

LINCOLNSHIRE COUNTY COUNCIL
LOCAL GOVERNMENT PENSION SCHEME
ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2002

CONTENTS	Page
Management arrangements	
Report of the Investments Sub Committee	
Management Report of the Administering Authority	
Fund Account	
Audit Opinion	
Actuarial Statement	
Investment Background	
Summary of benefits	
Participating Employers	

MANAGEMENT ARRANGEMENTS

Administering Authority

Lincolnshire County Council

Investments Sub Committee Members at 31 March 2002

County Councillors

AH Turner MBE JP (Chairman)
E R Chapman
I M Croft
P J Goodale
M J Hill
M D Kennedy
PJ O'Connor
R B Parker
Mrs S E Roy (Vice Chairman)
B G Singleton
C B Wood

Lincolnshire Local Government Association

J A Kirkman
G W Chambers

Representatives of Other Employers

A Battle

Trade Union representative

J Sharman

Professional Advisers

County Council Officers

County Treasurer

Assistant County Treasurer

P Moore BA CPFA

D C Forbes BSc CPFA

Independent Adviser

P Moon BSc (Econ)

Consulting Actuary

Hymans Robertson, Glasgow

Voting Adviser

Manifest Voting Agency

External Segregated Investment Managers

Deutsche Asset Management Ltd
Friends Ivory and Sime plc
INVESCO Asset Management Ltd

Bank of Ireland Asset Management (UK) Ltd
Schroder Investment Management Ltd
Morley Investment Management Ltd

Auditors

KPMG, Birmingham

Investment Custodian

HSBC Bank plc

REPORT OF THE INVESTMENTS SUB COMMITTEE

Introduction

The Lincolnshire County Council Investments Sub Committee approves the investment policy of the Fund and monitors its implementation during the year. The Sub Committee meets as a minimum on a quarterly basis and special meetings are convened if considered necessary. No special meetings were held in the twelve months ended 31 March 2002.

Membership

Members of the Sub Committee at 31 March 2002 are listed at page 1. There were no changes of membership in the Sub Committee during the Fund's financial year.

Myners Report

A government commissioned review of Institutional Investment in the UK, carried out by Paul Myners resulted in a series of best practice recommendations for Pension Funds. Whilst the management of the Lincolnshire Fund broadly complies with the best practice identified in the Myners review the Sub-Committee agreed action by the County Treasurer to develop training and manager monitoring.

Actuarial valuation

The triennial actuarial valuation was completed as at 31 March 2001 and reported that the Fund's assets represented 97% of the assessed liabilities. The common contribution rate applicable to scheme employers effective from April 2002 was set at 255% of employees' contributions, a small increase on the previous rate of 245%.

Manager Reviews

The Fund's two UK equity active managers, Deutsche Asset Management and Friends Ivory and Sime, were subject to routine triennial review in the year. The Sub Committee resolved in the case of Friends Ivory and Sime to change the performance target from index matching to one of achieving 1% per annum above the index, after fees are deducted. The Committee also resolved to formally review the manager's performance after one year. No changes were made to the mandate for Deutsche Asset Management who were reappointed for a further three years.

Investments

For the second year in a row many of the world's equity markets declined as a result of slowing global economic growth and the impact on confidence of the terrorist atrocity in New York. The Fund's managers generally performed well in these difficult markets enabling the Fund to outperform the benchmark target by 0.3%.

The Fund's investments are managed in accordance with a Statement of Investment Principles (SIP). Copies of the SIP may be obtained from David C Forbes, Assistant County Treasurer – Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL. (Tel: 01522 553642) (email : dcf@lincolnshire.gov.uk)

A H TURNER MBE JP
CHAIRMAN
INVESTMENTS SUB COMMITTEE

MANAGEMENT REPORT OF THE ADMINISTERING AUTHORITY

The Local Government Pension Scheme (LGPS) is a national scheme administered on a local basis by Lincolnshire County Council. This annual report provides relevant information about the administration of the LGPS by Lincolnshire County Council over the twelve months period ended 31 March 2002.

Scheme Membership

Over the twelve months period ended 31 March 2002 active membership increased by 178 (3.7%) to 16,817. Membership details over the five years to 31 March 2002 are shown in the table below.

