future Pensioners	23.7 years	25.7 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Suffolk County Council, administering authority to the Fund.

Experience over the year since 1 April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2011. It showed that the funding level (excluding the effect of any membership movements) remained broadly unchanged over 2010/11.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

HYMANS ROBERTSON LLP

Peter Summers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
31 May 2011

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Pension Fund Accounts for 2010-2011

Pension Fund Accounts

Basis of Preparation of Pension Fund Accounts

These accounts have been prepared in accordance with the 2010 SORP ‘A Code of Practice on Local Authority Accounting in Great Britain’, itself based upon International Financial Reporting Standards (IFRS). The Code also incorporates elements of 2007 SORP “Financial Reports of Pension Schemes”.

This is the first year of preparation that the Code has incorporated the requirements of IFRS. The introduction of IFRS has not had a material impact on these accounts and therefore we have not prepared a comparative restated net assets statement at 1 April 2009 or 31 March 2010 or a fund account for the year ended 31 March 2010.

	2009-2010				**2010-2011**
Fund 1	**Fund 2**	**Total**	**Fund Account**		
£ million	**£ million**	**£ million**		**Notes**	**£ million**
			Dealings with members, employers and others directly involved in the scheme		
			Contributions and benefits		
			Contributions receivable:		
			From employers		
67.934	0.170	68.104	Normal	**2**	66.474
3.310	0.136	3.446	Deficit funding	**2**	3.602
1.812	0.040	1.852	Other	**2**	3.548
			From members		
20.770	0.035	20.805	Normal	**2**	20.404
			Transfers In		
8.848	0.000	8.848	Individual transfers in from other schemes		7.381
0.047		0.047	Other Income		0.036
			Benefits payable:		
-47.657	-0.714	-48.371	Pensions	**2**	-50.064
-12.762	-0.450	-13.212	Commutations of pensions and lump sum retirement benefits		-16.390
-2.504	0.000	-2.504	Lump sum death benefits		-1.961
			Payments to and on account of leavers:		
-0.014	0.000	-0.014	Refunds of Contributions		-0.002
0.000	0.000	0.000	State Scheme Premiums		0.000
-4.672	0.000	-4.672	Individual transfers out to other schemes		-12.605
0.000	0.000	0.000	Group Transfers out to other Schemes		-28.627
-1.429	-0.010	-1.439	Administration expenses borne by the scheme		-1.624
33.683	**-0.793**	**32.890**	**Net additions (withdrawals) from dealings with members**		**-9.828**
			Returns on investments		
			Investment income		
0.546	0.000	0.546	Interest from fixed interest securities		0.693
24.184	0.000	24.184	Dividends from equities		21.796
4.014	0.057	4.071	Income from pooled investment vehicles		4.213
0.421	0.000	0.421	Interest on Cash Deposits		0.347
0.437	0.000	0.437	Other		0.186
-0.616	-0.006	-0.622	Taxes on Income		-0.511
325.247	3.955	329.202	Change in market value of investments:		73.377
-4.080	-0.013	-4.093	Investment management expenses borne by the scheme		-3.740
350.153	**3.993**	**354.146**	**Net returns on investments**		**96.361**
383.836	3.200	387.036	Net increase, or (decrease), in the fund during the year		86.533
1,037.187	12.305	1,049.492	Opening net assets of the scheme		1,436.528
1,421.023	**15.505**	**1,436.528**	**Closing net assets of the scheme**		**1,523.061**

Pension Fund Accounts

2009-2010 Fund 1 £ million	Fund 2 £ million	Total £ million		Notes	2010-2011 £ million
			Net asset statement		
			Investment assets	**6**	
			Fixed interest securities:		
22.966	0.000	22.966	UK government fixed interest securities		22.601
0.000	0.000	0.000	Overseas fixed interest securities		0.000
			Equities:		
305.421	0.000	305.421	UK companies		340.757
362.408	0.000	362.408	Overseas companies		390.029
47.855	0.000	47.855	Private Equity		59.518
0.083	0.000	0.083	Other Managed Funds		0.000
			Pooled Investment Vehicles		
77.150	0.000	77.150	Open ended investment company		75.356
7.795	0.000	7.795	Unit trusts		7.896
409.074	14.272	423.346	Unit linked insurance policies		429.485
113.540	0.942	114.482	Property unit trust		142.227
			Derivative Contracts:		
45.835	0.000	45.835	Active Currency		32.414
45.401	0.000	45.401	Futures: UK		47.072
0.261	0.000	0.261	Forward Foreign Exchange Contracts		0.000
			Other Investment Balance		
3.926	0.000	3.926	Cash held by broker for Futures Contracts	**3,6**	2.974
6.610	0.040	6.650	Cash [held by the investment managers]	**3,6**	6.764
0.148	0.000	0.148	Margin Variation	**3,6**	2.182
1,448.473	**15.254**	**1,463.727**			**1,559.275**
			Investment liabilites		
-3.756	0.000	-3.756	Futures:Overseas	**6**	-4.084
0.000	0.000	0.000	Forward Foreign Exchange Contracts	**6**	-0.070
-41.647	0.000	-41.647	Cash Backing Open Futures Contracts	**6**	-42.986
1,403.070	**15.254**	**1,418.324**	**Total investments**		**1,512.135**
			Current assets		
6.061	0.004	6.065	Sundry debtors	**11**	9.536
0.000	0.000	0.000	Cash Desposits [Insight]		7.945
16.458	0.254	16.712	Cash at Bank		0.234
22.519	**0.258**	**22.777**			**17.715**
			Current liabilities		
-4.565	-0.008	-4.573	Sundry creditors	**11**	-6.789
-4.565	**-0.008**	**-4.573**			**-6.789**
17.954	**0.250**	**18.204**	**Net current assets**		**10.926**
1,421.024	**15.504**	**1,436.528**	**Net assets**		**1,523.061**

