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NORTHAMPTONSHIRE LOCAL GOVERNMENT PENSION SCHEME

Annual Report and Accounts 2006-07

The Local Government Pension Scheme is administered by Northamptonshire County Council

Northamptonshire County Council

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INTRODUCTION

This annual report sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Northamptonshire Fund during the year.

An abbreviated version of this report is circulated to the scheme members along with their annual benefits statements.

The report has been prepared in accordance with Statement of Recommended Practice for Pension Scheme Accounts (SORP).

J. Raisin

Head of Financial Operations & External Relations

Date: 23 July 2007

LEGAL FRAMEWORK AND ADMINISTRATION

Legal framework

The Local Government Pension Scheme is a statutory, funded pension scheme. It is “contracted-out” of the state scheme and is termed a defined benefit (or final salary) scheme. The operation of the Northamptonshire Local Government Pension scheme is principally governed by the Local Government Pension Scheme Regulations 1997 [as amended] (effective from April 1998). The scheme covers eligible employees of the County Council, the Police Authority, District and Borough Councils within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 41 to 43.

This defined benefit scheme provides benefits related to salary for its members and is unaffected by the investment return achieved on the Scheme’s assets. Pensions paid to retired employees, their dependents, and deferred benefits are subject to mandatory increases in accordance with annual pension increase legislation. The amount is determined by the Secretary of State and is based on the Retail Price Index (RPI).

Contributions

The Scheme is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits being paid is invested.

The contribution from employees is prescribed by statute at the rate of 5% or 6% of pensionable pay depending upon their conditions of service.

Employers’ contribution rates are set following the actuarial valuation which takes place every three years. The contribution rate reflects the fund deficit or surplus and is the rate at which employers need to contribute to achieve a 100% funding level. The Fund has agreed that deficits will be recovered over a maximum period of 20 years as set out in the Funding Strategy Statement.

Contribution rates for 2006-07 were based on the last completed valuation of the Scheme’s financial position as at 31st March 2004 and are shown on pages 41 to 43.

The next actuarial valuation is due at 31 March 2007 and any change in contribution rates, as a result of that valuation, will take effect from 1 April 2008.

Statement of Investment Principles
The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 came into force in February 2000. One of the principal provisions was the requirement by administering authorities to maintain and publish a Statement of Investment Principles (SIP).

The written statement which sets out the principles governing decisions about investment also addresses the way voting rights are carried out and the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

The Statement of Investment Principles is a separate publication available upon request.

Funding Strategy Statement
The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which the Administering Authority is required to prepare and publish a Funding Strategy Statement.

The statement sets out the aims and purpose of the Pension Fund, the responsibilities of the key parties, discusses solvency issues and target funding levels and links to investment policy set out in the Statement of Investment Principles.

The Funding Strategy Statement is a separate publication available upon request.

Governance Policy
The Local Government Pension Scheme (Amendment) (No2) Regulations 2005 [SI2005 No. 3199] – December 2005, require all Administering Authorities to prepare, publish and review a Policy Statement setting out the governance of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of delegation.

The Governance Policy is a separate publication available upon request.

Communications Policy
The Local Government Pension Scheme (Amendment) (No2) Regulations 2005 [SI2005 No. 3199] – December 2005, require all Administering Authorities to prepare, publish and review a Policy Statement setting out the communication strategy for communicating with Members, Members representatives, prospective Members and Employing Authorities; and for the promotion of the Scheme to prospective Members and their Employing Authorities.

The Communications Policy is a separate publication available upon request.

INVESTMENT ARRANGEMENTS

Legal Framework

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – Management and Investment Regulations 1998. The main stipulations are:

- An administering authority may appoint one or more investment managers to manage and invest fund monies on their behalf.
- The investment manager must provide, at least once every three months, a report setting out his actions.
- The investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments which they propose to make.

Pensions Committee

The investment activities of the Fund are controlled by the County Council's Pensions Committee, supported by an Investment Advisory Panel.

The Pensions Committee consists of:

- five members nominated by the County Council;
- one district council representative;
- an employee representative nominated by the employees' union UNISON (non-voting)

Since April 2001 the Fund has been advised by independent adviser, Mr. P Meredith. The independent adviser is not formally a member of the Pensions Committee. The members of the Pensions Committee as at 31 March 2007 are listed on page 44.

The Pensions Committee seeks to ensure that all:

- funds are suitably invested,
- investments are diversified,
- relevant investment limits are not exceeded,
- investments and investment arrangements are regularly monitored and reviewed.

Investment Managers

Asset Allocation is the determination by the Pensions Committee informed by professional investment advisors of the categories of investment that best serves the current and future demands on the fund. Typical categories are Equities, Fixed Interest Instruments, Property and cash.

Following determination of the categories of investment, day to day investment decisions are taken by external investment managers, appointed by the Pensions Committee to optimise returns as determined within the funds Asset Allocation. All managers have been given "active" briefs to outperform the benchmark.

The Fund's Investment Managers can be described in two categories: balanced and specialist.

A balanced mandate is where a fund manager invests in the full range of asset categories and is allowed a low degree of flexibility between the classes. A typical example would see an investment manger holding more equities and less bonds than the Asset Allocation indicated. They could do this if they considered it beneficial to the fund.

The specialist managers in comparison to balanced managers:-

- Are given specific briefs in a defined asset class, therefore have little or no flexibility between asset classes.
- Are given smaller holdings, therefore are less disruptive to replace should they consistently under perform.
- Usually have more competitive performance targets to reflect the intensity of their more limited investment brief.
- Are sometimes limited in which country they can invest, for example we have two specialist investment managers who can only invest in UK equities.

Performance

Fund manager performance is undertaken by the Investment Advisory Panel of the County Council, where fund managers are required to report investment performance on a quarterly basis. They are subject to challenge in these meetings from the Panel members and the Panel's well respected and informed independent investment advisor.

Custodian Services

Northern Trust has been the Fund's appointed Global Custodian since September 2000.

The responsibilities of the Global Custodian are:

- arranging for the custody of the scheme's assets in compliance with the custody agreement.
- ensuring that all holdings have been registered as assets of the fund.
- manage the settlement of all deals entered into by the fund managers, collect all dividends and interest accruing to the fund and to hold all cash.
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the quarter.
- providing details in a timely manner to Russell Mellon Performance Services Limited and the WM Company.

REVIEW OF DEVELOPMENTS IN 2006-07

Introduction

This financial year has seen significant change in both investment, legislative and administrative terms, the following pages provide a summary of these developments.

Asset Liability Study

The Fund is required to undertake a full actuarial valuation of its assets and liabilities every three years, the latest valuation came into effect from 1st April 2005.

The valuation process considers current and future liabilities and the degree to which these liabilities are provided for in the current value of assets, anticipated future investment return and the level of ongoing employer funding.

It is best practice therefore that following a valuation a review of the investment performance and structure against the current and future investment environment is taken.

The Fund undertook an Asset Liability Study which resulted in the following customised benchmark with effect from 1 April 2006.

Customised Benchmark 1st April 2006

	Weighting	%	Market Benchmark adopted
UK Equities		**34.5**	FTSE All Share
Overseas Equities		**34.5**	
Overseas	*7*		FTSE AW Developed World ex UK
Overseas	*6.8*		FTSE AW All-World ex UK
North America	*6.1*		FTSE AW North America
Europe	*6.0*		FTSE AW Developed Europe Ex UK
Pacific Basin	*6.0*		FTSE AW Developed Asia Pacific
Emerging Markets	*2.6*		FTSE AW Emerging Markets
Bonds		**23**	
UK Corporate Bonds	*7*		iBoxx £ Non-Gilts
UK Government Bonds	*4*		FTSE A All Stocks Gilts
UK Government Bonds	*4*		FTSE A Over 15 Years Gilts
UK Index Linked	7		FTSE A Index Linked Gilts (Over 5 Years)
Cash	*1*		7 Day LIBID
Property		**8**	HSBC-AREF All Balanced Fund
Total		**100**	

The key changes were:

An increase in the Property holding of 2%
A reduction in the bonds holding of 2%
A reduction in the UK equity holding of 6.5%
An increase in the overseas equity holding of 6.5%

The implementation of the Asset Liability Study led to a change in individual Fund Manager holdings:-

		Holding	Brief
❖	UBS	50.0%	Balanced Mandate
❖	Martin Currie	8.5%	UK Equity Specialist
❖	Majedie	8.5%	UK Equity Specialist
❖	Alliance Bernstein	17.0%	Overseas Equity Specialist [ex. UK]
❖	Aberdeen	11.0%	Fixed Interest Specialist
❖	CB Richard Ellis	3.0%	UK Property Specialist
❖	RREEF	2.0%	UK Property Specialist

Property
Until February 2007 the Pensions Committee had authorised investment in UK property only. With the knowledge that property has a low correlation with Equities and Bonds, which helps reduce overall portfolio risk and it's risk and return profile, is generally considered to be below Quoted Equities, but above Bonds; the Fund decided to diversify into European Property via a single pooled fund vehicle with UBS and a fund of funds vehicle with CBRE.

Tactical Asset Allocation
The Fund adopted a Tactical Asset Allocation (TAA) strategy, permitting exposure to those markets/assets that the manager's research suggests are presently attractive and reducing investment in less attractive markets/assets, on a short term basis. This may conflict with the longer term view of value which, would have been achieved by adhering strictly to the strategic benchmark.

The Fund adopted this strategy through a UBS investment vehicle called Market Absolute Return Strategy (MARS).

Currency Management
The Fund sought to add value in global currency markets, by using UBS's active Currency Management product called Currency Absolute Return Strategy (CARS).

The CARS product applies currency management as an overlay, independent of asset allocation or benchmark. Derivatives (e.g. taking long and short positions in various currencies) are utilised which enables currency exposure to be obtained without the need to adjust the physical assets in the portfolio.