Local Government Pension Scheme membership

Year ended 31 March	1998	1999	2000	2001	2002
Contributors	15,107	15,653	16,391	16,213	16,817
Pensioners	8,189	8,554	8,820	9,065	9,266
Deferred Beneficiaries	3,996	4,601	5,149	7,298	8,079
Total	27,292	28,808	30,360	32,576	34,162

Investment policy

The Fund was managed with regard to the strategic asset allocation benchmark set out in the table below.

Strategic Asset Allocation Benchmark

Asset class	Strategic Benchmark %
UK Equities	56.00
North American equities	7.00
European Equities (ex UK)	7.00
Japanese equities	5.10
Pacific equities (ex Japan)	5.10
Emerging markets	1.30
Overseas Equities	25.50
Total Equities	81.50
Index Linked Gilts	6.20
Overseas Fixed Interest	1.15
UK Conventional Gilts	1.15
UK Corporate Bonds	1.00
Total Fixed Interest	9.50
Property	7.50
Cash	1.50
Total	100.0

Investment performance

The twelve months period ended 31 March 2002 saw the value of the Fund fall by £6.6 million to £759.1m. The negative investment return of -0.9% was ahead of the fall in the Fund's specific benchmark which declined by -1.2%. Over the ten years since the introduction of the strategic benchmark the annualised investment performance of the Fund has matched the benchmark return at 11.4%.

Annual investment performance over the previous ten years is set out in the table below. The Fund's annual return of 11.4% has exceeded increases in both prices (2.5% p.a.) and average earnings (4.1%).

Investment performance of the Fund 1 April 1992 to 31 March 2002

	Lincolnshire Fund Return %	Comparative Benchmark Return %	Retail Price Inflation %	Annual Wage Increases %
1992/93	24.5	24.1	1.9	2.8
1993/94	18.1	16.9	2.3	3.9
1994/95	0.7	2.4	3.5	3.9
1995/96	23.9	23.1	2.7	3.6
1996/97	10.4	12.6	2.6	4.4
1997/98	27.5	25.7	3.5	5.5
1998/99	7.8	9.2	2.1	4.8
1999/00	16.1	15.2	2.6	5.4
2000/01	-8.0	-9.2	2.8	4.4
2001/02	-0.9	-1.2	1.3	3.5
10 years annualised	11.4	11.4	2.5	4.1

Investment Management Arrangements

The arrangements for segregated management of the Fund's assets, in place at 31 March 2002, are set out below.

Segregated Investment Management Mandates

Asset Class	Manager	Portfolio Market value £m's	Portfolio as a % of the Fund %
Fixed Interest	Morley Asset Management	72.8	9.6
UK Equities	Internally managed	239.2	31.5
	Deutsche Asset Management	135.3	17.8
	Friends Ivory and Sime	12.6	1.7
	Total UK Equities	387.1	51.0
US Equities	INVESCO Asset Management	45.8	6.0
European (ex UK) Equities	Bank of Ireland Asset Management	56.8	4.0
Japanese Equities	Schroder Investment Management	30.0	7.5
Pacific Basin (ex Japan)	Bank of Ireland Asset Management	38.8	5.1
	Total Overseas Equities	171.4	22.6

The Fund invests in emerging markets equities, UK property and Private Equity by holding units in a range of collective investment funds.

Property, Private Equity and Emerging Markets collective investment vehicles

Asset Class	Manager	Market value of holding £m's	Holding as a % of the Fund %
UK Property	Standard Life Corporate Property Fund	28.1	3.7
	Deutsche UK Property Funds	16.1	2.1
	Royal London Property Unit Trust	15.4	2.0
	Morley Property Fund	12.9	1.7
	Total UK Property	72.5	9.5
Emerging Markets	SSGA Emerging Markets Funds	4.7	0.6
	Pictet Targeted Fund	3.4	0.4
	Foreign and Colonial Emerging Market Fund	3.1	0.4
	Total Emerging Markets	11.2	1.4
Private Equity	Standard Life – European Strategic Partners	1.6	0.2
	Westport – European Fund	3.5	0.5
	Westport – UK Technology Fund I	0.5	-
	Westport – US Fund II	1.2	0.2
	Total Private Equity	6.8	0.9

Actuarial position

The employers' contribution rates applying in the year ended 31 March 2002, for employers with more than 100 employees participating in the LGPS, are set out below.

