

Worcestershire County Council  
**Pension Fund**  
Annual Report and Accounts  
2008/2009

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# Investment Monitoring Group Advisers and Officers as at 31st March 2009

## **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  
(Following a takeover, with effect from 1st April 2009,  
Societe Generale Asset Management UK Limited was  
acquired by GLG Partners, 1 Curzon Street, London,  
W1J 5HB.)

**UBS Global Asset Management UK Limited**  
21 Lombard Street, London, EC3V 9AH.

## **Global Custodian**

BNY Mellon Asset Servicing B.V., The Bank of New  
York, Mellon Centre, 160 Queen Victoria Street,  
London, EC4V 4LA

## **Independent Financial Adviser**

Mr G D Wood, The W M Company  
525 Ferry Road, Edinburgh EH5 2AW

## **Actuary to the Fund**

Mercer Human Resource Consulting,  
Mercury Court, Tithebarn Street, Liverpool L2 2QH.

## **Auditors to the Fund**

Audit Commission  
1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

# 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

## Legislation

The new look Local Government Pension Scheme (LGPS) was introduced from 1 April 2008 and details are contained in three sets of regulations:

The LGPS (Benefits, Membership and Contributions) Regulations 2007

The LGPS (Administration) Regulations 2008

The LGPS (Transitional Provisions) Regulations 2008

Throughout the year the regulations have been subject to considerable comment, consultation and amendment, resulting in further legislation;

The LGPS (Amendment) Regulations 2008

The LGPS Miscellaneous Amendment Regulations No.3

LGPS (Administration) (Amendment) Regulations 2009

LGPS Regulations 1997 (saved provisions for post 31 March 2008 active members and for councillors and pension credit members)

The Government Actuary Department (GAD) has also issued an unprecedented amount of new factors and guidance on;

Ill health provisions, transfer values, late retirement, governance compliance statement and sustaining the LGPS in England and Wales (Cost Sharing)

## Progress

The new look LGPS arrived on 1 April 2008. All staff who were members of the scheme on 31 March 2008 were automatically transferred to the new scheme arrangements.

The new scheme has introduced tiered employee contribution rates, three tiers of ill health retirement benefits. It provides for 1/60th pension accrual for members from 1 April 2008 with the option to commute to provide a tax free lump sum and for the first time provides for nominated co-habiting partners.

The new scheme has now been in place for 12 months, and in this time we have seen new amendments to the scheme and new guidance plus the banking crisis.

Despite these difficult times, LGPS members have been assured that their main scheme benefits are safe

and unaffected by the changes in the stock market.

CLG has published draft proposals for further amendment to the LGPS regulations to introduce a cost sharing mechanism for the LGPS in England and Wales by 31 March 2009. It is intended that these regulations would take effect from 1 April 2009.

The CLG has published the long awaited LGPS ill health statutory guidance. The guidance includes details of the relevant statutory provisions and an explanation of the operation of the new ill health retirement benefits as they apply from 1 April 2008.

## Future

Through the co-operation of the Government and employer and employee representatives, the Scheme is constantly changing and adapting to modern day needs and demands.

Discussions are still continuing on a number of matters including; the extent of transitional protection to be given to members affected by the removal of the 85 year rule, new guidance on partial payment of benefits under flexible retirement, proposals for the new cost sharing arrangements, proposed changes to the investment framework and new guidance on the treatment of admission bodies to the scheme.

New guidance confirming the timetable and data requirements for the 2010 Pension Fund Actuarial Valuation have been issued.

## Administration

All members of the pensions team have had training on Task Manager, Imaging and the new processes that have to be adopted to cope with the changes.

Changes to all the software, literature, letters, forms and website are being continually reviewed and updated.

## Efficiency

The introduction of the automatic workflow system Task Manager, Imaging and member self service will change the way we work and help to improve our service delivery.

The restructure of the Pensions Section is also under review.

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 2008/09 was £22.26 per scheme member, compared with the average figure for other local authorities 2007/08 of £22.73. The average figure for other local authorities 2008/09 was not available at the time of publication

### Membership

As at 31 March 2009 20,282 employees were contributing to the Fund, a net increase of 13 members compared to the figure as at 31 March 2008. A total of 12,169 retired employees and beneficiaries are in receipt of an annual pension, which is an increase of 566 on last year. The average value of a pension in payment is £87.75 per week.

A further 11,100 former members have an entitlement

to deferred pension benefits.

A chart showing the number of contributors, pensioners and deferred pensioners is given at Figure 1.

### Complaints

#### Internal Disputes Resolution Procedure (IDRP)

During the year two cases were dealt with by the Appointed Person responsible for considering stage 2 appeals against employer decisions.

Both cases concerned the refusal to grant ill health retirement. The employer decisions were upheld.

#### Pensions Ombudsman

During the year two appeals against decisions of the Fund were considered by the Pensions Ombudsman in which the Funds' decisions were upheld.