Hedge Funds

In 2006, the Fund commenced investigation into Hedge Funds as a potential alternative asset class. In February 2007, the Pensions Committee approved the principle of investment in Hedge Fund of Funds. Hedge Funds can provide risk diversification to a primarily traditional asset class portfolio through low correlations with the returns from Quoted Equities and Bonds. They also provide potentially higher returns than other asset classes though not necessarily equities and have performed well in aggregate. Another distinguishing feature is that unlike other asset classes, they often have an absolute return target, rather than a target relative to a benchmark. However the success of any hedge fund programme depends crucially on selecting strong managers and monitoring the likelihood of their continued success.

Implementation of Hedge Fund of Funds is due to be completed in June 2007.

Less Constrained Bonds Remit

In 2006 Aberdeen AM, one of the Fund's bonds managers, submitted a proposal for a less constrained remit. The objective of a less constrained investment mandate is to enhance investment returns within an acceptable risk profile. There is a risk that in agreeing a less constrained mandate, that performance will be lower than under the existing remit, however it was felt that on balance it was likely to result in improved investment returns, while avoiding additional risk that outweighs the potential additional returns. Hence the Fund agreed the proposal. The resulting changes came into effect on 1st April 2007.

Review of Custodian Services

1.1 The Fund commissioned Mercer Investment Consulting (Mercer IC) to undertake an independent review of the service provided by the Fund's custodian, Northern Trust, and in particular, to benchmark Northern Trust fees and performance. The results were as follows:-

- Fees

  The report indicated that the Fund's custodian fees were more than market rates based on benchmarking against 4 comparable custodians' fees.

  Negotiations with Northern Trust resulted in a significant reduction in fees.

- Investment operations and governance

  Mercer IC's report on the Fund's investment operations and governance concluded that, generally, Northern Trust's and the investment managers' operational efficiency was in line with or exceeded market standards and Mercer IC's expectations.

  Opportunities for improvement were, however, identified in the areas of operating efficiency, Foreign Exchange execution, securities lending and cash management. Discussions with individual investment managers has resolved much of these issues.

In addition the securities lending limit has been increased from 25% of stock held, to 35%, with more favourable terms for the Fund.

- Commission recapture

  Mercer IC's report confirmed that the commission recapture programme run by Lynch Jones & Ryan had been functioning in line with expectation.

1.2 In addition to the review, the Fund has since, with the assistance of Mercer IC:-

- Negotiated a Service Level Agreement with Northern Trust to codify key performance indicators and set down formal targets for performance levels.

- Undertaken Transaction Cost Analysis (TCA) for the Fund's two largest investment managers to provide assurance in the efficient management of dealing arrangements. Findings indicated transaction costs were well managed and the process was extended to all managers in the Fund, for the latter half of 2006-07, results of which will be presented at the Investment Advisory Panel.

Regulations

2006/2007 has seen a raft of proposals and consultation exercises being undertaken by the Department for Communities and Local Government (DCLG) in readiness for the new look Local Government Pension Scheme effective from 1 April 2008. All of these proposals and consultations have been considered by this Fund and responses identifying its preferred route have been submitted to DCLG.

In preparation for this change of scheme and also to reflect necessary changes required by impacting legislation, a number of amendments have been made to the existing pension regulations. These include the introduction of Augmented service to replace previous additional benefits that could be awarded but now considered unlawful following new age discrimination rules; extension of age for membership of the Scheme from 65 to 75; and removal of many restrictions on accumulation of pensionable service and rate of employee contributions following tax simplification legislation.

A review of all the discretionary areas within the regulations has been undertaken resulting in new policies being produced by Northamptonshire County Council as the Administering Authority and also as a guide for all employers within this Fund.

The Additional Voluntary Contribution (AVC) providers to this Fund have been reviewed in respect of their rates of return and also ability to communicate with members of the Fund. The result has been the replacement of Nationwide Building Society with Prudential Assurance. Prudential are the largest AVC provider within local government and will enhance existing communication strategies as well as providing a better return on the deposit account.

<u>Northamptonshire County Council Pension Fund Investment Review</u>

Economic and market background

The global economy enjoyed a further year of good growth thanks to the continuing benign combination of rapid industrialisation in the East and modest inflation and therefore low interest rates in the West. China and Southern Asia have supplied developed consumer markets with more and more goods at prices that simply can't be matched at developed world labour costs and India is increasingly providing business services to the English speaking world. This globalisation has been a powerful restraint on the price of durable goods, services and labour, and permitted lower interest rates in the West than would otherwise have been the case. Though US interest rates have gradually risen from extreme low levels, most industrial companies worldwide have enjoyed very favourable conditions.

The financial sector has profited from the success of its customers with banks experiencing a prolonged period of low bad debts, particularly in their core corporate market. Credit has become cheap and plentiful with extra liquidity provided by rapid development of a number of new derivative instruments, with incentives to the originators that may well have helped to exaggerate this credit cycle. Easy credit has also been a stimulus to the consumer and to house prices. It has also facilitated increased corporate acquisition and leveraged buy-out activity. London has been at the heart of much of this and has gradually become established as the financial centre of Europe and of much global business and finance.

UK companies involved in wholesale financial services and international business have experienced boom times. But for what remains of traditional mass manufacturing and agriculture and those that service them, this bonanza and the associated strength of sterling must seem like the last straw. For those serving the domestic economy, conditions have been between these extremes with consumer confidence reasonable, plentiful cheap labour from an extended European Community and some growth in public spending.

A high level of merger and acquisition activity and unprecedented levels of private equity involvement across Europe drove valuations of all but the very largest companies. Towards year end the rise in interest rates and signs of weakness in US housing and mortgages provided some restraint. The UK equity market returned 11%, well short of all the preceding three years of sharp recovery from the trough in early 2003 but still above the average over 5 years of 9%pa, as this includes the significant down year in 2002/3. Returns from European equities were marginally higher at 12% [10%pa over 5 years] and emerging markets returned 7% [17%]. The weakness of the dollar and yen restricted the returns in North America and Pacific Basin, respectively –1% [0%] and –2% [9%]. UK property produced another excellent return at 18% [15%] with London offices to the fore. Fixed interest and index-linked gilts were muted, returning respectively 1% [5 %] and 3% [7%].

Performance

The value of the Fund rose over the year from £1.04bn to £1.10bn. The return over this second year of the revised management arrangements was 4.3%, well below the benchmark return of 6.5% with no manager performing significantly above benchmark and UBS on its substantial multi-asset mandate below and Martin Currie on UK equities well below.

Outlook

Equity markets are said to "climb a wall of worry" but several of the main markets have doubled in value since early 2003 and volatility has become unusually low. With strong growth in earnings and dividends, valuations on most traditional measures are not high, albeit high enough to be vulnerable to any slowdown in economic growth and/or pressure on current exceptionally high profit margins.

Oil is one potential risk. It will remain a key component of economic activity for several decades. In a buoyant economy demand seems to have become less sensitive to price and seems set to gradually outstrip supply, which is often constrained by nationalistic policies that do not always employ the latest extraction technology. Moreover the isolation of Iran, potential instability in the Arabian peninsular and the debacle in Iraq provide a threat even to existing supplies. Record oil prices will gradually lead to greater investment in nuclear and alternatives though in the shorter term they simply increase cost inflation and interest rates.

China still shows no sign of any easing in its breakneck growth with output doubling approximately every six or seven years. The resulting rapid increase in living standards is a powerful stimulus for cooperation but the mass exodus from the countryside to city is causing enormous social strains. Central state control has managed to muddle through without resorting to excessive force partly because the Chinese leadership has shown remarkable collegiality and pragmatism, to date. With widespread official corruption, weak property rights and with the majority of the population economically disenfranchised it is unlikely that this momentous transition to a developed modern state will be entirely serene. With China now a major component in the global economy any disruption would have significant ramifications.

Markets are also vulnerable to exchange rate instability particularly in the world's main reserve currency, the dollar. The US trade deficit has stabilised but at a level which still requires growing Asian manufacturing and Middle Eastern oil surpluses to be recycled substantially in dollars: this may cease to appeal if its recent slide were to continue. Personal oil wealth from the Middle East and Russia has also sought a home [and homes] in the UK and with a spate of takeovers of UK companies by foreign buyers sterling has been strong. This sale of domestic assets, whether of Treasury bonds, companies, property or infrastructure could in theory continue for many years but if it begins to feel like the "rake's progress" then investors may take fright and US and UK trade imbalances may again loom large. Also in the UK the recent reversal from a sustained period of mainly inward to some outward movement in corporate acquisitions may reduce one prop for sterling.

The pattern of world trade is evolving with Russia flexing its growing oil and gas based muscle and China showing steely determination to procure and safeguard its own oil and mineral needs in Africa. Western democratic leaders can't ignore the growing inequality of domestic wealth. Pressure comes through the ballot box with job losses in traditional mass production industries hitting the headlines and the regional if not national psyche, particularly in the US, whereas the steady accumulation of high tech and service jobs is mainly piecemeal and goes largely unreported. Calls for protection of "key" industries and their workers become hard to resist. It is no surprise that progress is tortuously slow on international co-ordination on free trade and related ecological issues.

Finally the recent slowdown in US housing sales and distress in the associated "sub-prime" mortgage market may be suggesting that credit is tightening. Certainly the associated difficulty in pricing complex derivatives has shocked supposedly sophisticated investors. US consumer spending which has been the mainstay of economic growth may flag. In the UK a buoyant housing market and rapid growth in money supply may yet result in further interest rate increases and test our consumers as well as investors' resolve in property and other alternative markets. Indeed UK commercial property prices seem to be reflecting a "squeeze" on supply, particularly in London, with the cost of finance now well above rental income.

Even if economic conditions stay reasonably robust, tighter credit could yet impact more widely on the financial sector and reduce takeover activity. Almost certainly the overall returns available in the core asset equity asset class will be less than over the last four years.

