

Worcestershire County Council

Pension Fund

Annual Report and Accounts

2006-2007

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Investment Monitoring Group Advisers and Officers

as at 31st March 2007

Administering Authority	Worcestershire County Council, County Hall, Spetchley Road, Worcester WR5 2NP.
Fund Administrator	Mike Weaver MSc CPFA, Director of Financial Services, Worcestershire County Council, County Hall, Spetchley Road, Worcester WR5 2NP.
Investment Monitoring Group	Councillor A I Hardman Councillor R W Banks Councillor S J M Clee Councillor N Knowles Councillor J R Webb
Fund Managers	Capital International Limited, 40 Grosvenor Place, London SW1X 7GG. JP Morgan Asset Management, Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ. Nomura Asset Management UK Limited, Nomura House, 1 St. Martin's – le – Grand, London, EC1A 4NP. Societe Generale Asset Management UK Limited, 9th Floor, Exchange House, Primrose Street, London, EC2A 2EF. UBS Global Asset Management (UK) Limited, 21 Lombard Street, London, EC3V 9AH.
Global Custodian	ABN AMRO Mellon Global Securities Services B.V., Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA.
Independent Financial Adviser	Mr G D Wood, The W M Company, 525 Ferry Road, Edinburgh EH5 2HW.
Actuary to the Fund	Mercer Human Resource Consulting, Mercury Court, Tithebarn Street, Liverpool L2 2QH.
Auditors to the Fund	PricewaterhouseCoopers, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT.

Introduction

The County Council administers the Local Government Pension Scheme for employees and ex employees of Local Authorities and certain other bodies in the geographical areas of Herefordshire and Worcestershire. The Fund does not cover the pension arrangements for teachers, which are dealt with nationally, or for police officers and fire fighters, which are administered locally but not funded as part of this scheme.

The employee's rate of contribution to, and benefits payable from, the Fund are determined by regulations issued under the Superannuation Acts. A brief summary of employee benefits is included in Appendix 1.

The Pension Fund Actuary determines the employer rate of contribution following the triennial valuation of the Fund.

The rate of employer contribution is affected by various factors, such as the investment performance of the Fund and changes to the Fund's liabilities through changes in life expectancy or retirements through ill health.

A list of the participating employers of the Fund is given in Appendix 2.

Review of the Year

The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006

The regulations were amended to comply with the age related provisions of the European Employment Directive which was implemented through the Employment Equality (Age) Regulations 1 October 2006.

The regulations came into force on 29/11/2006 and remove the facility for employers to make one-off payments of up to 66 weeks pay on the termination of employment and replace this with a provision to make a payment of up to 104 weeks pay. At the same time the facility to award compensatory added years has been removed.

As an alternative to added years employers can still use the augmentation provisions under Regulation 52 of the Local Government Pension Scheme Regulations, the purchase of an additional period of service in the LGPS, provided the service is augmented prior to the termination of employment date.

The Local Government Pension Scheme (Amendment) (No2) Regulations 2007

The regulations deal with:

- Changes to ill-health entitlement following the removal of a maximum 40 years membership in the pension scheme.
- How membership counts in continuing employment following flexible retirement.
- Changes to lump sum death grants (no longer payable after age 75)
- Introduction of 50% maximum on AVC contributions payable following HMRC changes from 01/04/2007.

The future of the Local Government Pension Scheme

The New Look Local Government Pension Scheme will come into force from 1 April 2008. Features of the New Look Scheme include:

- Final salary 1/60th scheme
- Banded Contributions for employees
- Improved death benefits
- A two-tier arrangement for ill health retirements
- Pensions for partners
- Introduction of cost-sharing mechanism 2009/2010

Administration

Efficiency of the Administration Section

The section measures its efficiency and effectiveness by participating in the CIPFA Benchmarking Club whereby it is compared with other Local Authority Pension Funds. The cost of administration in 2006/2007 was £16.36 per scheme member compared with £18.00 in 2005/2006. The average figure for other Local Authorities in 2005/2006 was £22.80.

Complaints

During the year no complaints were received from members in respect of the administration of fund benefits or membership.

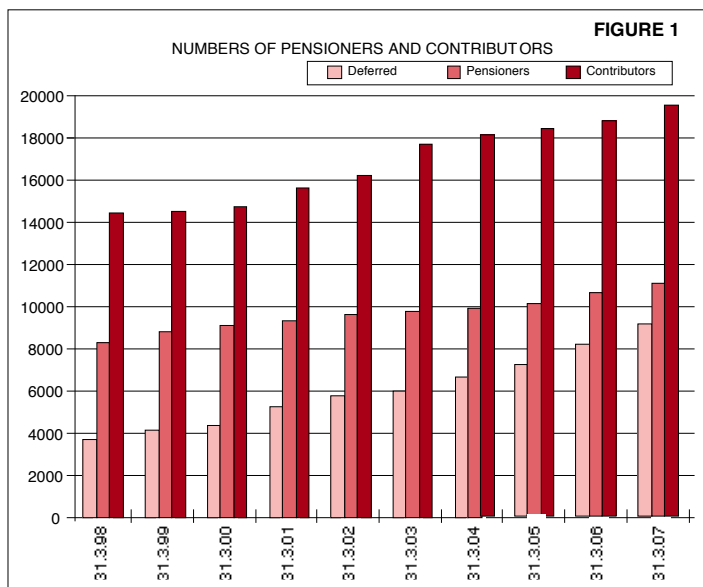
Membership of the Fund

At 31 March 2007 19,496 employees were contributing to the Fund, a net increase of 703 members compared to the figure at 31 March 2006.

A total of 11,091 retired employees and beneficiaries are in receipt of an annual pension which is an increase of 494 on last year. The average value of a pension in payment is £76 per week.

A further 9,103 former members have an entitlement to deferred pension benefits.

A chart showing the number of contributors, pensioners and deferred pensioners for each year since 1998 is given at figure 1.



The Fund's Investment Portfolio and Performance

The County Council as Administering Authority is responsible for the investment of the Pension Fund which is delegated to the Director of Financial Services. Performance is reviewed by the Director of Financial Services, supported by an Investment Monitoring Group. The Group consists mainly of County Councillors, advised by an independent financial adviser (See page 1), and meets on a quarterly basis with an additional annual meeting to consider the full year's performance. The Group also reviews the actions taken by the investment managers in voting the Fund's shares.

The operation of the Fund is governed by statutory regulations, mainly the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, which provide for a prudent approach to fund management and set out such matters as the type of investments into which the Fund's assets can be placed, with certain restrictions.

For management purposes the Fund is divided between five external investment managers operating a mix of active equity and bond mandates, together with a passive equity Index Tracking brief as set out below:-

UK Active Equities	Societe Generale Asset Management UK Limited.
Americas Active Equities	Capital International Limited.
European ex-UK Active Equities	UBS Global Asset Management (UK) Limited.
Far East Active Equities	Nomura Asset Management UK Limited.
Passive UK, USA and Europe Equities.	UBS Global Asset Management (UK) Limited.
Bonds	JP Morgan Asset Management.