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.

Information on Significant Changes to the Fund in 2010 - 2011

The Pension Fund Committee agreed at the meeting on 18 January 2010 to merge the No 2 fund in respect of Ipswich Buses into the main No 1 fund. The No 2 Pension Fund has been wound up and the assets and liabilities of the No 2 Fund have been transferred into the main No 1 Fund at the 1 April 2010. This means that all the 2009 - 2010 figures have been restated to merge the Fund No 1 and Fund No 2 balances to make the figures comparable with the figures for 2010 - 2011.

Prior Period Adjustment

In February 2011 the Pension Fund custodian State Street put through a £10.321 million adjustment in relation to corporate actions. The corporate actions arise when dividends received are immediately reinvested. This then adds value to the unit trusts held by the Manager, in this instance Aberdeen Asset Management. Of the £10.321 million, £6.457 million related to previous years: 2008 - 2009 £1.831 million and 2009 - 2010 £4.626 million. A prior period adjustment has therefore been made to reflect this adjustment, restating both the 2009 - 2010 income received on the line “Dividends from Equities” on the Fund Account and the book cost for "open ended investment Company" on the 2009 - 2010 Net Asset Statement.

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 some Town Councils in Suffolk, civilian employees of the Suffolk Police Authority and several other organisations. A full list of the organisations can be found in the Funding Strategy Statement on the Suffolk County Council website. Teachers, Fire-fighters 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:

Fund 1 31 March 2010	Fund 2 31 March 2010	Total 31 March 2010		31 March 2011
19,759	-	19,759	Members	18,505
9,261	151	9,412	Employee pensioners	9,810
1,771	22	1,793	Dependent pensioners	1,817
13,861	56	13,917	Deferred	14,593

The drop in active members relates to the reduction in employees by the County Council and the District Councils and the transfers of scheme members relating to the Suffolk probation service to the Norfolk Pension fund (259 active members).

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

Restated 2009-2010				2010-2011		
Employers' Contributions £ million	**Employees' Contributions £ million**	**Benefits Paid £ million**		**Employers' Contributions £ million**	**Employees' Contributions £ million**	**Benefits Paid £ million**
43.541	12.381	-22.971	Suffolk County Council	45.323	12.499	24.498
27.252	7.606	-24.037	Other Schedules Bodies	25.837	7.187	24.756
2.609	0.818	-1.364	Admitted Bodies	2.461	0.721	0.810
73.402	**20.805**	**-48.372**	**Total**	**73.621**	**20.407**	**50.064**

Included within employer normal contributions of £70.076 million shown in the fund account, is an amount for deficit funding of £19.946 million paid within the employers percentage. The deficit funding identified separately on the fund account of £3.602 million refers to those employers funding their deficit by means of lump sum payments.

Employer contributions are made up of two elements:

a) the estimated cost of future benefits being accrued, the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1] for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) has in the past been spread over a period equivalent to the remaining working lifetime of all the employers' scheme members. The aim is to cover any deficit within 20 years as per the actuarial position on Note 39.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

2010 - 2011 is the last year in a three year period for the contribution rates set by the actuary to reflect a and b above.

You will find a full list of employers and their contribution rates in the Funding Strategy Statement that we publish separately on the Suffolk County Council website.

[1] See Regulation 77(4) of the Local Government Scheme Regulations
[2] See Regulation 77(6) of the Local Government Scheme Regulations

The scheduled and resolution bodies contributing to the fund are:

County and District Councils (Scheduled)
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

Other Bodies (Scheduled)
Debenham Academy
Forest Academy
Hartismere School
Lowestoft 6th form College
Otley College
Samuel Ward Academy
Suffolk New College
Suffolk Police Authority
Suffolk Valuation Tribunal
West Suffolk College

Town Councils (Resolution)
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
Leiston-cum-Sizewell Town Council
Newmarket Town Council
Stowmarket Town Council
Sudbury Town Council
Woodbridge Town Council

Parish Councils (Resolution)
Boxford Parish Council
Great Cornard Parish Council
Lakenheath Parish Council
Leavenheath Parish Council
Mildenhall Parish Council
Nayland and Wissington Parish Council
Onehouse Parish Council
Pinewood Parish Council
Woolpit Parish Council

Scheduled Bodies are organisations as listed in the Local Government Pension Scheme Regulations1997 (Schedule 2) such as County Councils and District Councils etc, the employees of which may join the Scheme as a right.