Strategic Asset Allocation

Nevertheless the bulk of the Fund, 69%, continues to be held in equities to produce the higher long-term returns that should help to minimise employer contributions. A balance is struck with bonds, property and other alternatives providing diversification and hence moderating potential short-term upward fluctuations in those contributions if equity markets again suffer a major downturn as in 2000-3.

Historically the Fund's equity exposure has been predominantly in the UK stock market. However, this was becoming increasingly concentrated on a few multinational corporations and therefore less representative of the UK economy, so this proportion has been moving towards parity over several years. Since 1st April 2006 there has been an equal split between UK and overseas. From the same date the overseas equity benchmark distribution has moved some way from the former equal weights for North America, Europe [ex

UK] and Pacific Basin towards market capitalisation, which weights the US more highly. There has historically been some risk benefit from hedging part of the associated overseas currency exposure back into sterling. However for the present the Investment Panel has decided to retain full exposure.

Property managers have been given freedom to diversify selectively into continental European and the specialist bond manager has been given greater freedom incorporating the use of derivatives and a commensurately higher performance target. Finally, following an initiative by Mercers Investment Consulting and review by the Investment Panel, investment in hedge funds has been implemented in lieu of some bonds. The rationale is that the overall returns should be rather better without much prejudicing the overall risk profile, with 5% of the total Fund reallocated.

Fund management

All the fund managers are kept under regular review to help ensure that active management has the best possible prospect of adding value over a full market cycle. The hybrid management arrangement, with UBS holding a full multi-asset brief for half the Fund and with specialist managers for the other half, has been in place for the last two years. Following a comprehensive review, henceforth the UBS mandate will be restricted somewhat by diversion of their overseas equities, approximately £200m, to management by one or more new managers to be appointed by competitive tender. Also about half their bond assets, approximately £55m, have been reallocated to the two newly appointed managers of a fund of hedge funds. The overall structure and in particular the use of other alternative investments is kept under active review but most alternatives including private equity seem to be vulnerable to the current tightening in credit conditions.

Paul Meredith 24th July 2007

INVESTMENT PERFORMANCE

The Fund receives performance reports from two providers of performance information, Russell Mellon with a focus on individual fund manager performance and The WM Company with a focus on the Local Authority Universe

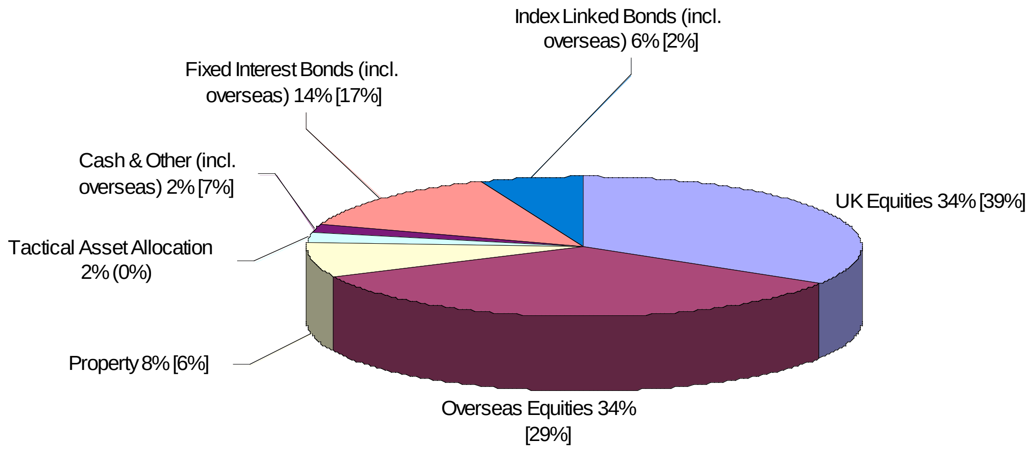
The former is used to report on specific fund manager performance on a consistent basis, facilitating fund manager comparison and challenge. These reports provide the key data by which fund managers are measured against their individual investment mandates and potentially may lead to their replacement if consistently unfavourable.

The latter is sought because it provides useful information on the ever changing Local Government investment culture and facilitates the Local Government sharing of best practice.

Portfolio as a whole

The actual distribution for the portfolio as a whole, at 31 March 2007 between the asset types is shown with the equivalent figures for 31 March 2006 in brackets. The distribution shows reductions in cash holdings, Fixed Interest Bonds and UK Equities offset against increases in Index Linked Bonds, Overseas Equities, Property and Tactical Asset Allocation. Cash holdings were comparatively higher at 31 March 2006 due to the transfer of assets between Fund Managers, in respect of benchmark changes which became effective on 1 April 2006.

Distribution of Investments as at 31 March 2007 (2006 in brackets)



Investment Performance

Since October 2003 the benchmark has been bespoke to the Fund.

At 31 March 2007 the Fund was valued at £1,101.0m, compared to £1,041.2m as at 31 March 2006.

In 2006-07, the Fund returned 4.1% against the Funds specific benchmark +6.5%, an underperformance against benchmark of -2.4%, and short of the +1.3% Fund Performance target by -3.7%. This was mainly due to underperformance within equities and property. The return was also below the average of Local Authority returns (7%), measured by the WM Local Authority Average.

These performance figures are shown in the table below with comparisons over three and ten years in addition, together with the comparable increases in average earnings and retail prices.

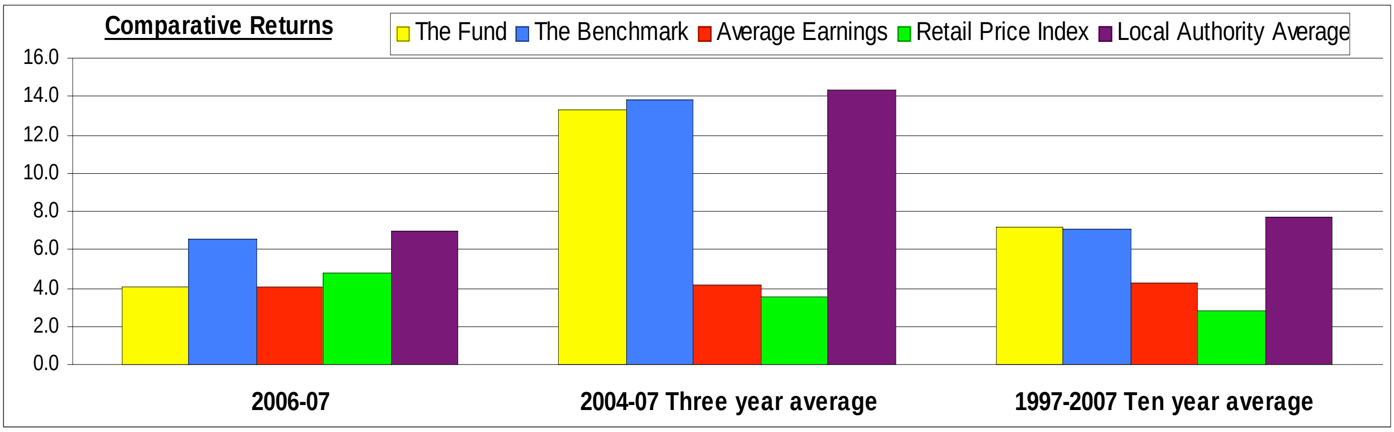
The figures quoted above represent the net money flows and any gain or loss in the capital value of investments.

INVESTMENT PERFORMANCE TABLE Average return % per annum		**The Fund**	**The Benchmark**	**Retail Price Index**	**Average Earnings**	**Local Authority Average**
2006-07	1 year	4.1	6.5	4.8	4.1	7.0
2004-07	3 years	13.3	13.8	3.5	4.2	14.3
1997-2007	10 years	7.2	7.1	2.8	4.3	7.7

The Investment Performance Table indicates that the Fund matched Average Earnings but fell short of the benchmark, the Retail Price Index and the Local Authority Average over one year. Over the three year period, the Fund exceeded the Retail Price Index and Average Earnings, but fell short of the benchmark and the Local Authority Average. Over the ten year period, the Fund's performance is more favourable, exceeding all measures other than the Local Authority Average.

This shows that 2006-07 was a difficult year for the Fund in terms of investment performance.

These figures are showed graphically in the table below.



Monitoring against Benchmark
The performance of the managers, in respect of their portfolios is monitored against the benchmark quarterly. The target for each manager is to return the following percentages per annum above the benchmark over a three year period:

Fund Manager	Individual Target as at 31st March 2007
UBS	1%
Martin Currie	2%
Majedie	2%
Alliance Bernstein	2%
Aberdeen AM	0.75%
RREEF	0.75%
CBRE	1%

Balanced Manager Performance
The table below shows UBS' investment returns compared to benchmark over one, three and ten years. UBS (holding 50% of the Fund) has been shown separately to the other fund manager's, because they have held an investment manager mandate longer than ten years and therefore a longer term profile of performance can be shown.

UBS – Balanced Mandate	2006-07 1 year	2004-07 3 years	1997-2007 10 years
Benchmark	6.3	13.7	7.1
Return	3.8	12.6	7.5
Relative Performance	-2.5	-1.1	0.4

UBS have underperformed the benchmark over one year and 3 years and have not achieved their outperformance target in any period shown.