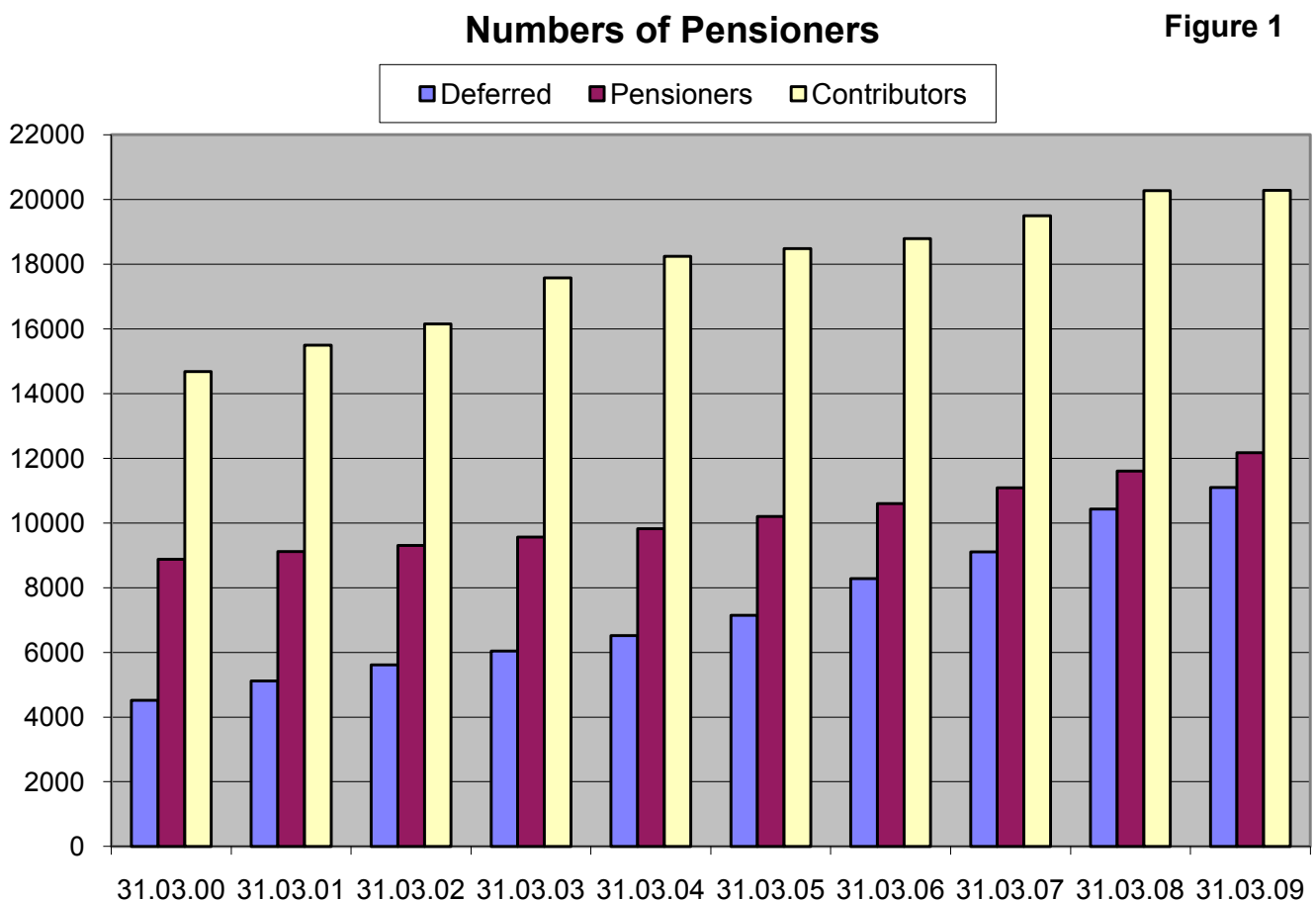


Figure 1. Numbers of pensioners and contributors

# 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, BNY Mellon Asset Servicing 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 2008/2009 for each fund by means of a time-weighted return, as recommended by the Society of Investment Analysts. The Worcestershire return of -23.9% underperformed the index benchmark return by 2.2%.

The 5-year period to 31 March 2009 shows that the Fund achieved a return of 1.3% compared to the Universe return of 3.1%.

A comparison of performance over the 10 years to 31 March 2009, published by the WM Company, shows an average annual return of 0.8% for Worcestershire, compared to the Local Authority Universe performance of 2.0%.

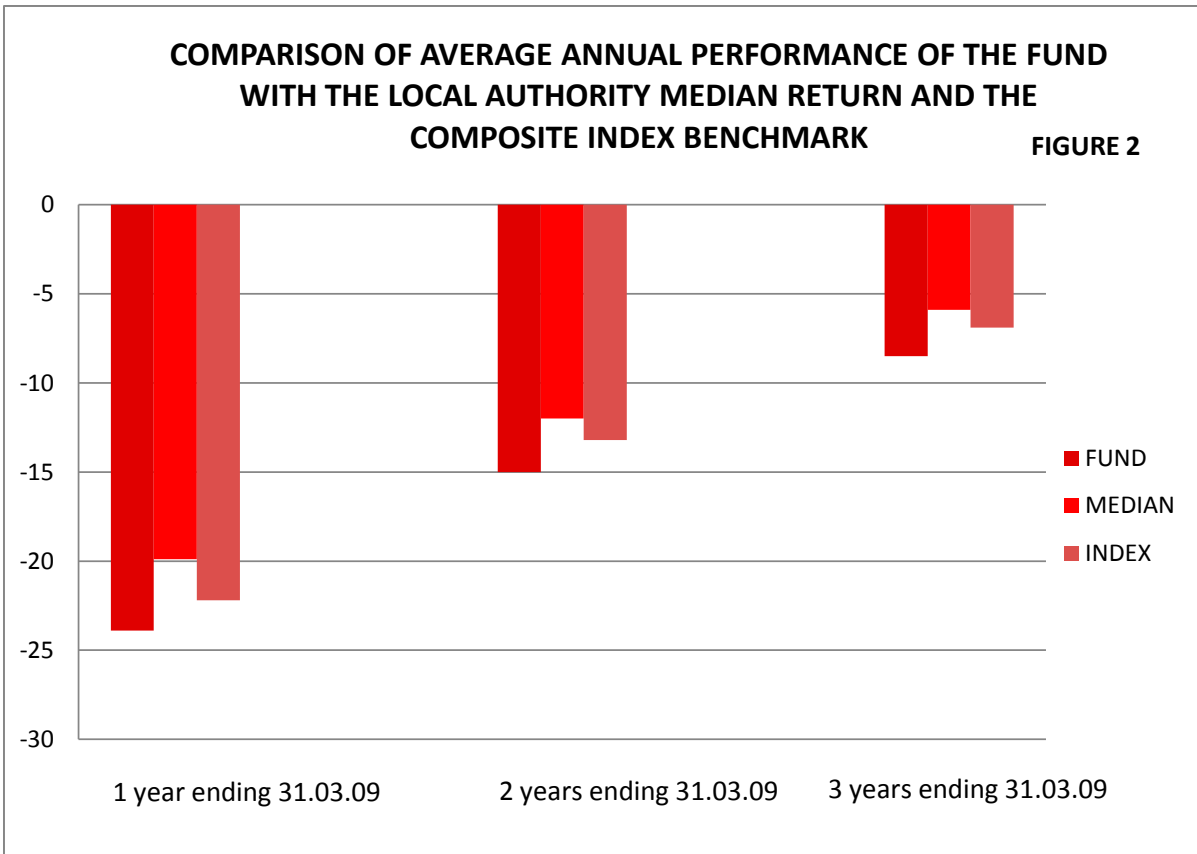
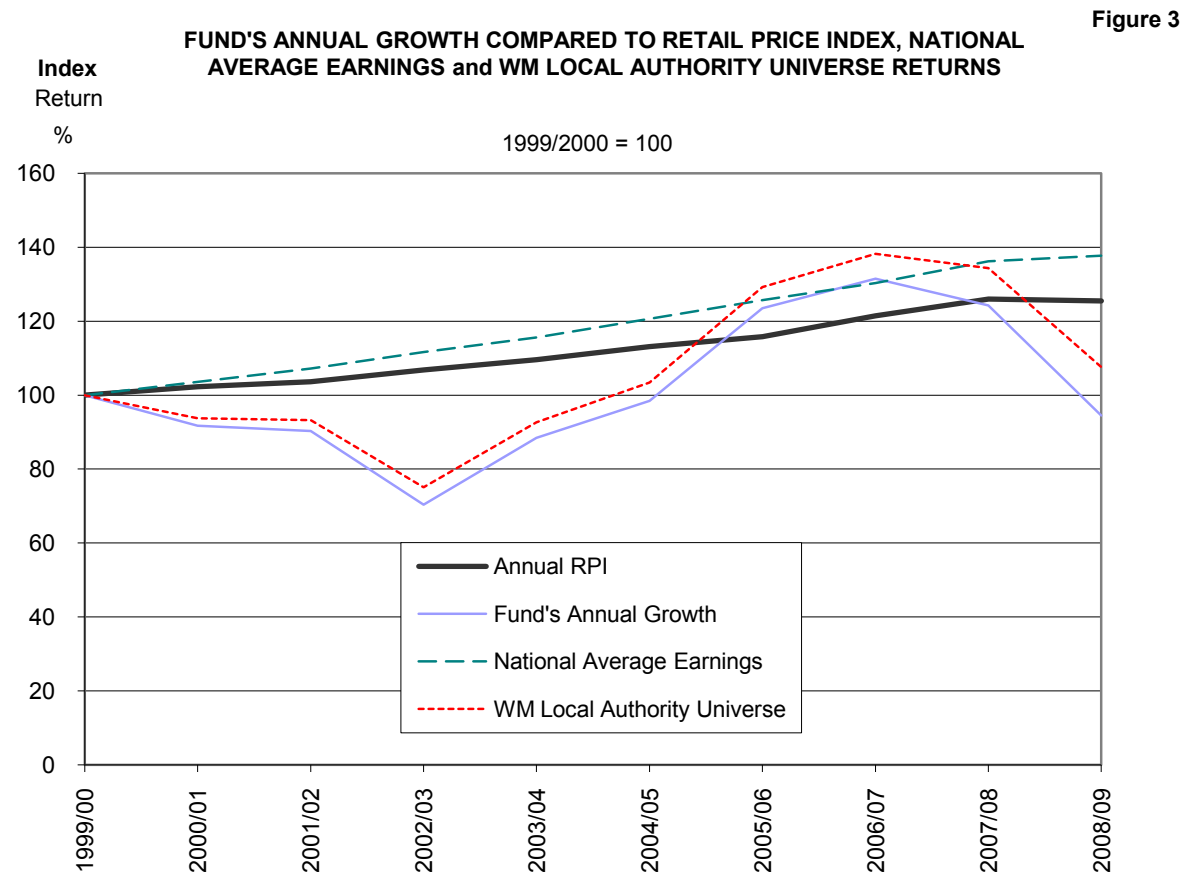