Resolution Bodies are organisations which have the right to join the Scheme if they elect to do so (e.g. a Parish Council). Membership may apply to some or all of its employees.

3. Managing the Fund

We invest the balance of the fund in line with Local Government Pension Regulations.

The fund investments are managed by:
- Aberdeen Fund Management
- AllianceBernstein Institutional Investments
- BlackRock Investment Management
- JP Morgan Asset Management
- Legal and General Investment Management
- Millennium Global Investments
- Man F Financials
- Newton Investment Management
- Pantheon Ventures
- Record Currency Management (up to June 2010)
- Schroders Property Investment Management
- Wilshire Associates

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.

The following table shows the market value of investments held by each manager at 31 March 2011.

31 March 2010					31 March 2011	
Fund 1 Market Value £ million	Fund 2 Market Value £ million	Restated Market Value £ million	Percentage of Assets %		Market Value £ million	Percentage of Assets %
93.243		93.243	6.46%	Aberdeen Fund Management equities	97.296	**6.30%**
163.040		163.040	11.30%	AllianceBernstein Institutional Investments	167.250	**10.83%**
124.190		124.190	8.61%	BlackRock Investment Management	142.321	**9.22%**
0.118		0.118	0.01%	Cambridge Research & Innovation Limited	0.118	**0.01%**
191.918		191.918	13.30%	JP Morgan Asset Management	213.069	**13.80%**
409.074	14.272	423.346	29.34%	Legal and General Investment Management	429.486	**27.82%**
42.303		42.303	2.93%	Man financials	45.664	**2.96%**
30.125		30.125	2.09%	Millennium Global Investments	32.414	**2.10%**
196.573		196.573	13.62%	Newton Investment Management	214.117	**13.87%**
18.664		18.664	1.29%	Pantheon Ventures	24.611	**1.64%**
15.710		15.710	1.09%	Record Currency Management	0.000	**0.00%**
113.540	0.942	114.482	7.94%	Schroder Property Investment Management	142.065	**9.20%**
29.072		29.072	2.02%	Wilshire Associates	34.790	**2.25%**
1,427.570	**15.214**	**1,442.784**	**100.00%**		**1,543.201**	**100.00%**

The value of the investments held by the managers (£1,543.201 million) reconciles to the Net Asset Statement as follows:

	£ million
Total Investments	1,512.135
Cash held by Broker	-2.974
Cash held by investment Manager	-6.764
Margin Variation	-2.182
Cash backing futures contracts	42.986
Market Value	**1,543.201**

100% (£429.485 million) of the Legal and General Investments are invested in its own index pooled funds, of this £206.560 million is invested in currency hedged funds (£201.658 million as at 31 March 2010). Similarly 75.4% (£73.361 million) of Aberdeen investments are in its own pooled funds (75.8%, £70.687 million as at 31 March 2010). The pooled funds are one step removed from direct ownership of the assets. The type of investments shown in the Net Asset Statement, on page 93, includes both equities and pooled fund investments.

At the 31 March 2011 the Derivative contracts shown below were outstanding. The Futures were held by Man Financials and Aberdeen Asset Management. The Forward exchange contracts were held by Aberdeen Asset Management and Newton Investment Management.

The pension fund's investment managers are permitted to use derivatives in the management of their mandates, subject to the restrictions set out in the individual manager's investment management agreement.

Aberdeen Asset Management makes use of forward foreign exchange contracts on an unleveraged basis for the purposes of reducing or gaining exposure to currency markets.

Millennium Global Currency Management makes use of futures for the purpose of equitising the investment in the manager's currency fund in line with the FTSE 100 index.

Newton Investment Management and JP Morgan make use of currency hedging for the purpose of reducing exchange rate risk in the investments held in their mandates.

31 March 2010 Economic Exposure Value £ million	Type of Derivative	Expiration	31 March 2011 Economic Exposure Value £ million
18.411	Forward foreign exchange contracts (over the counter)	Less than 1 Year	15.209
42.303	UK FTSE (exchange traded)	Less than 1 Year	45.428
3.098	UK Treasury (exchange traded)	Less than 1 Year	1.406
-5.696	Overseas Treasury (exchange traded)	Less than 1 Year	-6.547

4. Actuarial Position

An actuarial valuation is a type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities of pension payable. The assumptions are typically based on a mix of statistical studies and experienced judgement. Hymans Robertson provides the fund's Actuarial appraisal.

There are three actuarial valuation figures provided below: The first (4.1) is based on information collected at the last formal valuation which was 31 March 2010. The second (4.2) is an interim valuation carried out at 31 March 2011. This is based on assumptions specifically tailored to the Suffolk pension fund. Lastly there is the IAS26 (4.3). This is carried out at 31 March 2011, but is based on standardised assumptions set by CIPFA so pension funds can be compared.