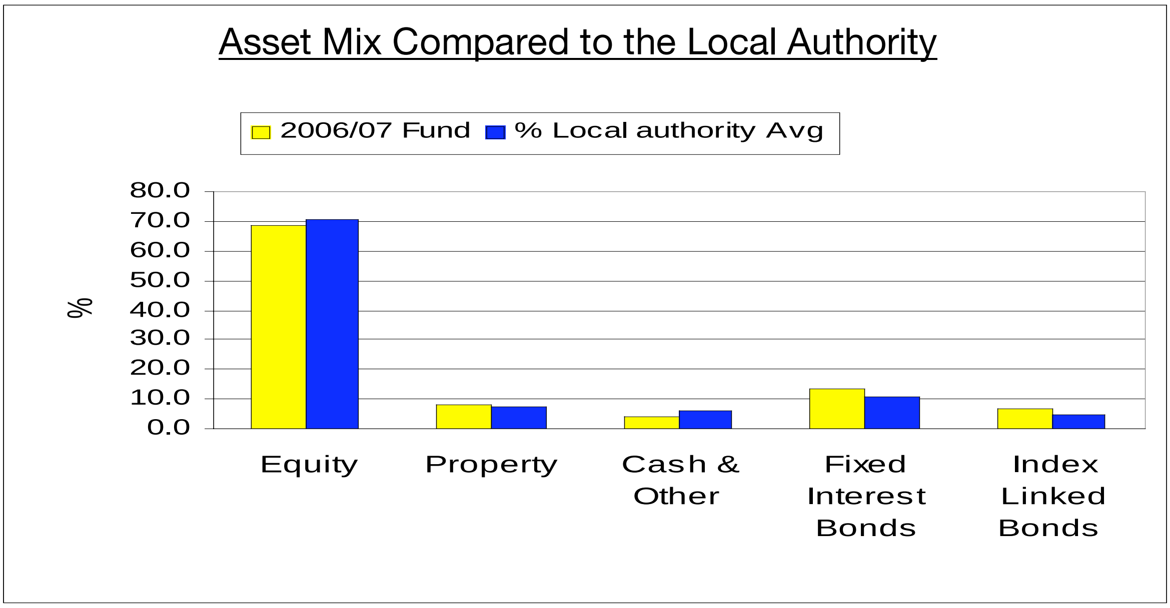
Specialist Manager Performance
This table sets out the specialist fund manager performance for 2006-07.

2006-07				
Specialist Manager	**Holding**	**Return**	**Benchmark**	**Variance**
Majedie	8.5%	10.9	11.1	-0.2
Martin Currie	8.5%	3.4	11.1	-7.7
Alliance Bernstein	17%	1.6	3.0	-1.4
Aberdeen AM	11%	1.1	1.1	0
CBRE	3%	13.5	16.6	-3.1
RREEF	2%	10.8	16.6	-5.8

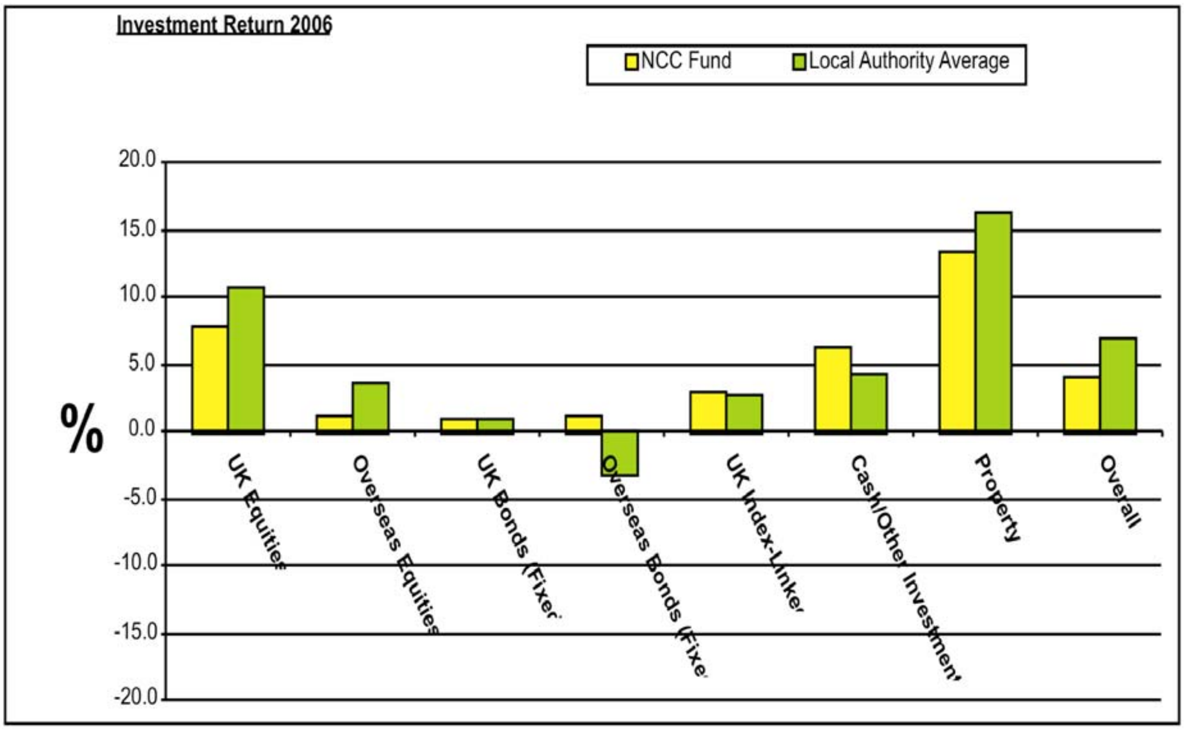
Performance at the total fund level has been disappointing over the last twelve months. This has been driven largely by poor performance by UBS (equities and bonds) and Martin Currie (UK equities). Alliance Bernstein (overseas equities) and to a lesser extent Majedie (UK equities) have also underperformed, but not to the same degree as UBS and Martin Currie.

The fund's two specialist property managers have also contributed to the underperformance over the last year, in particular RREEF.

Investment returns and the Local Authority Average
The Fund participates in the WM Companies benchmarking of Local Authority investment performance, which provides useful information on how well the Fund has performed in comparison with other Local Authorities.



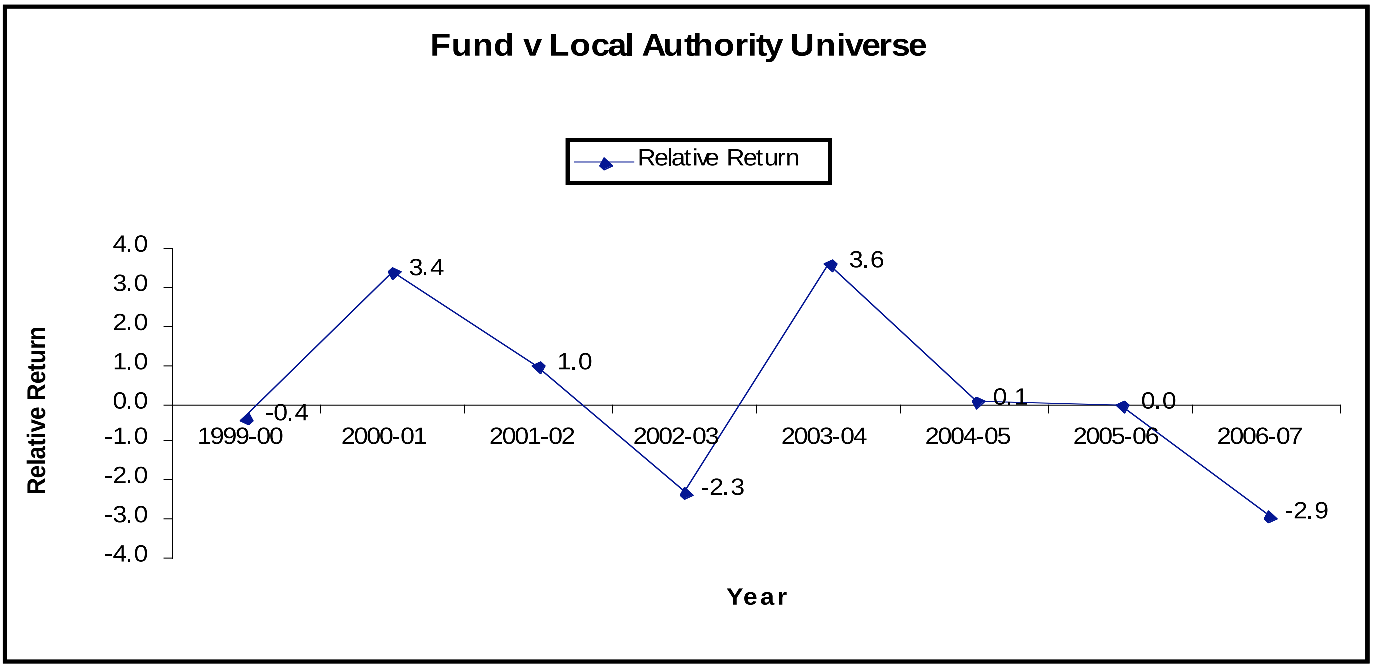
The Funds specific benchmark indicates that the authority is broadly comparable with the Local Authority Average, the main variances indicating the Funds preference for bonds and property against equity.



Although the fund outperformed the Local Authority Average on overseas, UK Index-linked bonds and cash, lower returns on equities, UK bonds and property, dominated overall underperformance of the Fund against the Local Authority Universe. This is in contrast to strong returns in equity and property markets generally over the twelve month period; hence highlighting the Fund's disappointing Fund Manager performance.

Annual Returns – Total Assets

		Years							
		1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Annual Return	Total Fund	13.2	-2.9	0.5	-21.8	27.0	11.8	24.9	4.1
	WM Benchmark	13.6	-6.3	-0.5	-19.5	23.4	11.7	24.9	7.0



The graph demonstrates the volatility of annual return comparisons of Fund performance against the Local Authority Universe.

ACTUARIAL POSITION STATEMENT

1. An actuarial valuation of the Fund was carried out as at 31 March 2004.

2. The 31 March 2004 valuation has adopted the FRS17 approach to accounting for pension costs, based entirely on market values.

3. The valuation has shown a past deficiency of £295.2 million and a funding level of 71%. The assets held at the valuation were sufficient to cover 71% of the accrued liabilities assessed on an ongoing basis, a funding level decrease of 19.4% compared to the level in 2001.

4. This valuation also showed that the common contribution rate payable by each participating body is 170% of members' contributions (188% at the March 1998 valuation). Individual adjustments to the common contribution rate payable by the respective authorities have been provided.