Figure 2 shows comparisons of the performance returns of the Fund with the Local Authority Median Fund and the composite index benchmark over the shorter periods of the last one, two and three years. A comparison between the Fund's performance returns against the retail price index and the national average earnings since 2000 is given at Figure 3.



The market value of the Fund's investment portfolio decreased from £1,183.1m at 31 March 2008 to £910.7m at 31 March 2009.

Investment income for the year amounted to £27.6m being an increase of £0.2m on last year's figure.

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

Figure 4

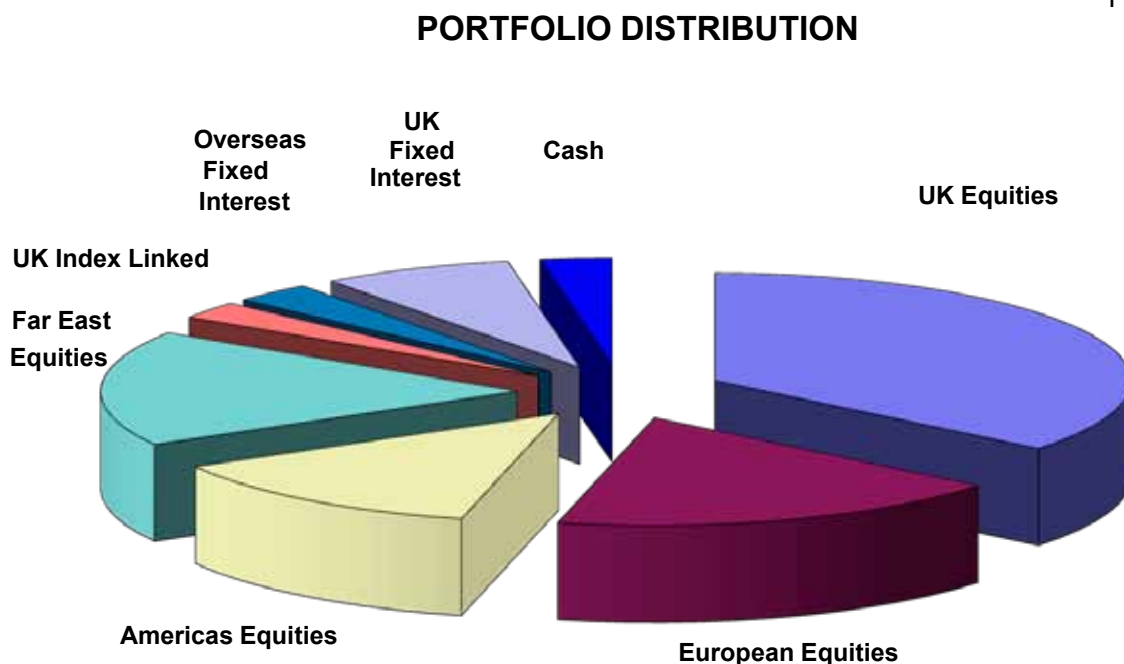


Figure 4. Portfolio Distribution

A chart showing the total net assets of the Fund each year since 1999 is given at Figure 5.