4.1 Formal Valuation

The last formal three-yearly actuarial valuation was carried out as at 31 March 2010. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2011. 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 2010.
- The 'projected unit method' of actuarial valuation.
- Projected investment returns of 6.1% per year, increases in future salaries of 5.3% a year (pay increases of 1.0% in 2010 - 2011 and 2011 - 2012 and 2.0% thereafter plus any allowance for increments) and for pension increases of 3.3% a year.
- The actuarial assessment of the value of the fund's assets was £1,415 million as at 31 March 2010 (the market value of assets in the accounts of the No 1 Pension Fund).
- The actuarial assessment of the fund's liabilities, which was £1,721 million at 31 March 2010.

The valuation showed that the fund's assets covered 82% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £306 million. The actuary has confirmed that the employer's common contribution rate should be 22.3% of pensionable pay for the three years starting 1 April 2011. The aim is to recover the pension fund deficit over a period of twenty years.

4.2 Interim Valuation

An interim valuation was carried out as at 31 March 2011. The valuation was based on the actuary's "Navigator" report which is based on long-term financial assumptions for the Suffolk fund and contains the following assumptions:

- Projected investment returns of 5.93% per year, increases in future salaries of 5.11% a year and for pension increases of 3.14% a year.
- The actuarial value of the fund's assets was £1,542 million and the liabilities £1,838 million at 31 March 2011.

The valuation showed that the fund's assets covered 83.9% of its liabilities at the valuation date and the deficit was £296 million.

4.3 International Accounting Standard 26 (IAS26)

CIPFA's Code of Practice on Local Authority Accounting 2010 - 2011 requires administering authorities of the LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the "actuarial present value of promised retirement benefits". This is similar to the interim valuation but the assumptions used are in line with IAS19 rather than assumptions tailored to the Suffolk pension fund.

The following assumptions have been used:

- Projected investment returns of 5.5% per year, increases in future salaries of 5.1% a year and for pension increases of 2.8% a year.

The IAS 26 calculation shows that the present value of promised retirement benefits amount to £1,932milion as at 31 March 2011 (£2,227 million as at 31 March 2010).

5. Accounting Policies

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

Expenditure and income are accounted for on an accruals basis with the exception of transfers into and out of the scheme 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 and managed funds are valued at the current bid price on the 31 March.
- Unit trusts investments are shown at the current market value.
- Private Equity are valuations as at the 31 December 2010 which are compiled in accordance with the guidelines issued by the British Venture Association or equivalent body, adjusted for payments to and received from the equity manager in the period 1 January 2011 to 31 March 2011.
- 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.
- Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31March.
- For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

All investment income is valued at the balance sheet date, as follows:

- Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the fund account.
- Income from fixed interest and index linked securities, cash and short-term deposits is accounted for on an accruals basis.
- Income from other investments is accounted for on an accruals basis.
- The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

6. Buying and Selling Investments

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

	Restated Opening Balance 01 April 2010 £ million	Purchase £ million	Transaction costs on purchase £ million	Sales £ million	Transaction costs on sale £ million	Change in Market Value £ million	Closing Balance 31 March 2011 £ million
Quoted							
UK Government Fixed Interest Securities	22.966	14.866		-15.955		0.724	22.601
UK Companies	305.421	184.634	0.164	-159.523	0.139	9.922	340.757
Overseas Companies	362.408	286.060	0.353	-284.141	0.326	25.023	390.029
Other Managed Funds	0.083	1.531		-1.614		0.000	0.000
UK FTSE exchange traded futures	42.303	169.751		-169.554		3.166	45.666
UK Treasury Exchange Traded Futures	3.098	8.047	0.007	-9.714		-0.032	1.406
Overseas Treasury Exchange Traded Futures	-3.755	17.213	0.001	-17.259		-0.284	-4.084
Derivatives - Currency	45.835	180.993		-189.578		-4.836	32.414
Derivatives - Forward Foreign Exchange contracts	0.261	350.871		-350.871		-0.331	-0.070
Pooled Investment Vehicles							
Open ended investment company	77.150	8.489		-4.313		-5.970	75.356
Unit trusts	7.795	0.000		-1.890		1.991	7.896
Unit linked insurance policies	423.346	25.399		-50.777		31.517	429.485
	1,286.911	**1,247.854**	**0.525**	**-1,255.189**	**0.465**	**60.890**	**1,341.456**
Unquoted							
Pooled investment vehicle -property unit trust	114.483	26.836		-5.631		6.539	142.227
Private Equity	47.853	8.741		-2.972	0.000	5.896	59.518
	162.336	**35.577**	**0.000**	**-8.603**	**0.000**	**12.435**	**201.745**
	1,449.247	**1,283.431**	**0.525**	**-1,263.792**	**0.465**	**73.325**	**1,543.201**

	Opening Balance 2010-2011 £ million	Movement in cash balance £ million	Change in Market Value £ million	Closing Balance 2010-2011 £ million
Margin Variation	0.148		2.034	2.182
Cash Backing Open Futures	-41.647	0.697	-2.036	-42.986
Cash Held by the Broker for Future Contracts	3.926	-0.952		2.974
Cash Held by the investment managers	6.651	0.243	-0.130	6.764
	-30.922	**-0.012**	**-0.132**	**-31.066**

The pooled investment vehicles are managed by fund managers registered in the UK.