5. The revised contribution rates effective from 1st April 2005, are on average 301% (254% at the March 1998 valuation) of member contributions. The rise is due to a combination of increases to the cost of accruing benefits and increases to the contribution required to meet past-service shortfall. The existing contribution rates following the 31 March 2004 valuation for each participating body are shown in Appendix 4.

6. The market value of the Fund's assets at the valuation date was £715.8m.

7. The main actuarial assumptions used in the 31 March 2004 actuarial valuation were as follows:

   Rate of price inflation 2.8% per annum

   Rate of general pay increases 4.3% per annum

   Rate of increase of pensions 2.8% per annum
   [in excess of Guaranteed Minimum Pension (GMPs)]

   Investment return assumptions:

   The return on long dated gilts 4.6%

   Assumed out performance relative to gilts, provided by Funds significant equity exposure:

Pre Retirement (per annum)	2%
Post Retirement (per annum)	1%

   Aggregate investment return

Pre Retirement (per annum)	6.6%
Post Retirement (per annum)	5.6%

ACTUARIAL VALUATION
as at 31 March 2004

1. Mercers Human Resource Consulting undertook a valuation of the Fund as at 31 March 2004 in compliance with Regulation 77 of the Local Government Pension Scheme Act 1997 (as amended) (“the Regulations”).

   The revised contribution arrangements which are effective from 1 April 2005 are set out in the Rates and Adjustments Certificate required by Regulation 77.

   It should be noted that contribution rates are subject to review under Regulation 78(3)(b) if the need arises and, in any case, rates for years from 2008-09 onwards will be reviewed at the next valuation.

   In the normal course of events, it would be expected that the funding level would increase by the time of the next valuation at 31 March 2007, largely because the rates of contribution to be paid contain an element to liquidate the deficiency found at this valuation. The residual deficiency would then be re-spread at the next valuation. (Amortising early retirement costs as they arise means that future redundancies should have no great effect on the position of the Fund.) However, any increase in funding level is dependant on the assumptions made being borne out in practice, the main areas where variations might be expected being increases in pay and investment returns in excess of price inflation.

2. Mercers Human Resource Consulting are of the opinion that the rates of contribution in payment from 1 April 2005, together with the increases recommended to apply in future, and the existing assets of the Fund, will be sufficient, on the basis of the assumptions adopted for the actuarial valuation of the Fund as at 31 March 2004, to meet the liabilities of the on-going Fund under the regulations associated with accrued and currently accruing pensionable service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment.

FOREWORD TO THE ACCOUNTS

1. The accounts summarise the transactions of the Fund during the year, both in respect of benefits and investments, and show the position of the Fund at 31st March 2007. They are shown on pages 24 and 25.

2. The Pension Fund financial statements provide information about the financial position, performance and financial adaptability of the Fund. They are intended to show the results of the stewardship and management, that is the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future, which are reported upon in the actuary's statement.

3. These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain and with the guidelines set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (SORP) (Revised November 2002); except for additional voluntary contributions discussed in Note14 on page 30.

4. The Fund Account discloses the magnitude and character of financial transactions and changes in the value of the Fund during the period. These transactions are identified as being either Contributions and Benefits or Returns on Investments (including investment income and profit and losses on investment). The net Fund increase or decrease is reconciled to the net assets of the scheme.

5. The Net Asset Statement shown on page 25 discloses the size and distribution of the net assets of the Fund at the end of the financial year.

6. The Notes to the Accounts on pages 26 to 30 provide further explanation and breakdown of the figures included in the Fund Account and the Net Asset Statement.

ACCOUNTS 2006-07

Fund Account for the year ending 31 March 2007

2005-06 £000		Note	2006-07 £000
	Contributions		
48,170	Employers' contributions	(3)	51,643
15,627	Employees' contributions	(3)	16,088
316	Employees' additional voluntary contributions		319
	Transfers in		
10,379	Individual transfers in		7,532
74,492			75,582
	Benefits payable		
(555)	Death benefits		(868)
(6,607)	Lump sums		(11,176)
(34,221)	Pensions		(36,727)
	Payments to and for leavers		
(300)	Return of contributions		(46)
(8,784)	Individual transfers out		(7,249)
(1,617)	**Administration cost**	(4)	(1,334)
(52,084)			(57,400)
22,408	**Net additions from dealing with members**		**18,182**
	Returns on investments		
74,625	Net profit on sales		51,491
102,659	Net decrease in unrealised profit	(5)	(37,202)
177,284	Change in market value of investments		**14,289**
26,457	Interest and dividends on investments	(6)	31,577
139	Stock Lending	(7)	167
70	Commission Recapture	(8)	20
0	Venture Capital	(9)	59
(2,548)	Investment managers' fees	(4)	(3,309)
201,402	**Net returns on investments**		**42,803**
223,810	**Net increase in the fund**		**60,985**
823,062	**Net assets of the fund at the start of the year**		**1,046,872**
1,046,872	**Net assets of the fund at the end of the year**		**1,107,857**

Net Asset Statement as at 31 March 2007

31 March 2006 £000		Note	31 March 2007 £000
	Investments at market value		
138,743	Fixed-interest securities		104,569
24,616	Index-linked securities		70,532
647,579	Equities		626,851
197,919	Pooled Investment Vehicles		305,251
573	Cash deposits		1,053
25,599	Other investment balances		(7,384)
1,035,029		(10)	**1,100,872**
	Current assets		
5,878	Debtors		5,688
7,458	Cash with Northamptonshire County Council	(11)	3,256
13,336			**8,944**
	Current liabilities		
(1,494)	Creditors	(12)	(1,959)
(1,494)			**(1,959)**
11,842	**Current assets less liabilities**		**6,985**
1,046,871	**Net assets**		**1,107,857**

NOTES TO THE ACCOUNTS

The Director for Business Support is responsible for:

- The preparation of the accounts for Northamptonshire Pension Fund to present fairly the financial position at the accounting date and its income and expenditure for the year.
- Making reasonable and prudent judgements and estimates.
- Complying in all material aspects with the Code of Practice on Local Authority Accounting in Great Britain and applying accounting policies consistently.
- Keeping proper, up to date, accounting records.
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.
- The administration of pension benefits.

1. Accounting Policies

The accounts have been prepared to comply with the statement of recommended practice (SORP) for the Pension Scheme Accounts.

(a) Contributions and benefits are included in the accounts on an accruals basis.
(b) Transfer values have been recorded on the basis of amounts receivable or payable as at 31 March.
(c) Interest and dividends are included in the accounts on an accruals basis.
(d) Investments including listed securities, property and unit trusts are included in the accounts at market value, which is determined by the custodian using prices supplied by several sources that include Exshare, Telekurs, Reuters, FT Interactive Data and Bloomberg. Unquoted securities are valued having due regard to the latest dealings, professional valuation, asset values and other appropriate financial information.

2. Long Term Liabilities

The accounts do not take account of the liabilities to pay future benefits. They should therefore be read in conjunction with the Report of the Actuary which takes liabilities into account.

3. Contributions

All accruals for contributions owed by employers have subsequently been received.

4. Administration and Investment Managers' Fees

	2005-06 £000	2006-07 £000
Administration cost:		
Pensions administration	1,397	1,133
Actuarial services and investments	147	126
Fund monitoring	37	36
Other	36	39
	1,617	1,334
Investment managers' fees:		
	2,548	3,309
Total	4,165	4,643

Pensions administration costs in 2005-06 incorporated a one-off cost of moving to a new payroll provider.

Actuarial service costs for 2005-06 reflected general advice and specifically work undertaken on an Asset Liability Study. 2006-07 costs reflect general actuarial advice and specifically advice on “alternative” investments, support in the appointment of Hedge Fund of Funds managers, Transactional Cost Analysis and support on the Custodian Service Level Agreement.

The increase in Investment Managers’ fees reflect the Fund moving from two balanced managers to a balanced manager and six specialist managers.

5. Decrease in value of unrealised profits

	£000s	£000s
Market value of investments at 31.3.07	1,100,872	
Investments at cost at 31.3.07	967,632	
Unrealised profit		(133,241)
Market value of investments at 1.4.06	1,035,029	
Investments at cost at 1.4.06	864,586	
Unrealised profit		(170,443)
Decrease in value of unrealised profits		37,202

The decrease in value of unrealised profits of £37m represents the change in the unrealised profit between the opening and closing position of the market value of investments and the cost of these investments.

Unrealised profits reflect assets held by the Fund, however profits are only realised when actually sold. This reflects the investment performance of the Fund in the 2006-07 financial year.

6. Analysis of interest and dividends

Interest and dividends for the years ended 31st March was received from the following sectors.

2005-06 Interest and dividends £000s		2006-07 Interest and dividends £000s
2,575	**Fixed-interest securities**	4,165
537	**Index-linked securities**	1,045
17,564	**Equities**	18,602
	Pooled Investment Vehicles	
1,458	Unit Trust Fixed Interest	2,797
628	Unit Trust Equities	226
1,577	Property Unit Trusts	2,862

2,118	**Cash**	1,880
26,457		31,577

7. Stock Lending

Income of £166,671 was earned from stock lending activities, undertaken on behalf of the Fund by Northern Trust, the Fund's global custodian. This income is the premium paid by third parties who borrow stock held by this Fund. Collateral stock is held to safeguard the funds assets. Lending is limited to 25% of the stock held by the fund, although actual activity in 2006/07 averaged 16%.

As at 31 March 2007 the value of stock loaned to third parties was £122.2m against collateral held of £128.7m, more information on this is shown below.