### TOTAL NET ASSETS MARCH 1999 TO MARCH 2009

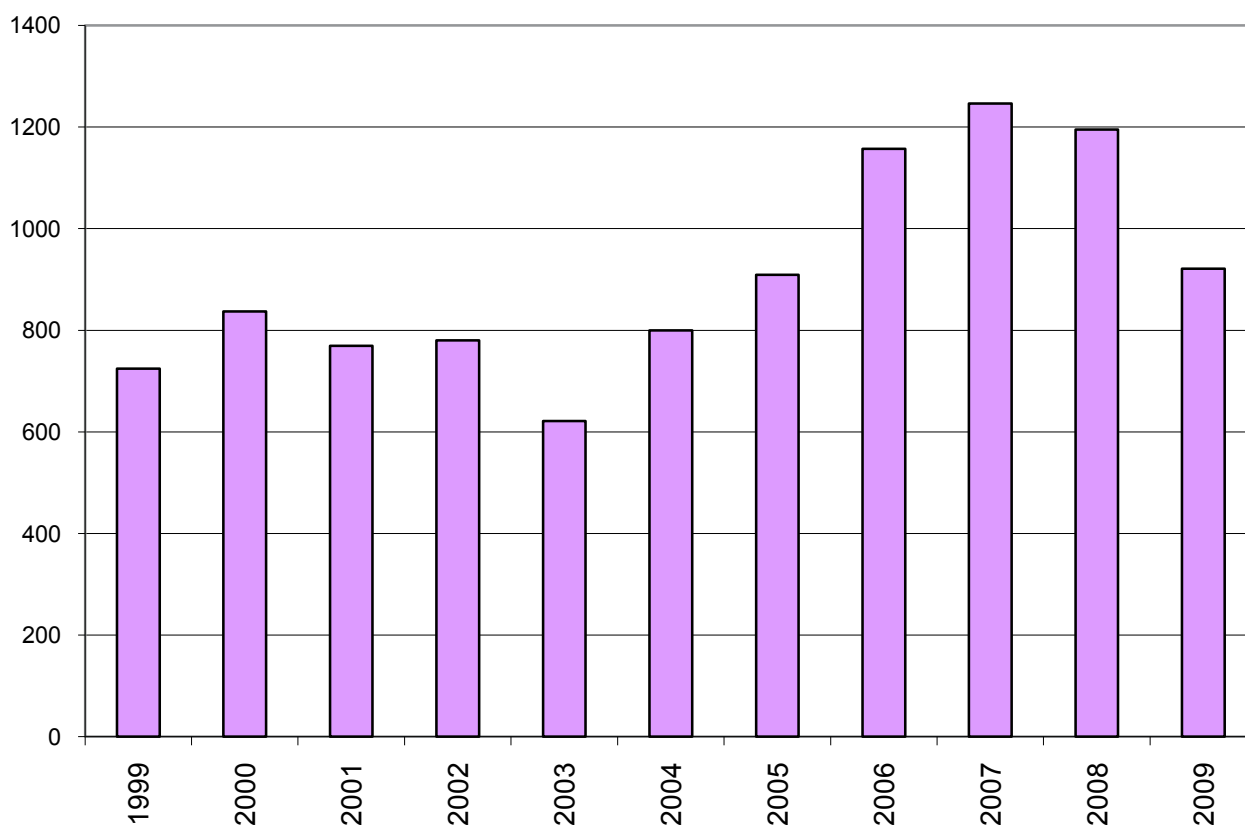
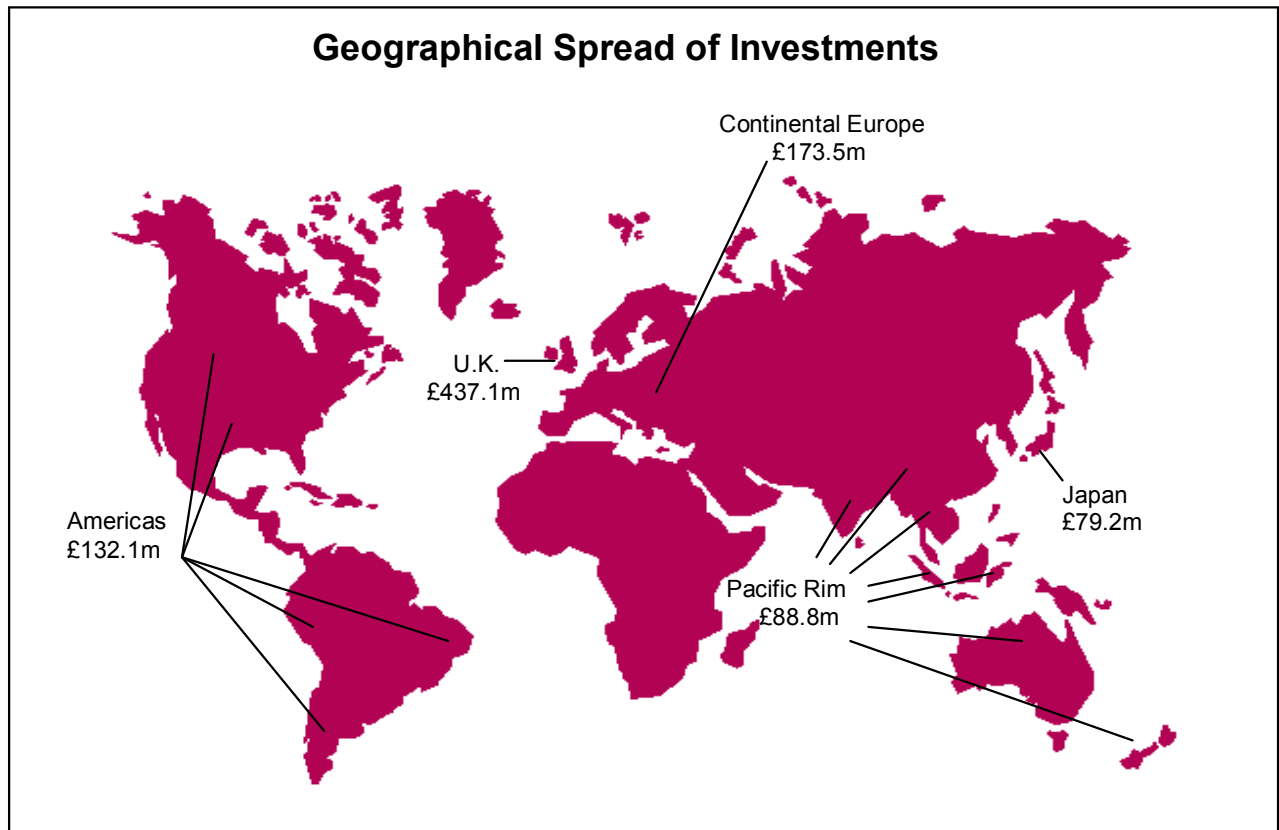


Figure 6 shows the geographical spread of investments.



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

	Market Value at 31/03/2009	% of Fund Value at 31/03/2009
	£m	£m
BP	18.2	2.0
Glaxosmithkline	15.6	1.7
Vodafonez	12.8	1.4
Royal Dutch Shell	10.8	1.2
HSBC Holdings	9.7	1.1
Rio Tinto	5.2	0.6
Serco Group	4.8	0.5
Astrazeneca	4.8	0.5
BAE Systems	4.7	0.5
Imperial Tobacco	4.1	0.5

The total value of these ten holdings represents 10.0% of the whole Fund.

# Investment Review 2008/2009

## Report of the Independent Financial Adviser

### Investment Review to 31 March 2009

The 'year' (twelve months) to 31 March 2009 was one of the worst on record for local authority pension funds. In September 2008 many banks in the UK, US and Europe came close to collapse and required major government support. The deepening financial crisis, triggered in 2007 by problems in the US sub-prime mortgage market, hit the real economy and pushed the world into economic recession. The slide into recession weighed heavily on all investments except government bonds. In order to stem the recessionary pressures, central banks in the major economies cut interest rates to all time lows as well as embarking on the process known as 'quantitative easing' which injects money into the financial system and the economy as a whole.

As economic conditions deteriorated investors shunned equities. In local currency terms, markets fell heavily; returns of -50% were common. However, a sharp drop in the value of sterling against other major currencies softened the falls for UK investors. UK equities, as measured by the FTSE All Share Index, recorded a return of -29.3%. North America fell almost 40% in US dollar terms but the sharp rise in the value of the dollar moderated the fall to -14.0% in sterling terms. Similarly the sterling return from Japan was held at -10.6% as the Yen rose by over 39% against the pound. Continental Europe gave a return of -31.1% for the UK investor despite a 16.2% rise in the value of the euro against sterling. For the UK investor the Pacific ex Japan fell -23.1% while Emerging Markets were down -26.3%.

Fears over the economy also affected the bond markets with investors assuming that there would be a wave of defaults on corporate bonds. Government bonds were viewed as a safe haven and this led to the UK Gilts All Stocks Index returning 10.3% for the year; performance varied widely with medium dated issues returning 14.6% compared 8.7% for short dated and 8.6% for long dated. The fears over corporate failures resulted in the Merrill Lynch Corporate Bond Index showing a return of -5.9% for the year. Index-

linked also posted a negative return, -1.3%, as fears of deflation emerged.

Property values continued their rapid fall with the IPD index showing a return of -25.5% for the twelve months.

In summary this was a bad 'year' for all investors. The typical Local Authority pension fund, as represented by the WM Local Authority Universe average, returned -19.9%. This compared with retail price inflation of -0.4% and earnings inflation of 1.1%.

At the end of March 2008 Local Authority pension funds had an average exposure of about 62% to equities; they remain supportive of equities generating good investment returns over the long term. Bonds and cash represented almost 25% of the average fund's investments. Property and alternatives; private equity, hedge funds, active currency, commodities and GTAA (Global Tactical Asset Allocation), comprise the balance.

The Worcester fund maintains a relatively high commitment to equity investments at the expense of bonds. In the very difficult market conditions experienced over the last year the equity tilt held back performance. In addition, three of the Fund's active managers underperformed their benchmark indices. Overall, the Worcester Fund recorded a negative return of -23.9% against the -19.9% of the average Local Authority fund. The Fund's return was placed in the lower quartile of Local Authority results.

## 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's return of 0.8% per annum is below the Local Authority average of 2.0% per annum. Inflation over the ten years was 2.6% per annum as measured by the Retail Prices Index and 3.7% as measured by the National Average Earnings Index.

Over the last three years the Fund returned -8.5% per annum against the -5.9% per annum attained by the Local Authority average. Over this period retail price inflation was 2.7% per annum while average earnings grew at 2.9% per annum.

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 Accounts 2008/09

## Statement of Accounting Policies

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Worcestershire County Council's Pension Fund accounts.