The change in market value £73.193 million (£73.325 million less £0.132 million) on the table above is £0.184 million lower than the change in market value on the fund account £74.172 million. The difference is caused by the exchange rate differences between the Aberdeen futures when they were opened in 2009 - 2010 and when they closed in 2010 - 2011; the further realised loss has been included in the fund account.

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.

Restated Market Value 31 March 2010 £ million	Percentage of the Fund 31 March 2010	Asset Type	Manager	Market Value 31 March 2011 £ million	Percentage of the Fund 31 March 2011
87.075	6.04%	Corporate Bond Index	Legal and General	90.665	5.82%
77.121	5.35%	North American Index	Legal and General	87.052	5.59%

Pension Fund Accounts

This is a summary of individual holdings with the fund which exceed 5% of any class or type of security at the balance sheet date.

Market Value of Asset Class 31 March 2010 £ million	Market Value of Securities 31 March 2010 £ million	Percentage of the Asset Class 31 March 2010 %	Holdings by Asset Type	Market Value of Asset Class 31 March 2011 £ million	Market Value of Securities 31 March 2011 £ million	Percentage of the Asset Class 31 March 2011 %
22.966			**UK Government Fixed Interest Securities**	22.601		
	n/a	n/a	Tsy 4 1/4Pct 2036 4.25Pct Stk 07Mar36		1.857	8.22%
	n/a	n/a	Tsy 4 1/4Pct 2027 4.25Pct Stk 07Dec27		1.363	6.03%
	n/a	n/a	Tsy 4 1/2Pct 2042 4.5Pct 07Dec42 Stk Gbp100		3.604	15.94%
	n/a	n/a	Tsy 4 1/4Pct 2049 4.25Pct 07Dec49 Gbp0.01 Wi		8.968	39.68%
	n/a	n/a	Tsy 4 1/4Pct 2039 4.25Pct 07Sep39 Gilt		3.713	16.43%
	n/a	n/a	Tsy 4 1/2Pct 2034 09/34 Fixed 4.5		3.096	13.70%
	2.995	13.04%	United Kingdom (Govt Of) 4.25Pct 07Dec55		n/a	n/a
	2.660	11.58%	United Kingdom (Govt Of) 4.25Pct Stk 07Dec46		n/a	n/a
	5.016	21.84%	Uk(Govt Of) 4.5Pct 07Dec42 Stk Gbp10		n/a	n/a
	11.457	49.89%	Treasury 4.25Pct 07Dec49 Gbp0.01 Wi		n/a	n/a
22.966	**22.129**	**96.35%**		**22.601**	**22.601**	**100.00%**
305.421			**UK Equities**	340.757		
	20.353	6.66%	BP PLC		n/a	n/a
	16.979	5.56%	HSBC Holdings PLC		17.463	5.12%
	15.356	5.03%	Rio Tinto PLC		18.701	5.49%
	19.599	6.42%	Royal Dutch Shell PLC		22.946	6.73%
	19.799	6.48%	Vodafone Group PLC		19.821	5.82%
305.421	**92.087**	**30.15%**		**340.757**	**78.930**	**23.16%**
47.855			**Private Equity**	59.518		
	3.459	7.23%	Pantheon Euro IV		4.284	7.20%
	3.879	8.10%	Pantheon USA V		3.435	5.77%
	2.532	5.29%	Pantheon International Participations		4.350	7.31%
	2.582	5.40%	Wilshire Euro V		n/a	n/a
	2.835	5.92%	Wilshire Euro VI		3.426	5.76%
	3.327	6.95%	Wilshire Euro VII		4.949	8.32%
	4.686	9.79%	Wilshire USA V		4.433	7.45%
	5.167	10.80%	Wilshire USA VI		4.803	8.07%
	6.442	13.46%	Wilshire USA VII		7.977	13.40%
	2.613	5.46%	Wilshire USA VIII		4.101	6.89%
47.855	**37.523**	**78.41%**		**59.518**	**41.758**	**70.16%**
70.687			**Pooled Investment - Open ended investment company**	75.356		
	65.512	92.68%	Aberdeen Global II Sterling Crd Fd Z2		70.223	93.19%
	4.934	6.98%	Aberdeen Global II Emerging Market Fix Fund		4.013	5.33%
70.687	**70.447**	**99.66%**		**75.356**	**74.236**	**98.51%**
7.795			**Pooled Investment - Unit trusts**	7.896		
	6.157		BlackRock Fd Mgrs Bief Uk Smaller Co Fund		7.896	100.00%
	1.638		BlackRock UK Eqty Recovery X D Mutual Fund			
7.795	**7.795**	**0.00%**		**7.896**	**7.896**	**100.00%**
423.346			**Pooled Investment - Unit linked insurance policies**	429.485		
	59.235	13.99%	L&G Over 5 Year Linked Gilts Index		63.193	14.71%
	29.562	6.98%	L&G Over 15 Years Gilts Index		28.921	6.73%
	33.164	7.83%	L&G Global Emerging Markets Index		34.615	8.06%
	88.737	20.96%	L&G Investment Grade Corporate Bond		91.170	21.23%
	85.979	20.31%	North America Equity Index GBP hedged		87.075	20.27%
	70.200	16.58%	L&G European Equity Index Hedged		73.380	17.09%
	21.778	5.14%	L&G Japan Equity Index		20.736	4.83%
	30.674	7.25%	L&G Pacific Basin Equity Index Hedged		30.394	7.08%
423.346	**419.328**	**99.05%**		**429.485**	**429.485**	**100.00%**
114.482			**Property unit trust**	142.227		
	14.551	12.71%	Schroder Exempt Property Unit		15.378	10.81%
	7.845	6.85%	Hermes Property Unit Trust		8.221	5.78%
	11.588	10.12%	Standard Life Assurance		13.680	9.62%
	10.832	9.46%	Legal And General Managed Property		11.982	8.42%
	n/a	n/a	Lothbury Prop Property Fund		9.558	6.72%
	9.837	8.59%	BlackRock Asset Management Ltd		10.253	7.21%
	8.505	7.43%	UBS Global Asset Management		n/a	n/a
	5.894	5.15%	IPIF Feeder Unit Trust		n/a	n/a
114.482	**69.052**	**60.32%**		**142.227**	**69.071**	**48.56%**
45.835			**Active Currency**	32.414		
	30.125	65.73%	Alpha Fund Limited Class A Gbp Shares Series 1		30.729	94.80%
	0.000	0.00%	Millennium Glbl Alpha Fund Ltd Mutual Fund		4.091	12.62%
	0.000	0.00%	Millennium Passive Currency Hedge		-2.406	-7.42%
	15.710	34.27%	Record Currency Management Alpha Equity Plus Fund		0.000	0.00%
45.835	**45.835**	**100.00%**		**32.414**	**32.414**	**100.00%**
45.401			**Futures: UK**	47.072		
	42.303	93.18%	FTSE 100 Index Futures Jun11 Xlif		45.428	96.51%
	3.098	6.82%	UK Long Gilt Bond Futures Jun10 Xlif		n/a	n/a
45.401	**45.401**	**100.00%**		**47.072**	**45.428**	**96.51%**
			Securities/Asset types with no holdings over 5%			
362.408			**Overseas companies**	**390.029**	0.000	0.00%
0.083	0.000	0.00%	**Other Managed Funds**	**0.000**	0.000	0.00%
0.261	0.000	0.00%	**Forward Foreign Exchange Contracts**	**0.000**	0.000	0.00%
3.926	0.000	0.00%	**Cash held by broker for Futures Contracts**	**2.974**	0.000	0.00%
6.651	0.000	0.00%	**Cash [held by the investment managers]**	**6.764**	0.000	0.00%
0.148	0.000	0.00%	**Margin Variation**	**2.182**	0.000	0.00%
1,457.265	**809.597**	**55.56%**	**Total**	**1,559.275**	**801.820**	**51.42%**