Analysis by Asset Class of securities on loan:

	31 March 2007 £000
Investments at market value	
Fixed-interest securities	72,424
Equities	49,742
Total Securities on Loan	**122,166**

Analysis of Collateral:

	31 March 2007 £000
Investments at market value	
Agencies	695
Certificates of Deposit	18,377
Corporate Fixed	2
Delivery-By-Value Gilts	29,474
Equities	30,942
Government Fixed	47,257
Letters of Credit	1,741
UK Gilt	242
Total value of Collateral	**128,728**

8. Commission Recapture

Income of £19,610 was earned from Commission recapture activities, undertaken on behalf of the Fund by Lynch Jones and Ryan, specifically appointed by the Fund to undertake this role. This relates to "recapturing" commission regarding research and development costs paid to third party brokers, whose sole role is to buy and sell stock on behalf of the fund manager. The decrease on 2005/06 is a result of broker withdrawals from the Lynch Jones and Ryan panel, leaving Investment Managers with fewer brokers to deal with, who participate in Lynch Jones and Ryan's Commission Recapture programme.

9. Venture Capital Income

This reflects the first tranche of income streams from our East Midlands Regional Capital Fund. This fund is a small private equity commitment totalling £2m, against which the Pension Fund has drawn down £680,000. Future income streams are anticipated over the next six years. Feedback from Catapult Venture Managers indicates an Internal Rate of Return (IRR) of 10%.

10. Investment transactions during the year

The market values of investments referred to in this report are provided by our global custodian, Northern Trust.

	Market Value 31 March 2006	Purchases	Sales	Inspecie Transfer	Change In Market Value	Market Value 31 March 2007
	£000	£000	£000	£000	£000	£000
Fixed interest Securities						
Public sector	136,549	244,204	(273,330)		(2,854)	104,569
Other	2,194		(2,244)		50	0
	138,743	**244,204**	**(275,574)**		**(2,804)**	**104,569**
Index-linked securities						
UK	24,616	73,934	(27,680)		(338)	70,532
	24,616	**73,934**	**(27,680)**		**(338)**	**70,532**
Equities						
Other listed Funds	647,187	296,577	(256,930)	(27,156)	(33,611)	626,067
Other unlisted Funds	392	392	0		0	784
	647,579	**296,969**	**(256,930)**	**(27,156)**	**(33,611)**	**626,851**
Pooled Investment Vehicles						
Fixed Interest Funds	83,179	57,641	(59,516)		(5,598)	75,706
Equity Funds	57,824	77,708	(12,080)	30,955	(4,580)	149,827
Property Funds	56,916	27,385	(14,312)		9,729	79,718
	197,919	**162,734**	**(85,908)**	**30,955**	**(449)**	**305,251**
Cash Deposits						
Money Market Funds	573	19,583	(19,103)			1,053
	573	**19,583**	**(19,103)**			**1,053**
Other Investment Balances						
Creditors	(5,966)	22,700	(31,513)			(14,779)
Debtors	31,565	17,734	(41,904)			7,395
	25,599	**40,434**	**(73,417)**			**(7,384)**
Total	**1,035,029**	**837,858**	**(738,612)**	**3,799***	**(37,202)**	**1,100,872**

* Inspecie Transfers relate to the rebalancing of the Fund between UK and overseas equities to implement a 50:50 ratio. The balance of £4m is offset by movements within cash which are not required to be shown under Inspecie Transfer.

11. Cash

The cash balance forms part of the bank balances of Northamptonshire County Council, attributable to the Pension Fund, but does not represent a separate balance in the name of the Fund.

The reduced balance reflects a higher distribution of cash to Investment Managers in 2006-07.

12. Creditors

The 2006-07 balance reflects outstanding sundry creditors as at 31st March 2007.

13. Employer-related investments and related party transactions

There are no employer-related investments. Northamptonshire County Council [NCC] is responsible for managing the pension fund's finances, and therefore is a related party. NCC made payments of £26.5m to and received income of £1.2m from the pension fund in the 2006-07 financial year. Payments relate to employer contributions into the fund in respect of the County Council and receipts relate to administration costs incurred by the County Council on behalf of the Pension Fund.

On 31 March 2007 NCC held cash on behalf of the pension fund of £3,255,709.46 (see Note 11 to the accounts), which had not been distributed to fund managers.

In 2006-07 the pension fund paid net interest on balances held of £1,730 to NCC, whilst in 2005-06 NCC paid net interest of £204,000 to the Fund. This reflects the higher distribution of cash to Investment Managers during 2006-07.

14. AVC Investments

Additional Voluntary Investments are assets invested separately from the main fund in the form of individual building society accounts and insurance policies, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement, confirming the amounts held to their account and the movements in the year.

A review of the AVC providers for this Fund has resulted in the replacement of Nationwide Building Society with Prudential Assurance. Prudential will provide a better investment return on the Deposit Account and will also improve communication with the AVC members. Following consultation with all members of the Nationwide AVC arrangement, all have transferred to Prudential Assurance.

The aggregate amounts of AVCs are as follows:

	March 2006 £'000s	March 2007 £'000s
Nationwide Building Society	1,955	0
Prudential Assurance	0	1,880
Standard Life	445	501
	2,400	2,381

AUDITOR'S REPORT

In order to evidence that this document has been examined by external audit a copy of the Independent Auditor's Report to Northamptonshire County Council is shown below.

Independent auditor's report to Northamptonshire County Council

Opinion on the financial statements
We have audited the financial statements and pension fund accounts of Northamptonshire County Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes excluding note 40 on Trust Funds and the pooled budget memorandum accounts on pages 65 to 69. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Northamptonshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Northamptonshire County Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Northamptonshire County Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors
The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:
•the financial position of the Authority and its income and expenditure for the year; and
•the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' published in April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Pension Fund Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007 other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
19 November 2007

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources.

Authority's Responsibilities
The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities
We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities*.*

We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

• certifying that we have done so;
• stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
• where relevant, making any performance improvement observations under section 7 of the Local Government Act 1999.

Conclusion
We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission, in all significant respects, Northamptonshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan
We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 21 December 2006. We did not identify any matters to be reported to the authority and did not make any performance improvement observations on procedures in relation to the plan.

Certificate
We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
19 November 2007

ANALYSIS OF NET ASSET STATEMENT Appendix 1

31 March 2006			31 March 2007	
£ 000s	**%**		**£ 000s**	**%**
		Government securities and certificates of deposit		
182,378	17.3%	UK fixed-interest	178,621	16.2%
24,616	2.4%	UK index-linked	70,531	6.4%
39,544	3.8%	Overseas fixed-interest	1,655	0.1%
0	0.0%	Overseas index-linked	0	0.0%
246,538	**23.5%**	**Subtotal**	**250,807**	**22.7%**
		UK equities		
71,777	6.9%	Resources	74,590	6.7%
29,822	2.8%	Basic industries	34,744	3.1%
25,275	2.4%	General industrials	22,392	2.0%
81,989	7.8%	Consumer goods	96,695	8.7%
28,053	2.7%	Services	87,275	7.9%
28,053	2.7%	Utilities	15,481	1.4%
13,650	1.3%	Information technology	13,949	1.3%
139,367	13.3%	Financials	138,095	12.5%
417,987	**39.9%**	**Subtotal**	**483,221**	**43.6%**
		Global equities		
24,354	2.3%	Resources	21,234	1.9%
8,921	0.9%	Basic industries	20,816	1.9%
30,217	2.9%	General industrials	30,439	2.7%
52,004	5.0%	Consumer goods	64,021	5.8%
30,028	2.9%	Services	32,069	2.9%
5,940	0.6%	Utilities	5,182	0.5%
23,363	2.2%	Information technology	28,732	2.6%
112,589	10.7%	Financials	90,964	8.2%
287,416	**27.5%**	**Subtotal**	**293,457**	**26.5%**
56,916	**5.4%**	**Property unit trusts**	**79,718**	**7.2%**
573	**0.1%**	**Cash deposits and short term loans**	**1,053**	**0.1%**
25,599	**2.4%**	**Other**	**(7,384)**	**(0.7%)**
1,035,029	**98.8%**	**Total investments [sum of above]**	**1,100,872**	**99.4%**
5,878	**0.6%**	**Debtors**	**5,688**	**0.5%**
7,458	**0.7%**	**Cash with County Council**	**3,256**	**0.3%**
(1,494)	**(0.1)%**	**Creditors**	**(1,959)**	**(0.2%)**
1,046,871	**100.0%**		**1,107,857**	**100.0%**

MAJOR INVESTMENTS Appendix 2

EQUITIES	Number of Shares	Market value £ 000s	Percentage of Fund's Total Investments
Overseas			
ALTRIA GROUP INC COM	51,400	2,301	0.21
RIO TINTO LIMITED NPV	72,030	2,338	0.21
TOTAL EUR 2.5	70,412	2,506	0.23
JPMORGAN CHASE & CO COM	105,497	2,602	0.23
AMERN INTL GROUP INC COM	77,600	2,660	0.24
UBS AG CHF 0.1 (POST SUBDIVISION)	94,033	2,835	0.26
CITIGROUP INC COM	132,900	3,479	0.26
TOYOTA MOTOR CORP NPV	107,600	3,508	0.31
CREDIT SUISSE GRP CHF0.50 (REGD)	135,197	4,924	0.44
UBS (IRL) PROF INV 1 CURR ABST RET STRT J GBP	546,966	5,223	0.47
UBS (LUX) REAL EST.-EURO COREEURO ZONE	911,635	6,945	0.63
UBS (IRL) PROF INV 1 MARKET ABST RET STRT J GBP	974,234	10,524	0.95
UBS GBL ASSET MGT GBL EMG MKTS EQTY J	7,751,571	18,234	1.65
United Kingdom			
BP ORD USD 0.25	1,404,686	7,754	0.70
VODAFONE GROUP ORD USD 0.11428571	5,854,162	7,932	0.72
PRUDENTIAL ORD GBP 0.05	1,118,896	8,028	0.72
ROYAL DUTCH SHELL ‘B’ORD EURO 0.07	555,660	9,396	0.85
UBS GBL ASSET LIFE SMALL COMPANY UK A UNITS	3,024,685	10,178	0.92
ROYAL BK SCOT GRP ORD GBP 0.25	517,935	10,276	0.93
MAJEDIE ASSET MGT SPECIAL SITS INV B ACCNAV	4,847,102	11,040	1.00
HBSC HLDGS ORD USD 0.50 (UK REG)	1,305,929	11,616	1.05
BERNSTEIN EMERGING MARKETS OFF SHORE	601,954	13,135	1.19
GLAXOSMITHLINE ORD GBP 0.25	1,012,722	14,148	1.28
VODAFONE GROUP ORD USD 0.11428571	12,359,654	16,747	1.51
BP ORD USD 0.25	3,303,398	18,235	1.65
UBS GBL ASSET LIFE GLOBAL OPTIMAL EX-UK A	59,898,887	74,550	6.73