The above managers were all appointed between December 2002 and March 2003 following a major restructuring exercise of the Fund. Performance is measured against respective world indices on a three year rolling basis. The details of the mandates are set out in the Statement of Investment Principles (Appendix 4).

Custody of the Fund's assets is provided by the Global Custodian, ABN AMRO Mellon Global Securities Services B.V. who was appointed in November 2002.

In addition to the custodian's role in the safe-keeping of the Fund's total assets, the company also provides settlement and income collection services, the exercise of voting rights and the execution of corporate actions in conjunction with the investment managers. The appointment of a global custodian also secures an independent confirmation of the fund's assets and their value.

Statistics for measuring the investment managers' performances against the Fund's index benchmarks and against other local authorities, are provided quarterly by the WM Company. The figures show performance in the year 2006/2007 for each fund by means of a time-weighted return, as recommended by the Society of Investment Analysts. The Worcestershire return of 6.4% underperformed the index benchmark return by 0.8% and also underperformed the Local Authority Weighted Average Fund return by 0.6%. The range of Local Authority Fund returns was 8.7% to 4.2%.

The 5-year period to 31 March 2007 shows that the Fund achieved a return of 7.8% compared to the Universe return of 8.2%.

A comparison of performance over the 10 years to 31 March 2007, published by the WM Company, shows an average annual return of 7.6% for Worcestershire and its predecessor, Hereford and Worcester County Council, compared to the Local Authority Universe performance of 7.7%.

Figure 2 shows comparisons of the performance returns of the Fund with the Local Authority Median Fund and the composite index benchmark over the shorter periods of the last one, two and three years.

A comparison between the Fund's performance returns against the retail price index and the national average earnings since 1998 is given at Figure 3.

FIGURE 2

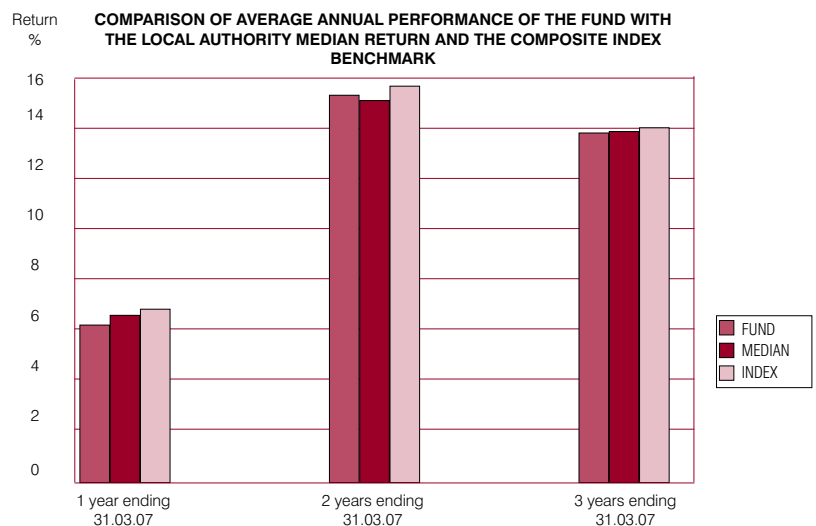
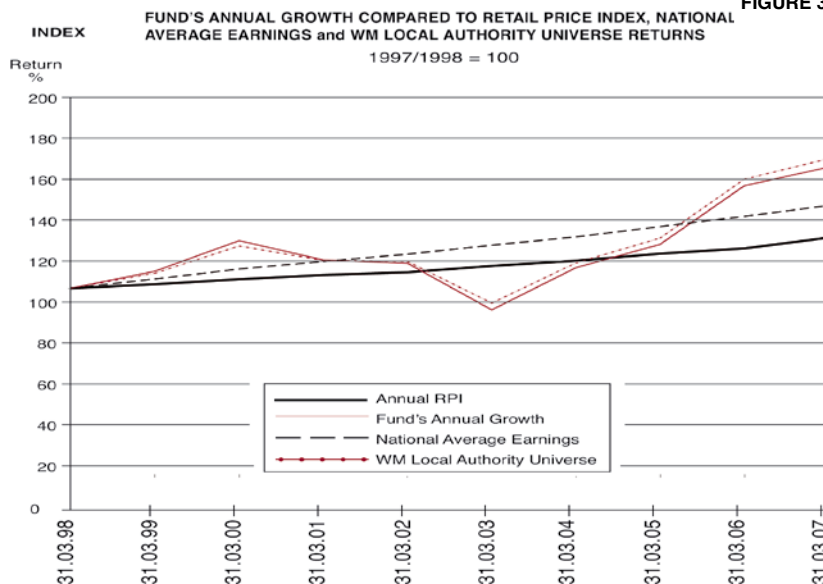


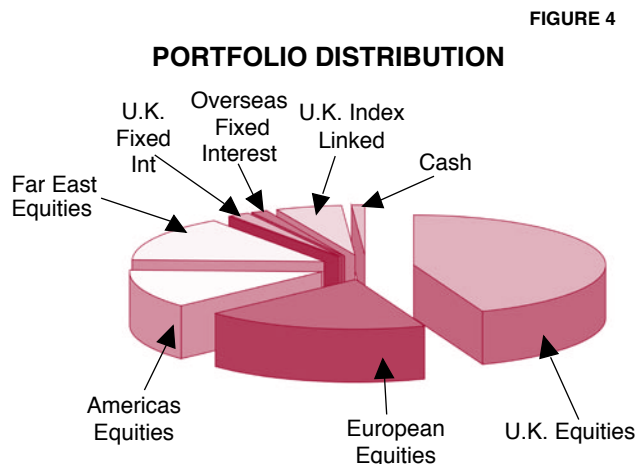
FIGURE 3



The market value of the Fund's investment portfolio increased from £1,149.6m at 31 March 2006 to £1,243.0m at 31 March 2007.