8. Nature and Extent of Risks Arising from Financial Instruments

The key risks that have been identified are:

A. Credit risk
B. Liquidity risk
C. Market risk
D. Custody
E. Investment Management
F. Sensitivity of funding position to market conditions and investment performance

A. Credit Risk

Credit Risk is the risk that one party to a financial instrument will cause a financial loss to another party by failing to meet its obligations.

The Fund is exposed to credit risk in its operational activities through securities lending, forward currency contracts, derivative positions (futures) and treasury management activities. Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

The Fund monitors the monthly receipt of contributions from employers. The Funding Strategy Statement requires safeguards to be in place for all new admission agreements to protect the Fund from an employer default, primarily through a guarantee from a tax-backed scheme employer for any new employer in the Fund. An analysis of debtor balances at 31 March 2011 is provided in note 11.

The securities lending programme is undertaken on behalf of the Fund by the custodian State Street Bank and Trust and is managed through a securities lending agreement. The arrangements to manage risks in the securities lending programme are set out in note 9.

Forward currency contracts are undertaken by Millennium for the passive currency hedging programme and by the Fund's managers within the terms set out in their investment management agreements. All parties entering into forward contracts on behalf of the fund are FSA regulated and meet the requirements of the LGPS investment regulations. Further details of forward foreign exchange contracts are provided in note 3.

Futures contracts entered into by the Fund are all exchange traded. Further details of these futures contracts are provided in note 3.

The Fund's bank account is held with Lloyds TSB Bank, which is also banker to Suffolk County Council the Administering Authority for the Pension Fund. The bank held a Long-Term rating of 'Aa3' and a Short Term Rating 'P-1' with Fitch as at May 2011. Pension Fund cash that is held pending its allocation to the Fund's investment managers is not invested with Lloyds TSB but is placed with institutions on the Pension Fund Committee's approved counter-party list. The management of cash is carried out by the treasury management team of Customer Service Direct in accordance with the cash management strategy approved by Pension Fund Committee and set out in its statement of investment principles. The Pension Fund Committee invests only in money market funds with a 'AAA MR1+' rating. The Fund has had no occasion of default or uncollectable deposits. The Fund's cash within the custody system is held in the bank account of the Fund with the custodian, State Street Bank and Trust, or placed on deposit at the instruction of the individual managers.