### 1. General

The Accounts for 2008/09 have been prepared in compliance with the Statement of Recommended Practice (Financial Reports of Pension Schemes) 2007 and follow the 2008 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The codes of practice have been followed, with the exception of any departures indicated below.

The 2008/09 Accounts include the changes required by the SORP to value equity investments at bid price rather than mid-market value. In accordance with the transitional provisions, comparative figures are not restated.

The core financial statements are as follows:

- The Fund Account
- Net Assets Statement

### 2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements have been followed.

### 3. Basis upon which Debtors and Creditors are included

With the exception of Transfer Values that are accounted for on a cash basis all other transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

### 4. Matching and Consistency

Twelve months expenditure is always included in the financial year however, the timing of some regular payments is such that the year's expenditure will not in all cases exactly correspond with the same yearly period as the Statement of Accounts.

### 5. Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid price.

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 and index linked securities in the Scheme's investment portfolio excludes interest earned but not paid over at the scheme end. This is included separately within accrued investment income.

Transaction costs are included in the purchase cost and sales proceeds 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.

### 6. 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.

## 7. 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 recorded at the spot exchange rate at the date of the transaction. Expenditure arising from a transaction in a foreign currency has been translated into £ sterling at the exchange rate in operation on the day the transaction occurred.

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

## 8. 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 issued by the Fund's actuary. 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.

## 9. 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 on 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 on the date the option is exercised.

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

## 10. Transfers to and from other schemes

Transfer values represent the capital sums either received in respect of members transferring from other pension schemes or paid to other pension

schemes in respect of members who have left the Worcestershire Fund.

## 11. Expenses

Investment Managers' expenses are charged on a percentage basis of the market value of assets under management.

Other administrative expenses include employee costs that are charged to the Fund on a time basis.

## 12. Augmentation/Actuarial Strain Costs

The costs of early retirement are accounted for on a cash basis when employers opt to pay over three years.

# Pension Fund Account

For the year ended 31 March 2009

	Notes	Restated 2007/08 £000	2008/09 £000
<b>Contributions and Benefits</b>			
Contributions Receivable	4	74,189	80,966
Transfers In	5	11,232	12,132
		<b>85,421</b>	<b>93,098</b>
<b>Benefits Payable</b>			
Benefits Payable	6	58,042	64,604
Leavers	7	6,187	7,871
Administrative expenses	8	955	969
		<b>65,184</b>	<b>73,444</b>
<b>Net additions from dealings with Fund members</b>			
		<b>20,237</b>	<b>19,654</b>
<b>Returns on Investments</b>			
Investment Income	9	27,372	27,632
Change in Market Value of Investments	10	(95,820)	(318,376)
Investment management expenses	11	(3,280)	(2,750)
<b>Net returns on investments</b>			
		<b>(71,728)</b>	<b>(293,494)</b>
<b>Net increase / decrease (-) in the Fund during the year</b>			
		(51,491)	(273,840)
<b>Opening net assets of the Fund</b>			
		1,246,189	1,194,698
<b>Closing net assets of the Fund</b>			
		<b>1,194,698</b>	<b>920,858</b>

# Net Assets Statement

As at 31 March 2009

	Notes	Restated 2007/08 £000	2008/09 £000
<b>Investment Assets</b>	10		
Fixed Interest Securities		81,874	95,476
Equities		677,648	500,959
Index Linked Securities		18,486	23,585
Pooled Investment Vehicles		370,354	265,465
Derivatives –Futures		80	91
Derivatives – Forward FX		282	309
Cash		35,078	25,984
Other Investment Balances		6,388	4,010
		<b>1,190,190</b>	<b>915,879</b>
<b>Investment Liabilities</b>			
Derivatives – Futures		(495)	(55)
Derivatives – Forward FX		(246)	(1,117)
		<b>(741)</b>	<b>(1,172)</b>
Current Assets	12	6,019	6,740
Current Liabilities	13	(770)	(589)
<b>Net Assets of the Fund at 31st March</b>		<b>1,194,698</b>	<b>920,858</b>

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.

# Notes to the Pension Fund Accounts

## 1. Actuarial Valuation

An actuarial valuation of the fund undertaken as at 31 March 2007 indicated that the Fund's assets were £1,246.2m and covered 72.0% of the fund's liabilities. This compares with assets of £800.4m at the valuation as at 31 March 2004 which covered 67.0% of the Fund's liabilities.

The main actuarial assumptions for the 2007 valuation were as follows: -

	<b>Past Service Per Annum</b>	<b>Future Service Per Annum</b>
<b>Investment Return</b>		
- pre-retirement	6.4%	6.5%
- post retirement	5.15%	6.5%
Rate of Pensionable Pay inflation	4.6%	4.25%
Rate of price inflation	3.1%	2.75%

The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay.

The Fund is valued using the projected unit method which is consistent with the aim of achieving a 100% funding level over 22 years in accordance with the Funding Strategy Statement.

The changes in contribution rates resulting from the actuarial valuation as at 31 March 2007 were effective from 1 April 2008, including stepped increases each year up to 2010/11.

The next actuarial valuation is due as at 31 March 2010 and any change in contribution rates as a result of that review will take place with effect from 1 April 2011.

## 2. Pension Fund Investments 2008/09

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

<b>External Fund Manager</b>	<b>31 March 2008 £000</b>	<b>%</b>	<b>31 March 2009 £000</b>	<b>%</b>
JP Morgan Asset Management	112,278	10	118,716	13
UBS Global Asset Management (Active)	27,803	2	31,117	3
UBS Global Asset Management (Passive)	454,613	38	317,520	35
Capital International Ltd	96,770	8	82,864	9
SG Asset Management	301,190	26	205,389	23
Nomura Asset Management UK Ltd	190,407	16	155,091	17
	<b>1,183,061</b>	<b>100</b>	<b>910,697</b>	<b>100</b>

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 proprietorial nature in those securities.

The total amount of stock lent at the year end was £50,573,011 (2008 £81,250,800). The total collateral, which consisted entirely of equities and sovereign debt, was £54,073,338 (2008 £88,786,533) representing 107% of stock lent.

An analysis of stock lent by asset class is shown below:

	<b>£000</b>
Corporate Debt	743
Equity	48,557
Sovereign Debt	1,273
<b>Total</b>	<b>50,573</b>

### 3. Contributions Receivable

Contributions receivable are analysed below:

	<b>Restated</b>	
	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
<b>Employers</b>		
Normal	39,435	40,141
Deficit Funding	12,158	15,924
Augmentation	3,198	3,226
<b>Members</b>		
Normal	18,860	21,089
Additional contributions	538	586
	<b>74,189</b>	<b>80,966</b>

Augmentation 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.

# Notes to the Pension Fund Accounts (continued)

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

	<b>Restated</b>	
	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Worcestershire County Council	28,236	30,484
Scheduled Bodies	39,553	42,643
Admitted Bodies	6,400	7,839
	<b>74,189</b>	<b>80,966</b>

## 4. Transfers In

During the year individual transfers in from other schemes amounted to £12.132 million (£11.232 million in 2007/2008).