Employers' contribution rates 2001/2002

Employer	Contribution rate %
Lincolnshire County Council	245
Boston Borough Council	320
East Lindsey District Council	275
Lincoln City Council	325
North Kesteven District Council	255
South Holland District Council	260
South Kesteven District Council	260
West Lindsey District Council	300
Lincolnshire Police Authority	240
Lincolnshire Probation and After Care Committee	255
Boston College	235
North Lincolnshire College Boston College	235
Stamford College	235
ACIS	285
Linx Homes	285

(Employers' contribution rates are expressed as a percentage of employees' contributions)

Administration of benefits

Lincolnshire County Council has contracted with HBS to administer LGPS benefits and other services. Former LGPS members who now work for HBS have the right to transfer their accrued pensions to their new employer's scheme. The value of assets to be transferred to the HBS pension scheme to reflect the value of the transfer elections has been agreed. The transfer of assets from the Fund is expected to take place during the financial year 2002/03.

The principle points of contact in respect of questions about the LGPS are:

Investments David C Forbes, Assistant County Treasurer – Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YL. (Tel: 01522 553642)
(email : dcf@lincolnshire.gov.uk)

Pensions David Vickers, Pensions Manager – HBS, xxxxxxCounty Offices, Newland, Lincxxoln, LN1xx 1YL (Tel: xxx01522 553684) (email: djv@hbs.uk.com)

P Moore BA CPFA
County Treasurer

**LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS
STATEMENT FOR THE YEAR ENDED 31 MARCH 2002**

	2001/2002 £000	2000/2001 £000
<i>FUND ACCOUNT</i>		
CONTRIBUTIONS & BENEFITS		
Contributions receivable	36,415	33,753
Transfers in	7,727	7,538
	<u>44,142</u>	<u>41,291</u>
Benefits payable	33,846	32,434
Leavers	4,852	3,268
Administrative expenses	587	530
	<u>39,285</u>	<u>36,232</u>
NET ADDITIONS (WITHDRAWALS) FROM DEALINGS WITH MEMBERS	4,857	5,059
RETURNS ON INVESTMENTS		
Investment management expenses	-1,961	-2,356
Investment income	17,134	16,940
Change in market value of investments	-26,603	-79,949
NET RETURNS ON INVESTMENTS	<u>-11,430</u>	<u>-65,365</u>
NET INCREASE IN THE FUND	-6,573	-60,306
<i>NET ASSETS OF THE SCHEME</i>		
OPENING NET ASSETS AS AT 1st APRIL	765,702	826,008
CLOSING NET ASSETS AS AT 31st MARCH	759,129	765,702
<i>NET ASSET STATEMENT</i>		
INVESTMENTS		
FIXED INTEREST SECURITIES	27,410	19,680
EQUITIES	534,586	558,708
INDEX LINKED SECURITIES	44,931	48,785
MANAGED FUNDS AND UNITISED TRUSTS	112,242	107,778
CASH DEPOSITS	2,728	7,779
TOTAL INVESTMENTS	<u>721,897</u>	<u>742,729</u>
CURRENT ASSETS & LIABILITIES	37,232	22,973
CLOSING NET ASSETS AS AT 31st MARCH	<u>759,129</u>	<u>765,702</u>

AUDIT OPINION

This certificate refers to the financial statements of the Pension Fund and the notes to the financial statements, which are published in full in the Financial Statements of the County Council.

Auditor's Report to Lincolnshire County Council for 2001/2002

We certify that we have undertaken the audit of the statement of accounts which have been prepared in accordance with the accounting policies applicable to Local Authorities.

Respective Responsibilities of the County Treasurer.

The County Treasurer is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion thereon.

Basis of Opinion

We carried out our audit in accordance with the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission, which requires compliance with the relevant auditing standards.

Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of the significant estimates and judgements made by the authority in the preparation of the financial statements and of whether the accounting policies are appropriate to the authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly the financial position of Local Government Pension Scheme administered by Lincolnshire County Council.