At 31 March 2011 £7.9 million was invested by the Pension Fund in the Insight Money Market Fund. At 31 March 2011 £0.234 million was with Lloyds TSB. Cash held within the custody system amounted to £6.764 million at 31 March 2011. In addition to this there was £3.0 million held directly with the broker on a variation margin account in respect of futures positions open at the year-end.

Credit risk is considered by the Fund's bond manager, Aberdeen Asset Management, in their portfolio construction.

B. Liquidity Risk

Liquidity Risk is the risk that the fund will have insufficient liquid assets (cash) to meet its investment or benefit obligations as they fall due.

The pension fund holds sufficient working capital to ensure that it has cash available to meet benefit and transfer payments and cash drawdown requirements in respect of certain investment transactions. Within mandates it is the responsibility of the individual managers to ensure that they have sufficient funds available to meet the transactions they enter into on behalf of the Fund. These responsibilities are detailed within the investment management agreements. At an investment level a large proportion of the fund's investments are held in instruments that can be realised at short notice if a cash flow need arose. Certain of the investments, particularly property and private equity funds are considerable less liquid but these make up a far smaller proportion of the overall portfolio (less than 15% of the Fund).

C. Market Risk

Market Risk is the risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market sentiment. Market risk reflects interest rate, currency and other price risk.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its independent investment advisers (Hymans Robertson LLP) and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the statement of investment principles that is available at www.suffolk.gov.uk. Investment risk and strategy are regularly reviewed by Pension Fund Committee.

Interest rate risk affects mainly the valuation of the Fund's bond holdings. The bond exposure in the active bonds mandate is managed by the Fund's investment manager, Aberdeen Asset Management. The bonds holdings within the Legal & General mandate are managed to match the return on the UK Over 15 Years Gilts index.

Currency risk is the extent to which the pension fund is exposed to fluctuations in exchange rates and the impact these fluctuations have on the Sterling valuation of assets denominated in foreign currency. To partly mitigate this risk the Fund has a currency hedging programme in place. This is undertaken partly by investment in the currency-hedged funds managed by its index-tracking manager, Legal & General Investment Management. In addition the Fund has a currency-hedging programme in place with Millennium for the balance of the Fund's exposure to exchange rate movements in the Euro.

Price risk is the risk of volatility in the valuation of the assets held by the Fund. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The local government investment regulations contain prescribed limits to avoid over-concentration in specific areas. The Fund complies with all the restrictions contained in the investment regulations.

D. Custody

The Fund has appointed State Street Bank and Trust as a global custodian with responsibility for safeguarding the assets of the Fund. State Street Bank and Trust is an established custodian bank with more than $15 trillion of assets under custody. They were reappointed as the Fund's custodian in 2007 following an OJEU tendering process. Monthly reconciliations are performed between the underlying records of the custodian and the appointed investment managers.

E. Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS investment regulations. Managers report performance on a quarterly basis and this is monitored and reported to Pension Fund Committee. The Fund makes use of a third party performance measurement service (State Street Investment Analytics). All managers have regular review meetings and discussions with officers.

F. Sensitivity of funding position to market conditions and investment performance

When preparing the formal valuation the Actuary takes the assets of the fund at the market value on the valuation date. Volatility in investment performance as a result of market risk factors can have an immediate effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly invested in riskier (and historically higher return) assets such as equities and equity-like investments (e.g. property). A rise or fall in the level of equity prices can have a direct impact on the financial position of the Fund.

Less obvious is the effect of anticipated investment performance on the Fund's liability to pay future pension benefits. Here the returns available on government bonds (gilts) are important, as the discount rate that is used to place a value on liabilities is the gilt yield at the valuation date plus a margin of 1.6% per annum. Effectively if the gilt yield rises the discount rate will increase and all other things being equal the value placed on liabilities will fall. If the fund was invested entirely in gilts rather than potentially higher returning assets the discount rate would be lower as no margin for the expected out performance of the Fund's investments over gilts could be assumed.

The table below has been prepared by the Fund Actuary and shows how the funding level (top) and deficit (bottom) would vary if the investment conditions at 31 March 2011 had been different. The level of the FTSE 100 index is used as a proxy for investment performance and the Fixed Interest Gilt yield as the proxy measure for the valuation of Fund's liabilities. The shaded box is the actual position at 31 March 2011.