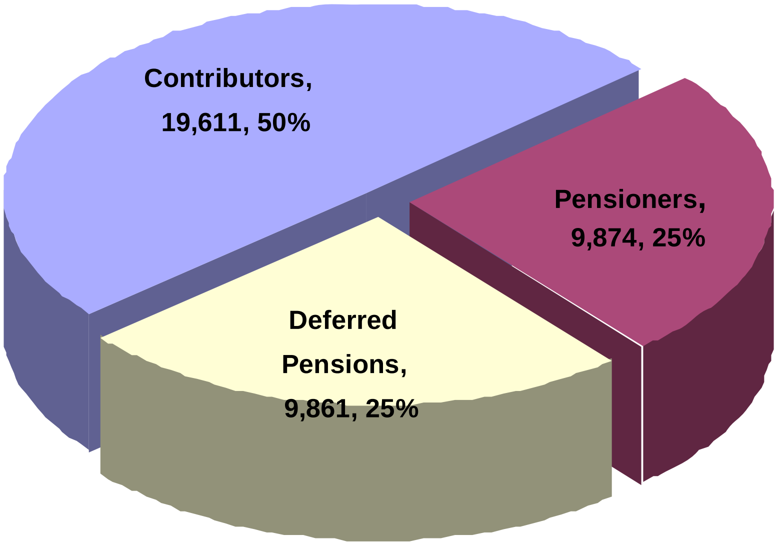
TREASURY NOTES AND BONDS	Number of Shares	Market value £ 000s	Percentage of Fund's Total Investments
Fixed Income - Unit Trust Bonds			
ABERDEEN FUNDS MG INTERNATIONAL BD A GBP	295,743	356	0.03
UBS (IRL) PROF INV 1 UBS (IRL) GLT EXPOSUREJ GBP	197,500	1,027	0.09
UBS GBL ASSET LIFE UK CORPORATE BD FUND A UNIT	30,923,014	36,777	3.32
ABERDEEN FXD INC STERLING CREDIT G GBP	29,989,241	37,547	3.39
Fixed Income - Index Linked Bonds			
UK (GOVT OF) 1.25% I/L STK 22/11/27GBP	4,145,000	4,260	0.38
UK (GOVT OF) 2.5% I/L STK 16/08/13 GBP	2,000,000	4,573	0.41
UK (GOVT OF) 2.5% I/L STK 17/07/24 GBP	2,420,000	5,719	0.52
UK (GOVT OF) 2% I/L STK 26/01/35 GBP100	4,320,000	5,949	0.54
UK (GOVT OF) 2.5% I/L STK 17/07/24 GBP	2,875,000	6,795	0.61
UK (GOVT OF) 2.5% I/L STK 16/04/20 GBP	4,335,000	11,434	1.03
UK (GOVT OF) 1.25% I/L STK 22/11/17 GBP	11,920,000	11,817	1.07
Fixed Income - Government Bonds			
UK (GOVT OF) 5% STK 07/03/2025 GBP 100	4,200,000	4,347	0.39
UK (GOVT OF) 5% STK 07/03/2025 GBP100	5,570,000	5,765	0.52
UK (GOVT OF) 4.25% STK 7/3/2036 GBP100	8,390,000	8,153	0.74
UK (GOVT OF) 4.25% STK 07/06/2032 GBP100	9,020,000	8,685	0.78
UK (GOVT OF) 4% STK 07/09/2016 GBP100	11,000,000	10,208	0.92

SCHEME MEMBERSHIP (AS AT 31 MARCH 2007) **Appendix 3**

	Contributors	Pensioners	Deferred Pensions	Total
Northamptonshire County Council	12,447	5,096	5,959	23,502
Probation	257	106	81	444
Coroners' Staff	1	1	0	2
Northamptonshire Police Authority	1,081	334	411	1,826
District Councils				
Corby	390	468	295	1,153
Daventry	330	241	212	783
East Northamptonshire	194	212	105	511
Kettering	445	426	225	1,096
Northampton	1,189	1,454	754	3,397
South Northamptonshire	315	242	195	752
Wellingborough	367	371	207	945
Other bodies	2,595	923	1,417	4,935
(As at 31 March 2007)	**19,611**	**9,874**	**9,861**	**39,346**
(As at 31 March 2006)	(18,147)	(9,263)	(8,290)	(35,700)

	Mar 06	Mar 07
Number of new starters throughout the year	2,185	2,879
Number of new pensioners throughout the year	658	837
Number of new deferred beneficiaries throughout the year	755	1070
Number of refunds and transfers out	365	288

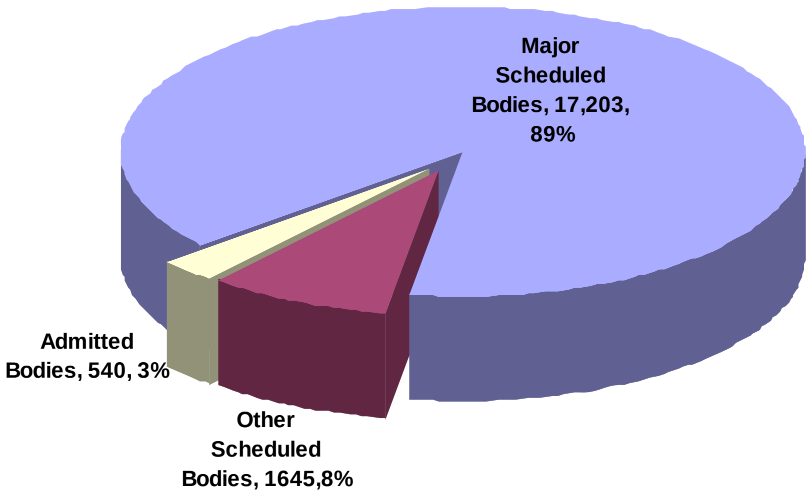
Membership
Total Fund membership as at 31 March 2007 was 39,346 shown below allocated against the classifications of membership.



<u>Active membership</u>
Active members are members still in pensionable employment with the NLGPS and actively paying contributions into the scheme. There were 19,611 active members as at 31 March 2007 representing 50% of the membership of the Fund.

89% of Active membership is within the Major Scheduled Bodies, 8% within Other Scheduled Bodies (inc small scheduled bodies) and 3% is within Admitted Bodies.

Active Members

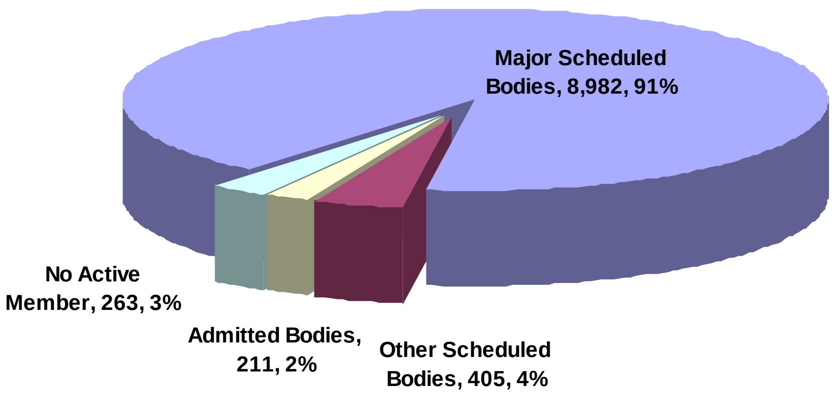


Deferred Membership

Deferred members are members no longer in the NLGPS, but not eligible to drawdown on benefits and represent 25% of the members of the Fund; typically being employees that have left local government service and are still in gainful employment, but have opted not to transfer benefits from the Fund.

91% of Deferred membership is within the Major Scheduled Bodies, 4% within Other Scheduled Bodies (inc small scheduled bodies), 2% is within Admitted Bodies and 3% is within the no active membership grouping.

Deferred

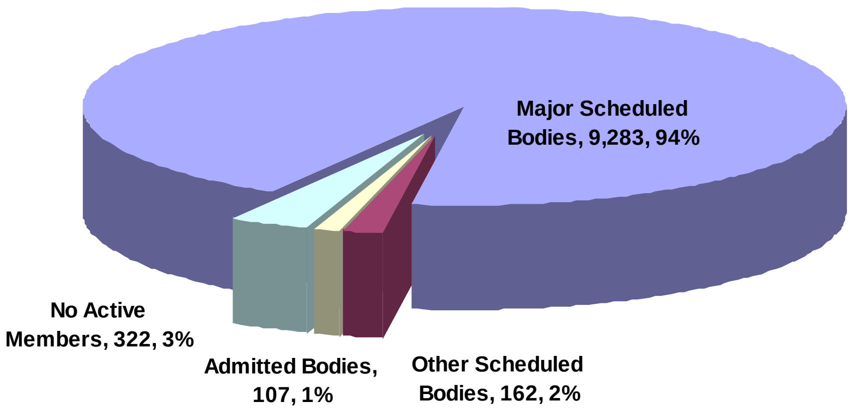


Pensioners Membership

Pensioners are employees that are drawing retirement benefits from the Fund and represent 25% of the members in the scheme.

94% of Pensioner membership is within the Major Scheduled Bodies, 2% within Other Scheduled Bodies (including small scheduled bodies), 1% is within Admitted Bodies and 3% is within the no active membership grouping.