ACTUARIAL STATEMENT

INVESTMENT BACKGROUND

Returns for major markets

Weak investment returns from major equity markets characterised the twelve months ended 31 March 2002. The major markets of the US, Europe and the UK were unchanged or marginally down over the year. The Japanese market with specific domestic economic difficulties fell heavily by over 20% but the other Asian and emerging markets delivered very strong returns of 12% and 20% respectively as investors anticipated a recovery in Global economic activity.

Fixed Interest markets provided a relatively safe haven for investors with Corporate Bonds and UK Index Linked Gilts providing reasonable returns of 6% and 3% over the year. Cash returns fell to 4.4% in line with reductions in base rates whilst property supported by rental yields delivered a 7% return.

Investment Returns to sterling investors 1 April 2000 to 31 March 2002

Asset Class	Index	Index return to sterling investors %
Equities		
United Kingdom	FTSE All Share	-3.2
United States	S&P 500	0.1
Europe	FTSE Europe (ex UK)	-6.8
Japan	TOPIX	-20.7
Far East	FTSE Pacific (ex Japan)	12.8
Emerging Markets	IFCI Composite	20.5
Fixed Interest		
UK Index Linked Gilts	FT-A Over 5 Years Index Linked	3.3
UK Gilts over 15 years	FT-A Over 15 years UK Gilts	-1.5
Overseas Bonds	JP Morgan Non – UK Governments	0.3
UK Corporate Bonds	Barclays over 15 years UK Corporates	6.0
Property	IPD All Properties	7.3
Cash	Local Authority Seven Day Rate	4.4

Markets over the reporting period

United Kingdom

- The Bank of England reduced interest rates from 5.75% to 4.0% in six stages between April and November in response initially to a slowdown in business activity and then to support the economic system after the events of September 11th.
- The excesses of the late 1990's boom in share prices for telecommunications, media and technology stocks continued to unwind, over the year these sectors of the UK stock market declined by 44%, 28% and 76% respectively.
- Companies who had borrowed heavily to provide telecommunications services or related products found themselves in financial difficulties as competition increased and actual demand was less than they had planned. The worst examples of these companies were Marconi and Telewest where investors lost over 96% of their money in the twelve months ended 31 March 2002.
- UK domestic consumption and public sector investment grew strongly and this benefited the retailing, leisure, construction and banking industries.
- The UK equity market, in common with all overseas markets, fell heavily at the start of September and the fall continued after the New York Trade Centre atrocity. Between the start of the month and its low point on the 21st of September the UK market declined by 22%.
- A series of interest rate reductions after the events in New York, signs that economic growth was returning in the US and military success in Afghanistan supported a strong recovery in the UK market, so that by the end of March it had

recovered almost all the losses made in September.

- Bond markets were supported by interest rate reductions and demand by investors for low risk assets. Property returns benefited from high rental yields.

Overseas markets

- The action of the Federal Reserve in cutting interest rates aggressively supported the overall US equity market. Concerns began to build about poor corporate management in several sectors of the US markets.
- European markets were weak as inflation remained high despite recessions in a number of countries. The initial success of extreme parties in some national elections created considerable political uncertainty.
- Asian markets rose strongly in 2002 as manufacturing companies were expected to benefit from a US economy that appeared to be coming out of recession.
- Emerging markets were very mixed as some economies collapsed as in the case of Argentina and others such as Russia performed strongly, benefiting from recovering domestic economy.
- The Japanese equity market suffered from the burdens of escalating government debts, deflation and the weight of bad debts on the financial sector.
- Overseas Bond markets produced positive returns supported by global reductions in interest rates and investors' preference for bonds in a very uncertain economic environment.