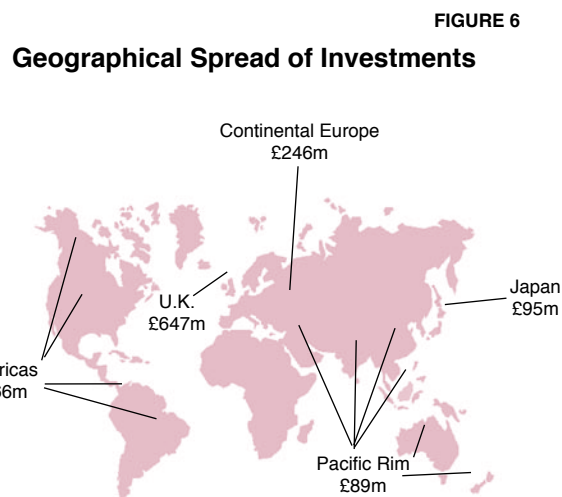
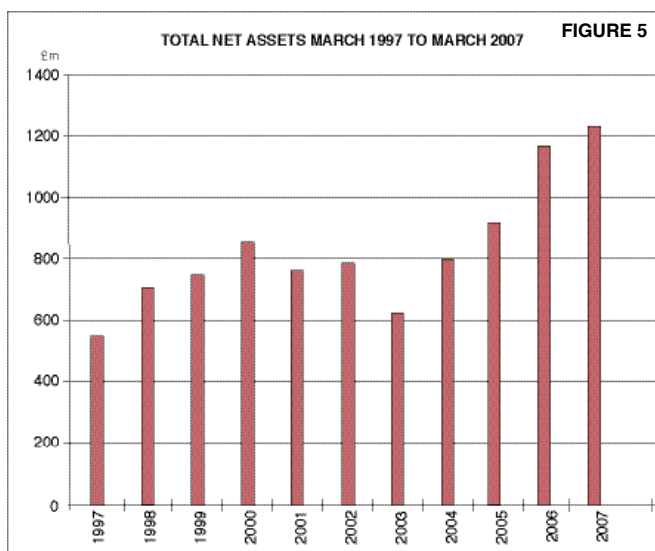
Investment income for the year amounted to £24.7m being an increase of £0.8m on last year's figure. The proportion of the Fund invested in the various asset classes changed at 31 March 2007 and is given in the notes to the accounts. (Note 10)

Figure 4 shows the distribution of the portfolio in the various categories.



A chart showing the total net assets of the Fund each year since 1997 is given at Figure 5.

Figure 6 shows the geographical spread of investments



The Fund's top ten equity holdings (excluding Unitised Trusts) are as follows:

	Market Value at 31.3.07 £m	% of Fund Value at 31.3.07
HSBC Holdings	21.8	1.8
BP	21.3	1.7
Glaxosmithkline	19.2	1.5
Royal Bank of Scotland	16.6	1.3
Vodafone	16.4	1.3
HBOS	12.1	1.0
Royal Dutch Shell	11.1	0.9
Anglo American	10.7	0.9
BT Group	9.3	0.7
Barclays	8.6	0.7

The total value of these ten holdings represents 11.8% of the whole Fund.

Investment Review - 2006 / 2007

The fourth 'year' (twelve months to 31 March) of recovery raised the Fund's asset value to almost £1.25 billion by the end of March 2007. Excluding member and employer contributions, the assets rose in value by just under £75 million over the fiscal year. This growth in value translates to an investment return of 6.4% for the fiscal year.

Equity markets witnessed moderately good returns from both domestic and international shares, although the weakness of some international currencies (especially the US Dollar and Japanese yen) reduced the returns from overseas investments. Continuing economic growth, rising corporate earnings and profits along with considerable merger and acquisition activity contributed to equities performing well. Bonds, with rising short and long-term interest rates, gave modest positive returns at the short end and negative returns at the long end of the redemption spectrum. International bond returns were negative due mainly to the adverse currency impact. Property continued a series of very strong performances, as property yields moved even lower because of high investor demand.

Over the twelve months to 31 March 2007, the UK equity market (FTSE All

Share index) returned 11.1%. In terms of size, the strongest segment was again the middle-sized companies (FTSE 250) which returned 21.6%. The largest (FTSE 100) companies underperformed with 9.3%, while the smallest (FTSE Small Cap) returned 13.4%.

International equity markets (FTSE World ex UK) returned less than the UK, with 2.2% over the period. Returns comparable to the UK came from Continental Europe (12.4%), Pacific ex Japan (12.3%) and Emerging Markets (9.4%, as recorded by S&P/IFCI) but both North America and Japan were weak with returns of -0.9% and -9.9% respectively. The US Dollar and Japanese Yen lost almost 12% of their value against Sterling while the Euro lost almost 3% - these currency changes are included in the returns quoted.

Bond returns stalled on rising short and long-term interest rates. Conventional UK bonds, as measured by the FTSE All Stocks Index, returned 0.5% over the twelve months. Longer duration bond returns, with concerns on rising inflation in the UK, were negatively impacted with the long bond 'over 15 years' index giving a return of -1.1% against the short bond 'less than 5 year' index at 2.9%. Corporate bonds ('Credit') continued to outperform

Government ('Gilts') stock. Index-linked bonds returned 3.0% over the period and, again, shorter dated issues outperformed longer dated issues. Overseas Bonds, as represented by the JP Morgan Government World ex UK index, lagged with a return of -5.1%. Cash returned 5.0% over the period of rising UK interest rates.

Property had another strong performance, returning 15.5% as measured by IPD.

In summary, another more positive period for UK pension funds with the typical UK Local Authority fund achieving an investment return of 7.0% over the twelve months. Inflation over the same period crept up to 4.8% as measured by the Retail Prices Index (3.1% as measured by the new Consumer Price Index, CPI) and 4.1% as measured by the National Average Earnings Index.

The Fund's return of 6.4% for last year was broadly in line with average return of 7.0% for UK Local Authority pension schemes. The Fund's active equity managers had a difficult year, generally underperforming their benchmark indices. The strategic tilt towards equities did not affect the performance.

Long Term

Over the long term, the expectation is that equities will deliver better growth than bonds; this is an investment reward for accepting the higher degree of risk inherent in holding equities. Local Authority pension funds are long-term investors and as such can access these higher returns. Considering the Fund's membership profile and the long-term investment return required, the Fund maintains a higher commitment to equities than the average Local Authority fund.

In the ten years to the end of March, the Fund has returned 7.6% per annum, in-line with the Local Authority average and almost 5% per annum ahead of inflation, as defined by the Retail Price Index. The Fund's performance places it in the top half of Local Authority pension fund results for this period.

Over the last three years, the Fund returned 14.1% per annum compared to the Local Authority average of 14.3% per annum. Inflation over the same

period was 3.5% pa as measured by the Retail Prices Index and 4.2% pa as measured by the National Average Earnings Index.

Report prepared by Graham Wood, The WM Company.

Information on the average Local Authority comes from the WM survey of local authority pension funds.