## 5. Benefits Payable

	<b>Restated</b>	
	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Pensions	44,915	48,265
Commutations and Lump Sum		
Retirement Benefits	12,333	15,130
Lump Sum Death Benefits	794	1,209
	<b>58,042</b>	<b>64,604</b>

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

	<b>£000</b>	<b>£000</b>
Worcestershire County Council	24,100	26,979
Scheduled Bodies	29,941	32,916
Admitted Bodies	4,001	4,709
	<b>58,042</b>	<b>64,604</b>

## 6. Payments to and on account of leavers

	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Individual transfers to other schemes	6,146	7,579
Refunds to members leaving service	41	292
	<b>6,187</b>	<b>7,871</b>

## 7. 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:

	<b>Restated</b>	
	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Employee Expenses	368	387
Support Services	287	275
Actuarial Services	101	96
Other Expenses	175	196
Printing / Publications	24	27
Recharges to other bodies	0	(12)
	<b>955</b>	<b>969</b>

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

## 8. Investment Income

	<b>Restated</b>	
	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Fixed Interest Securities	4,619	4,326
Equities	23,344	23,583
Index Linked Securities	602	419
Cash Deposits	596	1,031
Securities Lending	183	206
Commission Recapture	4	7
	<b>29,348</b>	<b>29,572</b>
Irrecoverable Withholding Tax	(1,976)	(1,940)
	<b>27,372</b>	<b>27,632</b>

# Notes to the Pension Fund Accounts (continued)

## 9. Investments

	Restated Value at 01/04/2008 £000	Purchases at Cost and Derivative Payments £000	Sales Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31/03/2009 £000
Fixed Interest Securities	81,874	93,554	(81,331)	1,379	95,476
Equities	677,648	190,150	(158,393)	(208,446)	500,959
Index Linked Securities	18,486	11,284	(5,008)	(1,177)	23,585
Pooled Investment Vehicles	370,354	8,807	(2,183)	(111,513)	265,465
Derivatives – Futures	(415)	4,256	(5,186)	1,381	36
	<b>1,147,947</b>	<b>308,051</b>	<b>(252,101)</b>	<b>(318,376)</b>	<b>885,521</b>
Derivatives – Forward FX	36				(808)
Cash	35,078				25,984
Other Investment Balances	6,388				4,010
	1,189,449				914,707

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 during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £655,015. The comparison figure for 2007/08 is not available. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

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

		<b>Restated</b>	
		<b>31st March 2008</b>	<b>31 March 2009</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed Interest Securities</b>			
UK Public Sector Quoted		25,690	48,123
UK Quoted		41,147	19,505
Overseas Public Sector Quoted		8,253	19,012
Overseas Quoted		6,784	8,836
		<b>81,874</b>	<b>95,476</b>
<b>Equities</b>			
UK Quoted		256,768	169,201
Overseas Quoted		420,880	331,758
		<b>677,648</b>	<b>500,959</b>
<b>Index Linked</b>			
UK Public Sector		13,441	20,862
UK Other		5,045	2,723
		<b>18,486</b>	<b>23,585</b>
<b>Pooled Investment Vehicles</b>			
UK Managed Funds – UK Equities		224,284	157,420
– Overseas Equities		133,568	100,614
Overseas Managed Funds – Overseas Equities		12,502	7,431
		<b>370,354</b>	<b>265,465</b>
<b>Derivative Contracts</b>			
Futures Contracts (Assets)		80	91
Futures Contracts (Liabilities)		(495)	(55)
		<b>(415)</b>	<b>36</b>
<b>Type of Future</b>	<b>Expiration</b>	<b>Economic Exposure Value</b>	<b>Market Value</b>
		<b>£000</b>	<b>£000</b>
UK gilt exchange traded	Less than one year	2,341	48
Overseas exchanged traded	Less than one year	(466)	(12)
		<b>1,875</b>	<b>36</b>

## Notes to the Pension Fund Accounts (continued)

	<b>Restated</b>	
	<b>31st March 2008</b>	<b>31 March 2009</b>
	<b>£000</b>	<b>£000</b>
<b>Forward Foreign Exchange</b>		
Forward Foreign Exchange (Assets)	282	309
Forward Foreign Exchange (Liabilities)	(246)	(1,117)
	<b>36</b>	<b>(808)</b>

Derivative receipts and payments represent the realised gains and losses on futures contracts. The active bond mandate and passive equity mandate provides discretion for the managers to enter into derivative contracts in order to enhance the return for the fund.

<b>Cash</b>		
Cash Deposits	4,943	4,379
Cash Instruments	29,979	32,004
Outstanding Trades	408	(10,399)
Pending spot foreign exchange contracts	(252)	0
	<b>35,078</b>	<b>25,984</b>
<b>Other Investment Balances Workings</b>		
Outstanding dividend entitlements	5,923	3,570
Recoverable withholding tax	465	440
	<b>6,388</b>	<b>4,010</b>

### 10. 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 the costs is set out below:

	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Administration, Management and Custody Fees	3,227	2,693
Performance Monitoring Service	23	23
Other Advisory Fees	16	16
Other Expenses	14	18
	<b>3,280</b>	<b>2,750</b>

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

## 11. Current Assets

	<b>Restated</b>	
	<b>2007/2008</b>	<b>2008/2009</b>
	<b>£000</b>	<b>£000</b>
Contributions due from: Employer	2,660	2,836
Members	999	1,111
Cash balances	1,777	2,626
Other Debtors	583	167
	<b>6,019</b>	<b>6,740</b>

## 12. Current Liabilities

	<b>Restated</b>	
	<b>2007/2008</b>	<b>2008/2009</b>
	<b>£000</b>	<b>£000</b>
Investment Management Expenses	(713)	(576)
Other Expenses	(57)	(13)
	<b>(770)</b>	<b>(589)</b>

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 2009 represent a short term loan to the Council that is disclosed in the Council's Balance Sheet.

## 13. Related Party Transactions

There are no related party transactions relating to the Pension Fund to disclose for 2008/09.

## 14. Contingent Liabilities

The Fund had no material contingent liabilities as at 31 March 2009.

## 15. Additional Voluntary Contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2008/09 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme members to the AVC provider. The amounts administered under AVC arrangements during 2008/09 are as follows:

	<b>£000</b>
Contributions received	237
Investments purchased	234
Change in market value	(73)
Retirement benefits paid or transferred	447

The combined value of the AVC funds at 31 March 2009 was £3.260 million.

In accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts

## Appendix 1

# 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 2007/08 (as amended).

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.

Up to 31/03/2008 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 and from 01/04/2008 the scheme provides for a pension based on 1/60th of pay for each year of service with an option to commute to provide for a tax free lump sum. Provision is made for the payment of a pension to a wife, husband, child, civil partner and cohabiting partner 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@worcestershire.gov.uk](mailto:pensions@worcestershire.gov.uk).

## Appendix 2

# Participating Employers of the Fund at 31 March 2009

### 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 Probation Service	Malvern Wells Parish Council
Hereford and Worcester Fire and Rescue Authority	University College Worcester
West Mercia Magistrates Courts Service	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
Wythall Parish Council	Worcester Sixth Form College
Lea Parish Council	Belbroughton Parish Council
Linton Parish Council	Rock Parish Council
Building Control	Hereford Steiner Academy
Revenue and Benefits	Worcestershire Hub

### 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
Worcester Community Housing Limited	Shaw Healthcare Limited
Edgar Street Grid (Hereford) Ltd	Whitecross PFI
Midland Heart	Bromsgrove PFI

## Appendix 3

# 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 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and the guidance paper issued in July 2009 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 2007/08 (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 39 of the Local Government Pension Scheme (Administration) Regulations 2008) 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 2007/08 (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.