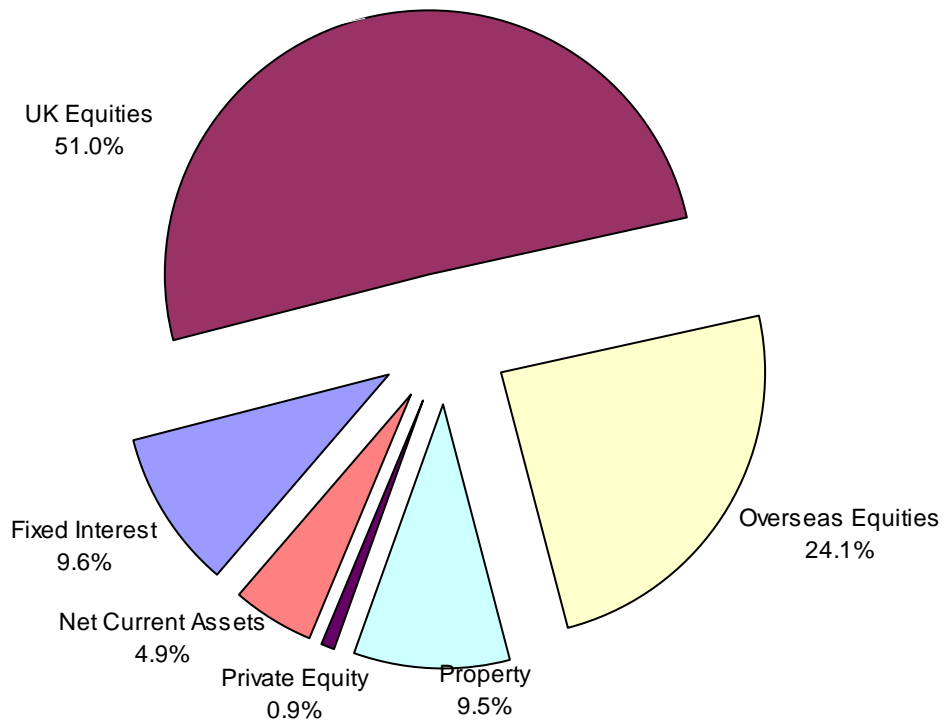
ASSET DISTRIBUTION AT 31 MARCH

Market values at 31 March 2002

Asset class	Market Value £000	31/3/02 %	31/3/01 %
Fixed Interest	72.8	9.6	9.1
UK Equities	387.2	51.0	53.3
Overseas Equities	182.6	24.1	25.1
UK Property	72.5	9.6	8.9
Private Equity	6.8	0.9	0.6
Cash & Other Net Current assets	37.2	4.9	3.0
Total	759.1	100.0	100.0

GLOBAL INVESTMENT DISTRIBUTION

ASSET ALLOCATION AS AT 31 MARCH 2002

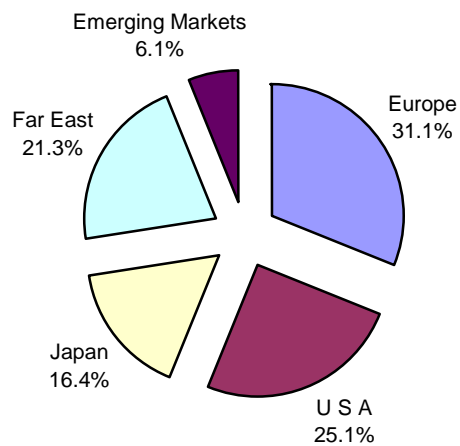


OVERSEAS EQUITIES ASSET DISTRIBUTION AS AT 31 MARCH

Market values at 31 March 2002

Asset class	Market Value £000	31/3/02 %	31/3/01 %
Europe (Excluding United Kingdom)	56.8	31.1	32.0
United States	45.8	25.1	24.5
Japan	30.0	16.4	18.2
Far East (Excluding Japan)	38.8	21.3	20.0
Emerging Markets	11.2	6.1	5.3
Total	182.6	100.0	100.0

OVERSEAS INVESTMENT DISTRIBUTION AS AT 31 MARCH 2002



TWENTY LARGEST HOLDINGS IN THE FUND AS AT 31 MARCH 2002

	Market Value £000	Proportion of the Fund %
BP Amoco	36,714	4.8
Standard Life Corporate Property Fund	28,145	3.7
Glaxo Smithkline	26,876	3.5
Vodafone	22,035	2.9
HSBC Holdings	19,046	2.5
Astrazeneca	16,948	2.2
Deutsche UK Managed Property Fund	15,539	2.0
Royal London Exempt Property Unit Trust	15,354	2.0
Royal Bank of Scotland	14,829	2.0
Morley Property Fund	12,889	1.7
Shell Transport & Trading	12,835	1.7
Morley Corporate Long Dated Bond	9,502	1.3
Lloyds TSB	9,425	1.2
Treasury 2.5% Index Linked 2011	8,828	1.2
Barclays	8,769	1.2
Diageo	8,350	1.1
Treasury 2.5% Index Linked 2016	7,991	1.1
Treasury 2.5% Index Linked 2024	7,703	1.0
British Telecommunications	7,014	0.9
HBOS	6,476	0.9
Total	295,268	38.9