Worcestershire County Council Pension Fund Account for the year ended 31 March 2007

	Notes	2005/06 £000	2006/07 £000
Contributions and Benefits			
Contributions Receivable	4	62,895	68,613
Transfers In	5	15,325	12,859
		78,220	81,472
Benefits Payable	6	48,394	53,801
Leavers	7	10,141	6,903
Administrative expenses	8	716	733
		59,251	61,437
Net additions from dealings with Fund members		18,969	20,035
Returns on Investments			
Investment Income	9	25,364	26,623
Change in Market Value of Investments	10	208,196	47,895
Taxation (irrecoverable withholding tax)		-1,420	-1,892
Investment management expenses	11	-3,157	-3,328
Net returns on investments		228,983	69,298
Net increase in the Fund during the year		247,952	89,333
Opening net assets of the Fund		908,904	1,156,856
Closing net assets of the Fund		1,156,856	1,246,189

Net Assets Statement as at 31 March 2007

	Notes	2005/06 £000	2006/07 £000
Investments			
Fixed Interest Securities		156,094	87,107
Equities		660,960	733,720
Index Linked Securities		37,310	20,666
Pooled Investment Vehicles		277,282	387,403
Cash Deposits		17,988	14,147
Other Investment Balances		5,408	5,260
		1,155,042	1,248,300
Current Assets and Liabilities	12	1,814	-2,111
Net Assets of the Fund at 31st March		1,156,856	1,246,189

Notes to the Pension Fund Accounts

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees (except Teachers), those of the Herefordshire Council, the District Councils and other bodies in the County Area. There were 19,496 contributors to the fund at 31 March 2007, 11,091 pensions were paid and there were 9,103 deferred members of the Fund. A list of scheduled and admitted bodies contributing to the Fund is provided in Appendix 2.

Basis of Preparation

The Financial Statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (Financial Reports of Pension Schemes) and follow the 2004 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers contributions determined at these valuations.

2. Accounting Policies

Investments

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

The Custodian records the Pooled Investment Vehicles at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

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

Acquisition costs are included in the purchase cost of investments.

Futures are included in the net assets statement at market value which represents the total exposure to the stock market or asset class that the futures contracts affect.

Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Foreign Currencies

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at an average rate for the period.

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

Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Benefits Payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension, these lump sums are accounted for on an accruals basis from the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

Transfers to and from other schemes

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

3. Actuarial Valuation

An actuarial valuation of the fund undertaken as at 31 March 2004 indicated that the Fund's assets were £800.4m and covered 67.0% of the fund's liabilities. This compared with assets of £769.4m at the valuation as at 31 March 2001 which covered 89.5% of the Fund's liabilities.

The main actuarial assumptions for the 2004 valuation were as follows: -

	Past Service Per Annum	Future Service Per Annum
Investment Return		
- pre-retirement	6.6%	6.5%
- post retirement	5.35%	6.5%
Rate of Pensionable Pay inflation	4.3%	4.0%
Rate of price inflation	2.8%	2.5%

The Fund is valued using the projected unit method which is consistent with the aim of achieving a 100% funding level as described above.

The changes in contribution rates resulting from the actuarial valuation as at 31 March 2004 were effective from 1 April 2005.

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

4. Pension Fund Investments 2006/07

Surplus funds are invested in a wide variety of UK and overseas companies and Government Securities. The management of the fund's assets is operated through five specialist external managers in a mix of active and passive equities and bonds, under the general direction of the Director of Financial Services. Investment performance is monitored by the Council's Investment Monitoring Group assisted by an expert independent financial consultant.

The proportion of the market value of investment assets held by the external fund managers at the year end was:

External Fund Manager	31 March 2006		31 March 2007	
	£000	%	£000	%
JP Morgan Fleming Asset Management	199,269	18	108,119	9
UBS Global Asset Management (Active)	123,237	11	134,997	11
UBS Global Asset Management (Passive)	315,147	27	365,480	29
Capital International Ltd	96,621	8	105,540	8
SG Asset Management	312,861	27	346,483	28
Nomura Asset Management UK Ltd	102,499	9	182,421	15
Total	1,149,634	100	1,243,040	100

The Fund operates the practice of lending stock to a third party for a financial consideration.

Securities released to a third party under the stock lending agreement with the Fund's custodian, ABN AMRO Mellon Global Securities B.V., are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietary nature in those securities.

The total amount of stock lent at the year end was £87,025,977 (2006 £64,271,815). The total collateral, which consisted entirely of equities and sovereign debt, was £91,548,882 (2006 £68,349,373) representing 105% of stock lent.

Income received from stock lending activities was £108,951 for the year ending 31 March 2007 (2006 £73,603). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

5. Contributions Receivable

Contributions receivable are analysed below:

	2005/06	2006/07
	£000	£000
Employers		
Normal	43,008	47,647
Special	2,535	2,465
Members		
Normal	17,009	18,161
Additional	343	340
Total	62,895	68,613

Special contributions represent additional payments paid by employers to reimburse the Pension Fund for the cost of employees who are allowed to retire before their normal retirement age.

These contributions can be analysed by type of Member Body as follows:

	2005/06	2006/07
	£000	£000
Worcestershire County Council	23,464	26,346
Scheduled Bodies	33,347	35,985
Admitted Bodies	5,994	6,282
Total	62,895	68,613

6. Transfers In

During the year individual transfers in from other schemes amounted to £12.859 million (£15.325 million in 2005/2006).

7. Benefits Payable

	2005/06	2006/07
	£000	£000
Pensions	39,553	42,024
Commutations and Lump Sum		
Retirement Benefits	8,365	10,625
Lump Sum Death Benefits	476	1,152
Total	48,394	53,801

These benefits can be analysed by type of Member Body as follows:

	2005/06	2006/07
	£000	£000
Worcestershire County Council	20,371	22,322
Scheduled Bodies	24,852	27,088
Admitted Bodies	3,171	4,391
Total	48,394	53,801

8. Payments to and on account of leavers

	2005/06	2006/07
	£000	£000
Individual transfers to other schemes	9,957	6,875
Refunds to members leaving service	184	28
Total	10,141	6,903

9. Administrative Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the administration of the Fund to be charged against the Fund.

A breakdown of these costs is set out below

	2005/06	2006/07
	£000	£000
Employee Expenses	357	379
Support Services	266	300
Actuarial Services	66	59
Other Expenses	87	53
Printing / Publications	18	27
Recharges to other bodies	-78	-85
Total	716	733

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

10. Investment Income

	2005/06	2006/07
	£000	£000
Fixed Interest Securities	7,102	3,972
Equities	16,999	19,784
Index Linked Securities	810	553
Cash Deposits	358	2,200
Securities lending	74	109
Underwriting commission	17	0
Commission Recapture	4	5
	25,364	26,623

11. Investments

	Value at 01/04/06	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/07
	£000	£000	£000	£000	£000
Fixed Interest Securities	156,094	190,297	-251,086	-8,198	87,107
Equities	660,960	265,062	-216,075	23,773	733,720
Index Linked Securities	37,310	11,425	-28,333	261	20,663
Pooled Investment Vehicles	277,282	85,062	-7,000	32,059	387,403
	1,131,646	551,846	-502,494	47,895	1,228,893
Cash	17,988				14,147
Outstanding dividend entitlements and recoverable withholding tax					5,260
	1,155,042				1,248,300