## Appendix 3

# Worcestershire County Council Pension Fund Funding Strategy Statement (FSS) (continued)

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 2007. The preliminary results of the valuation indicate that overall the assets of the Scheme represented 72% of projected accrued liabilities at the valuation date.

The key financial assumptions making up the funding strategy and as adopted for the 31 March 2007 actuarial valuation are:

	<b>In respect of past service liabilities</b>	<b>In respect of future service liabilities</b>
Fixed interest gilts yield:	4.4%	n/a
Index linked gilts real yield:	1.3%	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)	6.4%	6.5%
Discount rate (post retirement)	5.15%	6.5%
Price Inflation	3.1%	2.75%
Earnings Inflation	4.6%	4.25%
Pension Increases	3.1%	2.75%

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 funding target, for the long term additional investment performance on the assets of the Fund 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 Fund as the liability profile of the membership matures over time.

The financial assumptions in relation to future service (i.e. the normal cost) 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 3.75% per annum, with a long term average assumption for price inflation of 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% p.a. Adopting this approach 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 market conditions at the effective date of the 2007 valuation 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 the funding target. At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Full details of the assumptions adopted for the 2007 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 with effect from 1st April 2008:

- 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 22 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 2008, following completion of the 2007 actuarial valuation, the increase from the rates of contribution payable in the year 2008/09 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.

## Appendix 3

# Worcestershire County Council Pension Fund Funding Strategy Statement (FSS) (continued)

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 2007 valuation show the liabilities to be 72% covered by the current assets, with the funding deficit of 28% 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 2007 valuation would have been significantly higher, by approximately 28% and the declared funding level would be correspondingly reduced to approximately 56%.

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%

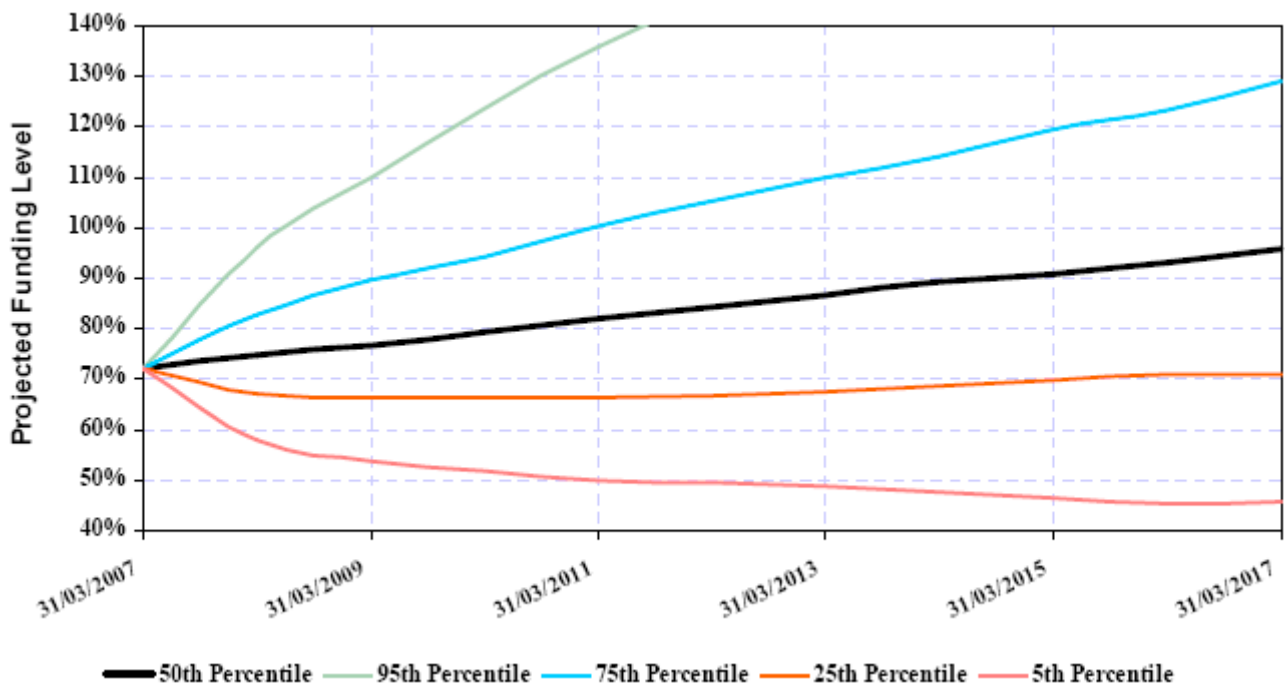
The funding strategy adopted for the 2007 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.75% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance to keep pace with the liabilities of 1.25% 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. Investment risks

The funding of defined benefits is by its nature uncertain. Funding of the Fund 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 greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the investment return assumptions made.

The chart below shows a “funnel of doubt” funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower). The graph adopts the 2007 actuarial valuation results as a starting point, and allows for the planned contributions into the Fund based on the valuation and funding strategy. The chart assumes median investment return in line with “best estimate” market expectations, and variability of those returns broadly in line with historic experience.



The above chart assumes that the Fund's current investment strategy, which involves investing a significant proportion of its assets in equities, will continue.

## Appendix 3

# Worcestershire County Council Pension Fund Funding Strategy Statement (FSS) (continued)

As mentioned in Section 6, alternative investment strategies could be followed that would minimise the risk of deterioration in the funding position assessed relative to the funding target, for example by raising the proportion of bond investment. Such a strategy would reduce the risk that changing economic conditions would cause deterioration in the Fund's funding position. It would also tend to produce a more stable contribution rate but at a higher overall level than indicated in Section 4.

### Risks associated with the policy for meeting the funding target

The Fund's policy for meeting the funding target carries a number of risks. The following paragraphs comment on the following potentially material risks:

- some of the employers may not be able to continue to pay contributions or make good deficits in the future;
- the future investment return on assets may be insufficient to meet the funding objective;
- falls in asset values may occur that are not matched by similar falls in the values of liabilities;
- unanticipated future changes in mortality may occur, increasing the cost of the benefits;
- members may exercise options against the Fund, for example, a lower take-up for retirement cash than that assumed in the valuation;
- additional pay growth from that assumed in the valuation, including as a result of job evaluation exercises or equal pay claims.

If an employer becomes unable to pay contributions, or is unable to make good deficits in the future, the Fund's assets will be lower than expected and the funding position will be worse than expected. Any shortfall could then become the responsibility of other employers within the Fund.

If the future investment return on assets falls short of the rates assumed in the calculation of the funding target and the recovery plan, the funding position would be worse than expected. It is likely that an increase in future employer contributions would be required. The analysis shown earlier in this section illustrates the potential volatility of contribution rates and funding levels to future investment returns.

If market levels and/or gilt yields changed such that the liability values increase by more than the assets, or decrease by less than the assets, the funding position would be worse than expected. An increase in employer contributions would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Fund show that pensioners are living longer. The analysis shown earlier in this section illustrates the quantitative impact of such changes.

If members made decisions around their options such that those decisions increased the Fund's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.

### 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.

## Appendix 4

# 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:
  - (a) avoiding the possibility of loss, or
  - (b) limiting a deficiency in the underlying Fund, or
  - (c) 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%
<b>Passive Equity Mandates</b>		
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
<b>Bonds</b>	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
	<b>100.0</b>	

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".

## Appendix 5

# 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 71 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](mailto: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. Communications 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 opposite.