SUMMARY OF LGPS CONTRIBUTIONS AND BENEFITS

Membership of the LGPS is available to all contracted employees of participating employers whether whole time, part time or casual. While membership of the Scheme is not compulsory for employees, new employees are deemed to have joined the Scheme unless they specifically opt out.

National legislation and regulation cover the LGPS including the benefit entitlements of Scheme participants and their families. Such benefits are not linked to the investment performance of the Fund. Key features of the contributions payable and the benefits available are outlined below:

Contributions

Employees contribute 6% of their pensionable pay towards their pension, the exception being manual workers who were Fund members before 1 April 1998 who pay 5%.

Benefits

The normal retirement age for Scheme members is 65 but employees in the Scheme prior to 1 April 1998 can retire at 60 provided they have 25 years service. Retirement before these ages, other than on ill-health grounds, is not possible without the permission of the employer.

Annual Pensions

Pensions are calculated at a rate of $\frac{1}{80}$ th of the employee's pensionable pay in their last twelve months of employment for each year of service up to a maximum of 40 years. Pensions for persons aged 55 and over are linked to the movement in the Retail Price Index.

Lump Sum Payments

A retiree receives a lump sum payment upon ceasing work equating in general, to three times the annual pension.

Ill Health Retirement

Benefits are as for normal retirement but with additional years added dependent on the length of service.

Death-benefits

Death in service attracts a lump sum grant equivalent to up to twice final pensionable pay. An annual pension is payable to the surviving spouse and any eligible children. For death after retirement a single payment is made of five times the member's annual pension (less any pension paid since retirement.) The surviving spouse is entitled to an annual pension of up to 50% of the member's pension for the rest of their life.

Supplementary Pensions

Scheme members may purchase additional service within the Scheme provided that they would not normally be able to achieve 40 years service by their normal retirement age. As an alternative, Scheme members may increase their benefits by paying Additional Voluntary Contributions, up to limits imposed by the Inland Revenue, to a private pension provider under an arrangement sanctioned by the County Council.

LIST OF PARTICIPATING EMPLOYERS

Employing authorities who are participating members of the Fund at 31 March 2001

Scheduled Authorities

Black Sluice Internal Drainage Board
Boston Borough Council
Boston College
Bourne Town Council
Branston & Mere Parish Council
Cherry Willingham Parish Council
Crowland Parish Council
Deeping St James Parish Council
East Lindsey District Council
Grantham College
Heighington Parish Council
Horncastle Town Council
Ingoldmells Parish Council
Langworth Parish Council
City of Lincoln Council
Lincolnshire County Council
Lincolnshire Magistrates Courts Committee
Lincolnshire Police Authority
Lincolnshire Probation Service
Lincs Valuation Tribunal
North Lincolnshire College
Skegness Town Council
South Holland District Council
South Holland Internal Drainage Board
South Kesteven District Council
Stamford College
Stamford Town Council
Sudbrook Parish Council
Upper Witham Internal Drainage Board
Washingborough Parish Council
Welland and Deeping Internal Drainage Board
West Lindsey District Council
Witham First Internal Drainage Board
Witham Fourth Internal Drainage Board
Witham Third Internal Drainage Board

Mablethorpe Town Council

Lindsey Marsh Drainage Board
Louth Town Council
Mablethorpe and Sutton Town Council
Nettleham Parish Council
North East Lindsey Internal Drainage Board
North Hykeham Town Council
North Kesteven District Council

Admitted Authorities

ACIS Group
Bishop Grosseteste College
Boston Mayflower
East Lindsey Housing Partnership
Heritage Trust for Lincolnshire
Lincolnshire Tourism
Lincolnshire Trust for Nature
Linx Homes