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

	31 March 2006		31 March 2007	
	£000	%	£000	%
Fixed Interest Securities				
UK Public Sector Quoted	71,887	6	30,809	2
UK Quoted	44,624	5	49,048	4
Overseas Public Sector Quoted	33,967	3	-2,313	0
Overseas Quoted	5,616	0	1,948	0
UK Future Contract	0	0	-11,428	0
US Public Sector Future Contracts	0	0	3,330	1
Overseas Future Contracts	0	0	5,713	0
	156,094	14	87,107	7
Equities				
UK Quoted	293,517	26	301,108	24
Overseas Quoted	368,570	32	433,013	35
US Stock Index Future Contracts	-1,127	0	-401	0
	660,960	58	733,720	59
Index Linked				
UK Public Sector	37,048	3	14,428	1
UK Other	267	0	4,677	0
Overseas Public Sector	0	0	1,558	0
	37,310	3	20,663	1
Pooled Investment Vehicles				
UK Pooled	199,620	17	245,873	20
Overseas Pooled	77,662	7	141,530	11
	277,282	24	387,403	31
Cash backing open futures	1,127		-7,214	
Cash -				
Short Term Loans/External Deposits	16,861	1	21,361	2
Total	1,149,634	100	1,243,040	100

12. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of these costs is set out below:

	2005/06	2006/07
	£000	£000
Administration, Management and Custody Fees	3,077	3,249
Performance Monitoring Service	23	24
Other Advisory Fees	15	26
Other Expenses	42	29
Total	3,157	3,328

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

13. Current Assets and Liabilities

	2005/06	2006/07
	£000	£000
Contributions and recharges due	4,795	4,002
Cash Balances	-2,209	-5,466
Investment Management Expenses	-756	-625
Inland Revenue	0	0
Other	-16	-22
Total	1,814	-2,111

Contributions due to the Pension Fund were received in line with the schedule of contributions currently in force. The cash balances form part of the bank balances of Worcestershire County Council and at 31 March 2007 represent a short term loan from the Council that is disclosed in note 8 to the Council's balance sheet.

14. Related Party Transactions

Other than those already disclosed in the financial statements, there are no related party transactions relating to the Pension Fund to disclose for 2006/07.

15. Contingent Liabilities

The Fund had no material contingent liabilities as at 31 March 2007.

16. Additional Voluntary Contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2006/07 some members of the pension scheme paid voluntary contributions and transfers in of £390,000 to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits of £365,000 were purchased during the year. The contributions are paid directly from scheme members to the AVC provider and are therefore not included in the Pension Fund accounts. The combined value of the AVC funds at 31 March 2007 was £3.385 million.

Audit Opinion

The Pension Fund accounts are subject to external audit by independent auditors appointed by the Audit Commission. The audit opinion is included in the County Council's Statement of Accounts which also contains the Pension Fund accounts. The external auditors have issued an unqualified audit opinion on the 2006/2007 accounts.

Mike Weaver
Director of Financial Services
Worcestershire County Council
County Hall
Spetchley Road
Worcester WR5 2NP

Local Government Pension Scheme (LGPS) Pension Benefits – A Brief Summary

Benefits payable from the Fund are governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 1997.

The Local Government Pension Scheme is a 'Final Salary Scheme' which means that the benefits are based on length of service and pay at the time of retirement.

The Scheme provides for a pension based on 1/80th of pay for each year of service and a lump sum payment based on 3/80ths of pay for each year. Provision is made for the payment of a pension to a spouse and children in the event of the death of an employee both before and after retirement. In the event of the death of an employee in service a Death Gratuity is payable.

Normal retirement age is 65, but benefits can be paid at age 60.

Provision is made for the payment of immediate benefits with enhancement if retirement at any age is due to permanent ill health.

If after attaining age 55 an employee is made redundant, or retires with the agreement of the employer, immediate payment of pension benefits is allowed.

An employee leaving the service of an Authority before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if pensionable service is less than 3 months. Employees with more than 3 months service have the option of preserving accrued benefits in the fund until retirement age, or transferring benefits to another occupational scheme or personal pension.

Various discretionary options, for the employing bodies and the Fund Administrator, introduced in the 1997 regulations have been issued in policy statements.

A comprehensive statement of benefits is available in an explanatory booklet from the Pension Section- telephone 01905 766525, or e-mail: pensions@worcestershires.gov.uk.

Participating Employers of the Fund at 31 March 2007

Scheduled Bodies

Worcestershire County Council	Malvern Town Council
County of Herefordshire District Council	Pershore Town Council
The Valuation Tribunal	Pershore Joint Burial Committee
Bromsgrove District Council	Powick Parish Council
Malvern Hills District Council	Ross-on-Wye Town Council
Redditch Borough Council	Stourport-on-Severn Town Council
Worcester City Council	Upton-on-Severn Town Council
Wychavon District Council	Broadway Parish Council
Wyre Forest District Council	Brockhampton Parish Council
West Mercia Magistrates Courts Service	Malvern Wells Parish Council
West Mercia Probation Service	University College Worcester
Hereford and Worcester Fire and Rescue Authority	Evesham and Malvern Hills College
Malvern Hills Conservators	Hereford College of Technology
West Mercia Police Authority	Hereford College of Art and Design
Bewdley Town Council	Kidderminster College of Further Education
Droitwich Town Council	North East Worcestershire College
Evesham Town Council	Worcester College of Technology
Kempsey Parish Council	Pershore Group of Colleges
Ledbury Town Council	Hereford Sixth Form College
	Worcester Sixth Form College

Admitted Bodies

Brook House	The Courtyard Trust
Heart of England Tourist Board	Ringway Limited
FOCSA Services (UK) Limited	Wyre Forest Community Housing Limited
Worcester Racecourse Limited	Herefordshire Community Leisure Trust
Rooftop Housing Association	Festival Housing Group
The Marches Housing Association	Community First in Herefordshire and Worcestershire
Malvern Festival Theatre Trust	Herefordshire Housing Limited
Herefordshire Jarvis Services Limited	Connexions - Hereford and Worcester Limited
Wychavon Leisure Community Association Limited	Bromsgrove District Housing Trust
Worcestershire Community Housing Limited	Shaw Healthcare Limited
Edgar Street Grid (Hereford) Limited	

Worcestershire County Council Pension Fund Funding Strategy Statement (FSS)

This Statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the funding strategy for the Worcestershire County Council Pension Fund (the Scheme), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to :-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the Scheme published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme Regulations 1997 (as amended), "the Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 77) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Scheme as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and purpose of the Scheme

The aims of the Scheme are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Scheme is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Scheme's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Scheme actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency Issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The current actuarial valuation of the Scheme is effective as at 31 March 2004. The preliminary results of the valuation indicate that overall the assets of the Scheme represented 67% of projected accrued liabilities at the valuation date.