<b>Communications Aims</b>
<b>Organisation &amp; Culture</b>
We have clear roles, responsibilities and accountability and an environment where staff are motivated, trained and confident to express themselves.
<b>Staff Competency Development</b>
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.
<b>Procedures</b>
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.
<b>Service standards</b>
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 of 72 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.

## Appendix 5

# Policy Statement on Communication Strategy (continued)

Description	Service
Website	The Fund website was launched in 2004. The address is <a href="http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm">http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm</a> 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 <a href="http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm">http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm</a> 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 within 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:

## Appendix 5

# Policy Statement on Communication Strategy (continued)

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 Advisers

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 Department for Communities and Local Government (DCLG), Regional and National Pensions Managers Forums, trades unions etc as shown below.

Description	Current Service
DCLG	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. (Latest valuation report as at March 2007)
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>

## Appendix 5

# Policy Statement on Communication Strategy (continued)

### 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 affairs 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](mailto:pensions@Worcestershire.gov.uk)

## Appendix 6

# 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 71 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.

1.2 This Statement should be read in conjunction with the Fund's 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](http://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
- monitoring of the overall performance of the Pension Fund and that of the Fund managers
- the appointment of the Fund managers

2.4 The Director of Financial Services and 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 Investment Monitoring Group, which meets at least quarterly to review the investment performance of Fund Managers in the presence of the independent financial adviser. Further monitoring meetings with Fund Managers are undertaken by officers of the Authority and the outcomes reported to the Group. In addition an annual meeting takes place to consider the full year's performance of the Fund and to review the overall strategy for the Pension Fund Investments.

2.6 The Fund's Statement of Investment Principles (SIP) sets out the arrangements in place for the management of the investments 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 Pensions Scheme regulations allow for several administering and employing authority discretions. The County Council as administering authority has the discretion to determine its own policy. The Fund will consult with all participating employers on any proposals to change its policy on administering authority discretions.

2.9 Employer meetings are held to which all Fund employers are invited to attend. The meetings provide an opportunity for employers to question and challenge officers on matters of interest to their authority/

## Appendix 6

# Policy Statement on Governance Strategy (continued)

organisation. The Actuary also attends the employer meetings to discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.

2.10 The Fund always considers the views expressed by employer organisations and staff representatives.

2.11 Other meetings are held as required with employers to discuss important issues such as discretionary policies and regulatory changes.

2.12 We also communicate with our membership by newsletters, roadshows and presentations.

2.13 The Fund's Communication Strategy Statement explains in more detail engagement with all stakeholders.

### 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](http://www.worcestershire.gov.uk).

## Appendix 7

# Statement by the Fund's Actuary

### Introduction

The Actuarial Valuation Report sets out the results of the actuarial valuation of the Worcestershire County Council Pension Fund (the Fund) as at 31 March 2007.

The primary aims of the valuation are to review the financial position of the Fund and to determine appropriate employer contributions to the Fund for the future.

In particular, the valuation aims:

- to assess the Fund's funding position relative to its funding objective;
- taking the above into account, to determine the appropriate future level of employer contributions.

The valuation has been carried out in accordance with Regulation 77 of the Local Government Pension Scheme Regulations 1997 (as amended).

### Funding Level

In the latest Actuarial Valuation Report dated 31 March 2008, Mercer the Fund Actuary, reported a funding level of 72% relative to the Fund's funding target.

## Appendix 8

# Governance Compliance Statement

This statement shows how Worcestershire County Council as the administering authority of the Worcestershire County Council Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Amendment) Regulations 2008.

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	In accordance with legislation, the County Council has delegated responsibility for the management of the Pension Fund to the Director of Financial Services (DFS) and in matters relating to the management of the Fund's assets the DFS is advised by an Investment Monitoring Group in respect of Fund management.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Delegation is to the DFS. The Council has not appointed either a main or secondary committee to administer the Fund or the benefits.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Delegation is to the DFS. The Council has not appointed a secondary committee.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Delegation is to the DFS. The Council has not appointed a secondary committee.
B	Representation	
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Delegation is to the DFS. The Council has not appointed a main or secondary committee.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. All members of the Investment Monitoring Group are treated equally.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. The role of members of the Investment Monitoring Group is clearly explained.

b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Delegation is to the DFS. The Council has not appointed a main or secondary committee.
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Delegation is to the DFS. The Council has not appointed a main or secondary committee.
E	Training / facility time / expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. Training and expenses for the Investment Monitoring Group are available as required.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. The policy applies to all members of the Investment Monitoring Group.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. Training for the Investment Monitoring Group is provided as required.
F	Meetings (frequency / quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Delegation is to the DFS. The Council has not appointed a main or secondary committee. The Investment Monitoring Group meets quarterly.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Delegation is to the DFS. The Council has not appointed a main or secondary committee.
c.	That an administering authority that does not include lay members in its formal governance arrangements, must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Opportunity is provided for all admitted and scheduled bodies to meet annually. The Fund's actuary will attend to present the actuarial valuation.
G	Access	
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Delegation is to the DFS. The Council has not appointed a main or secondary committee.

## Appendix 8

# Governance Compliance Statement (continued)

H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Employer meeting is held as required to discuss scheme issues and Communication Strategy Statement details engagement with all stakeholders including Fund members.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Details of governance arrangements are included in the Pension Fund Annual Report and Accounts available on the Council's website.

## Appendix 9

# Auditors Report

### Independent auditor's report to the members of Worcestershire County Council

I have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under policies set out in the Statement of Accounting Policies

The report is made solely to the members of the Worcestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Director of Financial Services auditor

The Director of Financial Services is responsible for preparing the pension fund accounts, in accordance with the relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing this pension fund accounts, the Director of Financial Services is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimating that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounts and related noted in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with the relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. The financial transactions of the 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. I also report to you whether in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts. That information comprises the Pension Fund Account, Net Assets Statement and the related notes.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness on the Authority's corporate governance procedures or its risk and control procedures.

## Appendix 9

# Auditors Report (continued)

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report of if I become aware of any apparent misstatements of material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my 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 pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

### Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than the liabilities to pay pensions and other benefits after the end of the scheme year.

Elizabeth Cave  
Officer of the Audit Commission

The Business Centre  
Blackpole Road  
Worcester  
WR3 8SQ

24 September 2009

## Appendix 10

# Glossary 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.

### Augmentation

Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age.

### Custodian

The organisation that holds and safeguards the Pension Fund assets.

### Deferred Pension benefit

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

### Derivatives

A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options.

### 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.

## Appendix 10

# Glossary of Terms (continued)

### Gilt

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

### Forward Foreign Exchange

An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price.

### Index Linked

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

### Pooled Investment Vehicles

A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust.

### 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.

**You can contact us in the following ways:**

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

Mark Forrester

**By telephone:** 01905 766513

**By fax:** 01905 766578

**By email:** mforrester@worcestershire.gov.uk

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

Linda Probin

**By telephone:** 01905 766511

**By fax:** 01905 766569

**By email:** 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 website:  
**[www.worcestershire.gov.uk](http://www.worcestershire.gov.uk)**

**For further copies of this document or questions about it please contact us using the details above.**

Electronic copies of this document are available at:  
<http://worcestershire.whub.org.uk/home/wcc-finance-statement-of-accounts-0708.pdf>

This document can be made available in other languages (including British Sign Language) and alternative formats (large print, audio tape, computer disk and Braille) on request from the Finance Team on telephone number 01905 766501 or by emailing [financequeries@worcestershire.gov.uk](mailto:financequeries@worcestershire.gov.uk)

To the best of our knowledge all information was correct at the time of printing: November 2009.