Pensioners



PARTICIPATING EMPLOYERS AND CONTRIBUTION RATES   Appendix 4

2006-07 Employers' Contributions as a percentage of Employees Contributions.

Major Scheduled Bodies	%
Northamptonshire County Council	280
Northamptonshire Police Authority	235
Northamptonshire Probation Committee	265
Corby Borough Council	345
Daventry District Council	322
East Northamptonshire District Council	302
Kettering Borough Council	326
Northampton Borough Council	354
South Northamptonshire Council	333
Borough Council of Wellingborough	352
University of Northampton	241
Northampton College	232
Tresham Institute	198
Moulton College	193

Other Scheduled Bodies	%
Northamptonshire County Council – Councillors	280
South Northamptonshire Council – Councillors	333
Borough Council of Wellingborough – Councillors	352
Abington Vale Primary School	280
Bishop Stopford School	280
Bugbrooke Primary School	280
Campion School	280
Chenderit School	280
Corby Danesholme Junior School	280
The Kingswood School, Corby	280
Corby Lodge Park School	280
Danetre School	280
Grange Community School	280
Guilsborough School	280
Kettering Millbrook Infant School	280
Kettering Millbrook Junior School	280
Kettering Montagu School	280
Kettering Southfields School for Girls	280
Kingsbrook School	280
Kingsley Primary School	280
Kingsthorpe Community College	280
Headlands Primary	280
Huxlow School	280
Irchester Community Primary School	280
Magdalen College	280
Moulton Primary School	280
Northampton School for Boys	280
Northampton School for Girls	280
Oakway Infant School	280
Oakway Junior School	280
Oundle Primary School	280
Our Lady's Catholic Junior School	280

Prince William School	280
Raunds Manor School and Sports College	280
Redwell Infant School	280
Rushden School	280
Sponne School	280
Standens Barn Primary School	280
St Andrews Primary School	280
Thomas Beckett Catholic School	280
Unity College	280
Welford, Sibbertoft and Sulby Endowed School	280
Wellingborough Sir Christopher Hatton School	280
Weston Favell School	280
Woodnewton – A Learning Community	280

Small Scheduled Bodies	**%**
Barby Parish Council	287
Billing Parish Council	287
Brackley Town Council	287
Daventry Town Council	287
Irthlingborough Town Council	264
Long Buckby Parish Council	287
Moulton Parish Council	287
Oundle Town Council	287
Raunds Town Council	287
Rushden Town Council	287
Stanwick Parish Council	287
Towcester Town Council	287
Wollaston Parish Council	287
Wootton Parish Council	287

Admitted Bodies	**%**
Amey PLC	267
Carillion	252
Catalyst Corby	294
DC Wellingborough Leisure	220
East Midlands Leadership Centre	298
East Northants Cultural Trust	131
Explore Northamptonshire	228
Newton in the Willows Trust	280
Northampton Academy	160
Northampton High School	207
Northampton Theatres Trust	199
Northamptonshire Connexions Partnership	219
Northamptonshire Enterprise Ltd	170
Scholorest	267
Shaw Healthcare	300
Spire Homes Limited	378
The Castle (Wellingborough) Limited	194
The Stationery Office	308
West Northants Development Corporation	275

Small Admitted Bodies	**%**
Age Concern (Northampton and County)	366
Northamptonshire Chamber of Commerce, Training And Enterprise	366

Employers whose Active Membership ceased during the Financial Year ending March 2007	**%**
Corby Education Action Zone	N/A
Gretton Parish Council	N/A
Wollaston Parish Council	N/A
Northamptonshire Magistrates Courts Committee (Staff transferred to Department of Constitutional Affairs. Principal Civil Service Pension Scheme)	N/A
Corby Beanfield Junior School	N/A

Employers with no Active Members	**%**
Corby Development Corporation	N/A
Corby Queen Elizabeth School	N/A
East Midlands Housing Association	N/A
Former Nene College Pensioners	N/A
Former Health Pensioners	N/A
Former Licensing Pensioners	N/A
Former Water Pensioners	N/A
Northampton Kingsley Park Middle School	N/A
Nene Valley Waste Limited	N/A
Northampton and County Association for the Blind	N/A
Northampton Borough Council Ex-Transport	N/A
Northampton Development Corporation	N/A
Northampton Joint Valuation Panel	N/A
Northampton Transport Limited	N/A
Pest Express	N/A
Pytchley Town Council	N/A
Stanion C of E Primary School	N/A
Wicksteed Memorial	N/A

MEMBERS AND ADVISERS AS AT 31 MARCH 2007 — Appendix 5

Administering Authority	Northamptonshire County Council
Administrator	Mr J Neilson, Director for Business Support

Pension Committee and Investment Panel membership and advisors

County Council Members	Mr B Parker (Chair) Mr L Patterson (Deputy Chair) Mr A Langley Mrs O Loud Mr M Tye
Borough Council Member	Mr M Ward (Wellingborough Borough Council)
Director for Business Support	Mr J Neilson
Head of Financial Operations & External Relations	Mr J Raisin
Employees Representatives	Mr P Cox
Actuary	Mercers Human Resource Consulting
Independent Investment Advisers	Mr P Meredith Mercer Investment Consulting
Auditor	KPMG LLP

Contacts.

Further Information regarding the accounts and investments can be obtained from:

Mr P Tysoe, Pension Fund Group Accountant – [See address below].
Enquiries: phtysoe@northamptonshire.gov.uk
Telephone 01604 236481

Enquiries relating to benefit and administration should be directed to:

Mr I Gibbon, Pension Manager – [See address below].
Enquiries: igibbon@northamptonshire.gov.uk
Telephone 01604 236527

Northamptonshire County Council
P.O Box 136
County Hall
Northampton
NN1 1AT

Glossary of Terms

Terms used in this report and general terms used in financial markets.

Accruals
Income and expenditure which is due but will not be received or paid until after the end of the financial year.

Actuary
An independent company which advises on the assets and liabilities of the fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies
Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

All Share Index
Properly the FTSE All Share index which summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

Arbitrage
Buying and selling securities (usually in different markets) to take advantage of small pricing anomalies.

At Best
An instruction to deal at the best price ruling in the market at the time, ie. The highest price (selling) or lowest (buying).

Authorised Unit Trusts
A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

Bargain
Another name for a trade or transaction of the Stock Exchange.

Bear
Someone who believes prices will fall in the future

Bearer
Securities which are legally owned by the Bearer of the document. No registration of ownership.

Beneficial Owner
The true owner of a security regardless of the name in which it is registered.

Bid Price
The price at which securities are purchased by market makers.

Bond
Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured. [See also Fixed Assets].

Bonus issue
Bonds, scrip or free issue are equivalent in terms. Free shares are issued to existing shareholders out of company reserves.

Bull
Someone who believes prices will rise in the future.

Certificate of Deposit
Certificate evidencing deposit of cash with a commercial bank.

Clean Price
The price of a bond which is quoted without accrued interest.

Commercial paper
Short term loan stock issued by corporates as part of a funding programme. Unsecured, Bearer securities.

Contract note
The documentary record of a trade which is sent from the broker to the investor

Convertible
Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

Coupon
The regular payment made on bonds.

Debenture
Fixed loan stock (bond) secured against the company's fixed assets. First in the event of the company going into liquidation.

Distribution dates
The date when interest or dividends are distributed to investors. Also called Payment Date.

Dividend
The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. {See also Equities]

Deferred Pension Benefit
A pension benefit which a member has accrued but is not yet entitled to receive.

Earnings per share (Eps]
The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

Equities
Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

Exercise Price
The price at which the holder of an option or warrant can buy/sell the underlying asset.

Expiry
The date on which an option or warrant expires.

Financial Services Authority (FSA)
The lead UK regulator. A designated agency which is not a government department.

Fixed Interest
Corporate Bond – A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt – Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and is a loan to the Government.

FTSE-100 Index
The main UK index used to represent the approximate price movements of the top 100 shares.

Futures
Instruments which give a buyer the right to purchase a commodity at a future date.

Gearing
The amount of borrowing versus debt on a company's Balance Sheet (Net debt/Ordinary shareholders' funds). Warrants and options also exhibit gearing, ie a small move in the price of the underlying asset can be magnified in the move in the price of the option.

Hedge
To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

Hedge Fund
A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

IMRO
Investment Management Regulatory Organisation. The regulator for fund management firms.

Index Linked
Stock whose value is related directly to an index, usually the Retail price Index and therefore provides a hedge against inflation.

Interest Yield
The annual coupon on a bond divided by the clean price.

Loan Stock
Unsecured bonds, which may be convertible if they have a warrant attached.

Longs
Long dated gilts with time frame to maturity of more than 15 years.

Market Capitalisation
For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

Mediums
Medium-dated Gilts with time to maturity of 5-15 years.

Nominee
A firm which acts on behalf of the underlying beneficial owner of the securities and in whose name the securities are registered.

Offer Price
The price at which market makers will sell stock.

Ordinary Shares
'A' Shares which confer full voting and dividend rights to the Owner.

Rights Issue
A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

Scheduled Bodies
Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

Scrip Issue
Issue of free shares to current shareholders. Often used instead of a cash dividend (scrip dividend alternative).

Short
Selling more of an asset than the investor owns.

Spread
The difference between the bid and offer prices.

Stag
A person who applies for a new issue in the hope of selling quickly to make a profit.

Stock
Shares (eg Common stock). However, UK Gilts are more correctly described as stock.

Transfer Values
Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Trust
Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

Underwriter
A firm which agrees to underwrite a new issue, for a fee, thereby guaranteeing the securities will be sold.

Unit trust
An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the fund manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

Warrants
Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date.

Yield Gap
Spread between gilt yields and yields on the stock market.

Zero coupon bond
A bond which is issued at a discount to par and does not pay coupons but is redeemed at par.

Northamptonshire
County Council