The key financial assumptions making up the funding strategy and as adopted for the 31 March 2004 actuarial valuation are:

	In respect of past service liabilities	In respect of future service liabilities
Fixed interest gilts yield:	4.6%	n/a
Index linked gilts real yield:	1.8%	n/a
Asset Out-performance Assumption Pre Retirement	2.0%	n/a
Asset Out-performance Assumption Post Retirement	0.75%	n/a
Real Earnings Inflation	1.5%	1.5%
Discount rate (pre retirement)	6.6%	6.5%
Discount rate (post retirement)	5.35%	6.5%
Price Inflation	2.8%	2.5%
Earnings Inflation	4.3%	4.0%
Pension Increases	2.8%	2.5%

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

The asset out-performance assumptions represent the allowance made, in calculating the past service liabilities, for the long term additional investment performance on the assets of the Scheme relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Scheme as the liability profile of the membership matures over time.

In relation to future service (i.e. calculation of the future service contribution rate) the assumptions are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 4.0% per annum, with a long term average assumption for price inflation of 2.5% per annum. This approach means that the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In the market conditions applying as at the 2004 valuation date this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of past service liabilities.

Full details of the assumptions adopted for the 2004 valuation will be set out in the actuary's formal report, which is made available to all employers in the Scheme.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2004 actuarial valuation:

- The total employer contribution rate will be made up of an element in respect of the ongoing accrual of benefits for current members, plus an addition in respect of deficit recovery (or if applicable an offset in respect of surplus).
- For funding purposes, including valuation calculations, some smaller employers in the Scheme will be grouped. These groupings comprise Town and Parish Councils and two other groups comprising certain small bodies (split into those entering the Fund before and after 1992).
- A maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
- Where increases in employer contribution rates are required from 1 April 2005, following completion of the 2004 actuarial valuation, the increase from the rates of contribution payable in the year 2004/05 may be implemented in steps, over a maximum period of 6 years, where this is considered appropriate by the Administering Authority.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles,
- the supplementary guidance on the funding strategy issued by the CIPFA Pensions Panel in November 2004,
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,
- the Government's aims as regards increases in local authority pension costs, as set out in the letter from the Office of the Deputy Prime Minister dated 10 September 2004, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2004 valuation show the liabilities to be 67% covered by the current assets, with the funding deficit of 33% being covered by future deficit contributions due from the participating employers.

In assessing the value of the Scheme's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Scheme's assets in line with the least risk portfolio would minimise fluctuations in the Scheme's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2004 valuation would have been significantly higher, by approximately 25% and the declared funding level would be correspondingly reduced to approximately 53%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

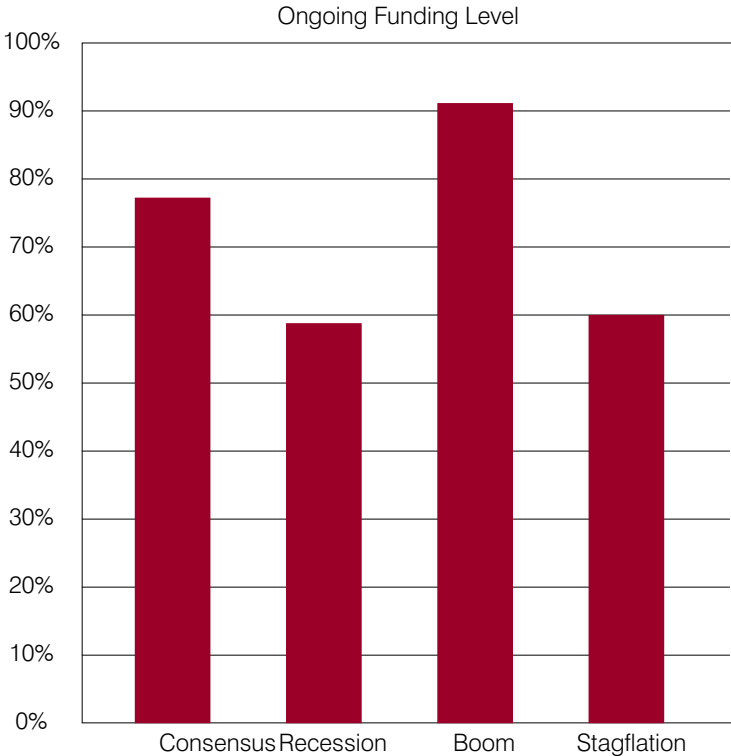
UK equities	45.0%
Overseas equities	45.0%
Bonds	10.0%

The funding strategy adopted for the 2004 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.75% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance to keep pace with the liabilities of 1.5% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the current investment strategy adopted as set out in the SIP.

7. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The following chart shows the Scheme's projected funding level after three years from the 2004 valuation under various future economic scenarios, based on employer contribution rates adopting a 25 year recovery period, with phasing of increases. It should, however, be borne in mind that these figures are projections, not estimates, and day to day changes in market conditions can have a marked effect on valuation results over relatively short periods of time.



A more complete list of the risks to which the Scheme is subject is set out below.

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the participating employers in the Scheme.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme.

Worcestershire County Council Pension Fund - Statement of Investment Principles

Objective

- (1) The investment objective for the Fund is to:
 - (a) ensure that sufficient assets are available to meet liabilities as they fall due;
 - (b) maximise the return at an acceptable level of risk.
- (2) Risk management is mostly concerned with
 - avoiding the possibility of loss, or
 - limiting a deficiency in the underlying Fund, or
 - avoiding a contribution rate increase in the future.

Policy

The current long-term investment policy judged most likely to meet these objectives is as follows:

Active Equity Mandates	%	Expected Performance
UK	30.0	FTSE All Share Index + 1.5%
Americas	7.5	FTSE All World All Americas Index + 1.5%
European ex – UK	7.5	FTSE All World Europe ex UK Index – Developed Series + 1.5%
Far East	15.0	FTSE All World Asia Pacific Index + 1.5%
Passive Equity Mandates		
UK Equities	15.0	FTSE All Share Index
USA Equities	7.5	FTSE All World North America Index
Europe ex UK Equities	7.5	FTSE All World Europe ex UK Index – Developed Series
Bonds		
	10.0	+ 1% of a basket of indices which includes:
		- FTSE Actuaries UK Gilts All Stocks
		- Merrill Lynch Sterling Non – Gilts All Stocks
		- JP Morgan World Government Bond (ex UK) and Unhedged
		- FTSE Actuaries Index Linked All Stocks
	100.0	

Following changes to the tax treaties between the United States and the United Kingdom, in accordance with Statutory Instrument 2003 No. 2719, 100% of the index tracking mandate (which is lower than the prescribed maximum of 35%) may be invested in any single UBS insurance contract. This decision will be reviewed as part of the annual review of the SIP.

Performance Monitoring

The Actual Return will be measured quarterly and be monitored relative to objectives set over rolling three-year periods. A detailed review will be carried out annually.

Statistics for measuring the Fund Manager's performance against the Benchmark are provided by the WM Company. Measurement is set against the return achieved by the relative index applying to the asset class, as above.

Realisation of Assets

The Fund is invested generally in assets which are quoted on world stock markets and are therefore readily realisable. It is managed to ensure that Adequate liquidity is maintained to allow the payment of pensions without the need to realise assets under unfavourable conditions.