Fixed Interest Gilts yield (% p.a.)	4.45%	80% (£352m)	83% (£301m)	86% (£249m)	89% (£200m)	92% (£149m)
	4.30%	78% (£399m)	81% (£348m)	**84% (£296m)**	87% (£247m)	89% (£196m)
	4.15%	76% (£447m)	79% (£396m)	82% (£344m)	84% (£295m)	87% (£244m)
FTSE 100 Index		5,400	5,650	5,909	6,150	6,400

The examples shown are not exhaustive and should not be taken as the limits of how extreme future investment conditions may be. There are other factors not related to market risk that will also impact on the funding position at a given date including but not limited to longevity, member profile, pay awards etc. The risks are covered in more detail in the formal actuarial valuation report which is available at www.suffolk.gov.uk.

9. 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 £0.116 million in 2010 - 2011 (£0.147 million 2009 - 2010) the fifth year that securities lending has occurred within the fund. This is included within 'other' investment income in the Fund Account. At 31 March 2011 £24.585 million worth of stock (1.65% of the Fund) was on loan, for which the fund was in receipt of £25.813 million worth of collateral.

10. Related Parties

In accordance with International Accounting Standard 24 (Related Party Disclosures) material transactions with related parties not disclosed elsewhere are detailed below.

The Head of Strategic Finance of the Suffolk Pension Fund is also the S151 Officer for Suffolk County Council.

Under legislation, introduced in 2003 - 2004, Councillors are entitled to join the Scheme. Three members of the committee, including two councillors, are scheme members within the Pension Fund, but are not currently receiving benefits from the fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The pension fund is a related party to its administering authority and other participating employers. During 2010 - 2011 the material transactions were as follows:

Fund 1 2009-2010 £ million	Fund 2 2009-2010 £ million	Total 2009-2010 £ million		2010-2011 £ million
1.074	0.005	1.079	Suffolk County Council - Administration Expenses	1.227
0.001	0.001	0.002	Interest on money borrowed from Suffolk County Council	0.000
-0.023	0.000	-0.023	Interest on money lent to Suffolk County Council	0.000
1.052	**0.006**	**1.058**		**1.227**

11. Net Current Assets and Liabilities

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

Fund 1 31 March 2010 £ million	Fund 2 31 March 2010 £ million	Total 31 March 2010 £ million		31 March 2011 £ million
			Sundry Debtors:	
1.663		1.663	Employers Contributions	1.468
0.590		0.590	Employee Contributions	0.475
3.126	0.004	3.130	Investment Assets	3.829
0.003		0.003	Stock Lending Income	0.116
0.005		0.005	Interest on Cash depositis	0.000
0.655		0.655	Income due from Employers for Benefits Paid	1.084
0.019		0.019	Administration Expenses refund	0.000
0.000		0.000	VAT	0.267
0.000		0.000	Temporary widows pensions	0.041
0.000		0.000	Central Government Bodies	0.051
0.000		0.000	Other Local Authorities	1.833
0.000		0.000	Other entities and indiviuals	0.372
6.061	**0.004**	**6.065**		**9.536**
			Creditors Control	
-1.514		-1.514	Investment Managers Expenses	-0.827
-1.078	-0.008	-1.086	Administration Expenses	0.000
-0.344		-0.344	Pre Payment from employers	-0.095
-0.365		-0.365	Individual Transfers Into the Scheme	-0.235
-1.264		-1.264	Payments for Lump Sums on retirement	-3.210
0.000		0.000	SCC items in Pension Book	0.004
0.000		0.000	Payroll Adjustments	0.015
0.000		0.000	Central Government Bodies	-0.561
0.000		0.000	Other Local Authorities	-1.833
0.000		0.000	Other entities and individuals	-0.047
-4.565	**-0.008**	**-4.573**		**-6.789**

12. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions 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 Asset Statement. These contributions are held by the providers and therefore do not form part of the fund's investments.

A total of £1.073 million was paid over to the providers, Prudential, Clerical Medical, Standard Life, Equitable Life and Century Life in 2010 - 2011.

13. Contingent Liabilities

At the 31 March 2011 there was a pending transfer of 5 employees from Suffolk County Council to the NHS pension scheme. The value of the transfer is still to be determined by the actuaries of the respective schemes.

At the 31 March 2011 there was a pending transfer of 5 employees from Waveney District Council to Norfolk County Services. The value of the transfer is still to be determined by the actuaries of the respective schemes.

At 31 March 2011 the Fund had made contractual commitments to private equity funds managed by Wilshire and Pantheon. Commitments are made in the underlying currency of the fund (Euros and Dollars respectively) and are therefore subject to volatility (risk) arising from exchange rate fluctuation. This volatility will impact both on the value of unfunded commitments in Sterling terms and the valuation of the funded interest and monies received as distributions.

At 31 March 2011 the unfunded commitment (monies to be drawn in future periods) was £36.240 million. The commitments are paid over the investment timeframe of the underlying partnerships. The current value of the funded commitment net of distributions in these funds at 31 March 2011 is included in the net asset statement.

In addition to the private equity commitments, within the Schroders property portfolio there are unfunded commitments of £9.778 million to various property investment vehicles.

Additional Statements

- Governance Policy Statement
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Actuarial Report
- Administration Strategy
- Voting Policy Statement

(published on Suffolk County Council website www.suffolk.gov.uk)

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