Diversification

The asset allocation policy ensures diversification of the fund. Further Diversification is provided through the appointment of five specialist external Fund Managers, with a mix of Bonds and Passive and Active equity mandates.

Socially Responsible Investment

In all circumstances the investments should be managed in the best long-term financial interests of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to take account of social and environmental issues.

The Investment Managers are instructed to exercise, on behalf of the Pension Fund, all rights (including voting), attaching to the investments having regard to the best long term financial interests of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to take account of social and environmental issues.

Review

The Statement of Investment Principles is reviewed annually.

Investment Principles

The Fund complies with the "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the UK".

Policy Statement on Communication Strategy

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 51 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.
- 1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund and after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on communications with
 - members;
 - representatives of members;
 - prospective members; and
 - employing authorities.
- 1.3 In particular, the statement must set out the Fund's policy on
 - i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
 - ii. the format, frequency and method of distributing such information or publicity; and
 - iii. the promotion of the Scheme to prospective members and their employing authorities.
- 1.4 The County Council welcomes these regulatory developments as they support one of the Fund's key business objectives of developing clearer communications and providing a seamless service to individual members.
- 1.5 This document is the first Communication Policy for the Worcestershire County Council Pension Fund. We see this as a starting point and our aim is to significantly develop our communications strategy over time. Comments on the document are very welcome and can be sent to the Pensions Section at the address below or by e-mail to pensions@worcestershire.gov.uk
- 1.6 In this Communication Policy Statement, we have set out how we will meet the needs of our customers in relation to communications. In doing so we will use the most appropriate and effective communications vehicle to provide information.

2. Communication Strategy

- 2.1 We strive to communicate effectively with all our internal and external stakeholders.
- 2.2 We will use clear and concise forms of communication appropriate to the enquiry received and which communicate technical issues without the use of technical jargon. We aim to provide a response to all requests in a timescale, which is appropriate to the enquirer and meets their information objectives.
- 2.3 To achieve successful and robust communications we have established clear aims for our communications strategy as shown below.

Communication Aims

Organisation & Culture

We have clear roles, responsibilities and accountability and an environment where staff are motivated, trained and confident to express themselves.

Staff Competency Development

Competency development plan linked to job needs and staff training needs. Staff encouraged and supported to study for appropriate professional qualifications. Achieved Investors in People and ensure continued compliance.

Procedures

Advance planning and implementation for known legislative/Scheme changes. All procedures documented and meeting all disclosure and best practice standards within the industry. Clear consistent documentation and letters in recognised plain English style.

Service standards

Document and publish a clearly defined Statement of Service standards that is aligned to the legal requirements and best practice standards.

- 2.4 We have grouped our key stakeholders together as shown below and this document goes on to discuss our approach to meeting each group's communication needs
- Fund Employers
 - Fund Members (Current Employees, Pensioners and Deferred Members)
 - Fund Administration
 - External Advisers

3. Communications with Fund Employers

- 3.1 The Fund comprises over 50 employers whose employees are able to participate in the Local Government Pension Scheme including all the local authorities, the police and fire authorities (for non uniformed staff), FE colleges, Parish Councils, a range of voluntary sector bodies and a number of private sector contractors who provide services to local authorities under Best Value arrangements. A full list of participating employers is shown in Appendix 2.
- 3.2 The Fund's aim is to work with employers to define their information needs and expectations and to work with employers to meet those needs, recognising mutual dependencies where appropriate.
- 3.3 The Fund provides a range of employer communications shown below and our aim is to use the most appropriate communication medium for the employer receiving the information.

Description	Service
Website	The Fund website was launched in 2004. The address is http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm It provides Scheme details, publications, contacts, and links to other organisations e. g. Employers Organisation.
Employer Updates	Employers are informed in writing or electronically of all changes in legislation etc and we aim to develop a website to provide employers with legislation, operational items and technical updates and support.
Employer Reports	Membership and Benefits administration reports. Provided on request.
'Welcome Pack'	Employer "Welcome pack" setting out details of the process for joining the Fund.
New Employer Training	Provision of Pensions Training for new employers. Ad hoc Meetings - to review operational issues.
Employer Meeting	An annual forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet, additional information leaflets (e.g. added years) etc.
Administration Forms	Standard forms with guidance notes to notify Pension Section of key events affecting pension benefits.

- 3.4 We aim to continually develop all of the above communications in the light of employer requests and changes in legislation.

4. Communications with Fund Members

- 4.1 The Fund provides a broad range of information for scheme members (employees, Deferred Members and Pensioners) and will provide a quality, professional and efficient pension administration service as required within the Regulations.
- 4.2 Our aim is to provide a quality, professional and efficient pensions administration service, which delivers accurate and timely information to members either in response to their specific enquiries or through the Fund's published information.
- 4.3 The following table summarises the main forms of communication we currently provide

Description	Current Service
Requests for information.	Provision of accurate, timely and informative details of the Local Government Pension Scheme and individual information to scheme members
Website	The Fund website was launched in November 2004. The address is http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm It provides Scheme details, publications, contacts, and links to other organisations e.g. AVC providers.
Scheme Booklet	A guide to the Local Government Pension Scheme describing scheme benefits with explanatory notes is provided to all new members. Booklet is re-written to reflect legislation changes and is available on the website
Benefit Statements	Annual Benefit Statements are sent direct to members
Annual Reports and Accounts	A copy of the Funds Annual Report and Accounts is available to all Scheme members on request and is available on the website.
Pensions Presentations	The Fund attends and presents at employer sponsored pension seminars at employer's request
Member Newsletter	The Fund provides an update on developments within the Scheme.

- 4.4 We aim to continually develop all of the above communications in the light of employer and member requests and changes in legislation.

5. Communications with Fund Administration

- 5.1 The Pension Section, which is part of the Financial Services Directorate and reports to the Director of Financial Services, administers the Fund on a day-to-day basis.
- 5.2 An important part of the Fund's communication strategy is ensuring effective communications within the Pension Section. This is achieved in a number of ways.

Description	Current Service
Induction	All new members of staff attend Pension and County Council induction courses.
Training	Staff have individual Personal Development Plans and regular appraisals They receive internal and where appropriate external training
Pensions Qualifications	All staff are encouraged and supported to obtain appropriate professional qualifications
Service Plan	The Pensions Section has an Operational Plan, which is actively managed and discussed in regular Team Meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly
Pensions Management Team	Regular meetings to discuss strategic plans and operational issues
Section and Team Meetings	All members of staff attend regular Section and Team Meetings
Intranet	All Pensions staff have access to the intranet providing information on corporate issues.
Internet	Staff have access to the internet.
Email	All members of the Team have an individual email account allowing us to communicate efficiently and effectively
Networking	Staff meet regularly with neighbouring Local Authority Pension Funds to discuss current issues etc.

6. Communications with Professional Advisors

- 6.1 The Fund employs professional Advisers who provide, actuarial and investment management services.
- 6.2 We work in partnership with these advisers to ensure the Scheme remains compliant and that advice sought is implemented in the interest of all Fund stakeholders.

7. Communications with External Bodies

- 7.1 The Fund communicates with a range of other organisations such as the Office of the Deputy Prime Minister (ODPM), Regional and National Pensions Managers Forums, trades unions etc as shown below.

Description	Current Service
ODPM	Responding to consultation proposals for change to the scheme as required by the ODPM Providing information required under disclosure regulations
National Association of Pension Funds (NAPF)	Attending NAPF local authority forum meetings and topical seminars
Society of County Treasurers	A forum of Treasurers and Directors of Finance of all Shire County Councils sharing information and best practice on all financial issues, including matters relating to pension fund management
Pensions Officer Group	A local forum for exchanging information and best practice in benefits administration with other Administering Authorities in the North West and Midlands region

8. Published Documents

- 8.1 The County Council produces a number of documents shown below which support this communication policy statement

Document	Purpose	Frequency
Statement of Accounts	The fund's statutory audited accounts	Produced annually
Annual Reports	Report reviewing performance and summarising major events in each financial year	Produced annually
Funding Strategy Statement	Describes the approach to funding liabilities within the scheme	Reviewed annually
Triennial Valuation Report	Describes the results of the triennial valuation and employer contribution rates	Produced after each triennial valuation (last published in autumn 2004)
Pension Scheme Booklet	Describes the benefits available within the scheme	Reviewed at least annually and to reflect regulatory changes Available on website
Annual benefits Statement	Statement of the present and future value of member's benefits	Sent to all employed and deferred members annually
Employee newsletters	Provides briefing on topical developments	Despatched annually or more frequently as required

All published documents are available on the Worcestershire County Council Pension Fund website at <http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm>

9. Contacts and further information

- 9.1 The Director of Financial Services, Mr Mike Weaver is responsible for the day-to-day management of the Worcestershire County Council Pension Fund including Fund investments accounting and benefits administration.

For further information contact the Pension Section, telephone (01905) 766511 or email pensions@worcestershire.gov.uk

Policy Statement on Governance Strategy

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 51 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.
- 1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on governance and in particular,
 - a) whether the County Council as administering authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority; and
 - b) if it delegates that function or part of that function to a committee, sub-committee or an officer of the administering authority
 - i. the frequency of any committee or sub-committee meetings;
 - ii. the terms of reference, structure and operational procedures of the delegation; and
 - iii. whether the committee or sub-committee includes representatives of employing authorities (including non-Scheme employers) or members, and if so, whether those representatives have voting rights.
- 1.3 This document is the first Governance Policy Statement for the Worcestershire County Council Pension Fund. The statement will be kept under review and revised to reflect any change in the Governance arrangements of the Pension Fund.
- 1.4 In this Governance Policy Statement, we have set out our policy on governance of the Fund including representation and participation of stakeholders in the Fund's affairs.
- 1.5 This Statement should also be read in conjunction with the Fund's other governing documents the Statement of Investment Principles and the Funding Strategy Statement which are included in the Pension Fund Annual Report and Accounts available on the Council's website at www.worcestershire.gov.uk.

2. Fund Governance

Governance relating to Fund Investments

- 2.1 The County Council has delegated responsibility for the management of the Fund to the Director of Financial Services. The Director of Financial Services reports to the Chief Executive and the Cabinet Member with Responsibility for Resources.
- 2.2 In matters relating to the management of the Funds assets the Director of Financial Services is advised by an Investment Monitoring Group, which is made up mainly of councillors from Worcestershire County Council (which is the body legally charged with the responsibility for managing the Fund). The composition of the group is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund rather than political representation.
- 2.3 The Investment Monitoring Group advise the Director of Financial Services on specific matters relating to:
 - the overall strategy for the Pension Fund investments
 - the overall performance of the Pension Fund and that of the Fund managers
 - the appointment of the Fund managers

2.4 The Investment Monitoring Group are advised by an independent financial adviser who attends all Group meetings.

2.5 The Cabinet Member with Responsibility for Resources is the Chairman of the Group, which meets at least quarterly to review the investment performance of the individual Fund Managers in the presence of the independent financial adviser. In addition an annual meeting takes place to consider the full years performance of the Fund.

2.6 The Fund's Statement of Investment Principles (SIP) sets out the arrangements in place for managing the affairs of the Worcestershire County Council Pension Fund.

2.7 The day to day management of the Fund's investments is divided between five external investment managers operating in accordance with mandates set out in the Statement of Investment Principles.

Governance relating to Benefits Administration

2.8 The 1998 Regulations created two areas where the County Council, as Administering Authority has the discretion to determine its own policy, these relate to:

- 2.8.1 Abatement of basic pension on re-employment.

The County Council, after consultation with employers, resolved that pensions would be abated if a pensioner member became re-employed with a scheme employer

- 2.8.2 Pensions for life for spouses in receipt of pension at 31 March 1998

The County Council, after consultation with employers, resolved that pensions would be paid for life to those in receipt of a widow or widower's pension as at 31 March 1998.

2.9 As a matter of policy, the Fund will consult with all participating employers on any proposals to change its policy on Administering Authority discretions.

3. Contacts and further information

3.1 The Director of Financial Services, Mr Mike Weaver is responsible for the day to day management of the affairs of the Worcestershire County Council Pension Fund including Fund investments, accounting and benefits administration. For further information contact:

The Accountancy Section, Tel. (01905) 766513 - Investments and Accounts

The Pensions Section, Tel. (01905) 766511 - Benefits Administration

3.2 Additional information on the activities of the Pension Fund can be found in the Annual Report and Accounts which is available on the Council's website at www.worcestershire.gov.uk.

Glossary of Terms of Terms

Accounting Policies

The policies and concepts used in the preparation of the accounts.

Accruals

Sums included in the accounts to cover income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March

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.

Deferred Pension benefit

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

Equities

Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business.

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.

Index Linked

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

Scheduled Bodies

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

Statement of Recommended Practice (SORP)

This relates to the Code of Practice on Local Authority accounting which is published by the Chartered Institute of Public Finance and Accountancy.

Stock Lending

The temporary transfer of stock (shares/securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal or greater value than the loaned securities..

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.

Contact Points

For further information on issues relating to Fund Investments and Accounts please contact:

Mark Forrester

Telephone (01905) 766513

Fax: (01905) 766578

Email address: MForrester@worcestershire.gov.uk

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Linda Probin

Telephone (01905) 766511

Fax: (01905) 766569

Email address: LProbin@worcestershire.gov.uk

Or you can write to:-

Mike Weaver

Director of Financial Services

Worcestershire County Council

County Hall

Worcester

WR5 2NP

Copies of this Annual Report and further information can also be found on the Worcestershire County Council Web Site (www.worcestershire.gov.uk)

