

Worcestershire County Council

Pension Fund

Annual Report and Accounts 2007-2008

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Investment Monitoring Group Advisers and Officers as at 31st March 2008

Administering Authority

Worcestershire County Council, County Hall,
Spetchley Road, Worcester WR5 2NP.

Fund Administrator

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

Investment Monitoring Group

Councillor A I Hardman
Councillor R W Banks
Councillor S J M Clee
Councillor N Knowles
Councillor J R Webb

Fund Managers

Capital International Limited,
40 Grosvenor Place, London SW1X 7GG.

JP Morgan Asset Management
Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ.

Nomura Asset Management UK Limited
Nomura House, 1 St. Martin's – le – Grand,
London, EC1A 4NP.

Societe Generale Asset Management UK Limited
9th Floor, Exchange House, Primrose Street,
London EC2A 2EF

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

Global Custodian

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

During the last year there have been a number of legislative changes to the Local Government Pension Scheme (LGPS).

The LGPS (Amendment) Regulations 2007 came into force on 2 March 2007 and made minor changes to the employers participating in the Pension Scheme.

The LGPS (Amendment) (No.2) Regulations 2007 came into force on 31 June 2007 and made further changes to bring the Scheme into line with HMRC requirements. Most provisions had retrospective effect.

- Raising of upper limit for employers to augment membership to ten years.
- Limit for payment of additional voluntary contributions to 50% of pay.

The LGPS (Amendment) (No.3) Regulations 2007 came into force on 30 June 2007 and dealt with the preparation of Governance Compliance Statements, Annual Reports and Pension Administration Strategy.

Progress on the New Look LGPS for England and Wales

The LGPS (Benefits, Membership and Contributions) Regulations 2007 were issued by the Communities and Local Government (CLG) on 4 April 2008 setting out the benefits package for the new look scheme in England and Wales which came into force on 1 April 2008. The regulations have been subject to considerable comment, consultation and amendment.

The benefits package included:

- Remaining a final salary defined benefits scheme – pensions builds up on an improved accrual rate of 1/60th for every year of membership, but no automatic lump sum.
- Banded contributions for employees based on full time equivalent pay.

Band	Full Time Equivalent Pay Range (2008/09)	Contribution
1	More than £0 - up to £12,000	5.5%
2	More than £12,000 – up to £14,000	5.8%
3	More than £14,000 – up to £18,000	5.9%
4	More than £18,000 – up to £30,000	6.5%
5	More than £30,000 – up to £40,000	6.8%
6	More than £40,000 – up to £75,000	7.2%
7	More than £75,000	7.5%

- Improved death benefits.
- Death in service grant increased to three times pay.
- “Nominated” cohabiting partners benefits.
- Tiered ill health benefits.
- Option to purchase additional pension in multiples of £250 up to a maximum of £5,0000.

In February two additional sets of regulations were issued. The LGPS (Transitional Provisions) Regulations 2008 detailing how the pre and post April 2008 benefit structures will interact; and the LGPS (Administration) Regulations 2008. We are still awaiting statutory guidance on how certain provisions of the new look scheme will work.

Future of the LGPS

In December CLG stated that no decision had yet been made on whether to extend the 85 year rule protection so as to provide full, rather than tapered protection to 2020 for members who were born between 1 April 1956 and 31 March 1960 and who would attain the 85 year rule by 31 March 2020.

The CLG has stated that the introduction of a cost-sharing mechanism has to be agreed by March 2009.

Issues with the ill health regulations still remain. A consultation with the CLG is still ongoing and statutory guidance has yet to be finalised.

More pressure will fall on employers due to their increased responsibilities at the point of awarding the ill health benefits and at the reviewing process.

Administration

All members of the pensions team has had training on the new regulations and the new processes that had to be adopted to cope with the changes. Changes to all the software, literature, letters, forms and website are being continually updated.

Newsletters informing scheme members and scheme employers of the legislative changes have been issued. A round of road shows for employees and scheme employer training sessions are scheduled.

Efficiency

The Pensions Section has been subject to a considerable investment and development programme. The implementation of the merge of the AXISe pension payroll and administrative systems, the introduction of Task Manager (an automatic workflow system) and member self service will change the way we work and help 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 2007/08

was £23.08 per scheme member, compared with the average figure for other local authorities of £22.73.

Membership

As at 31 March 2008 20,269 employees were contributing to the Fund, a net increase of 773 members compared to the figure as at 31 March 2007.

A total of 11,603 retired employees and beneficiaries are in receipt of an annual pension, which is an increase of 512 on last year. The average value of a pension in payment is £82.56 per week.

A further 10,428 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

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

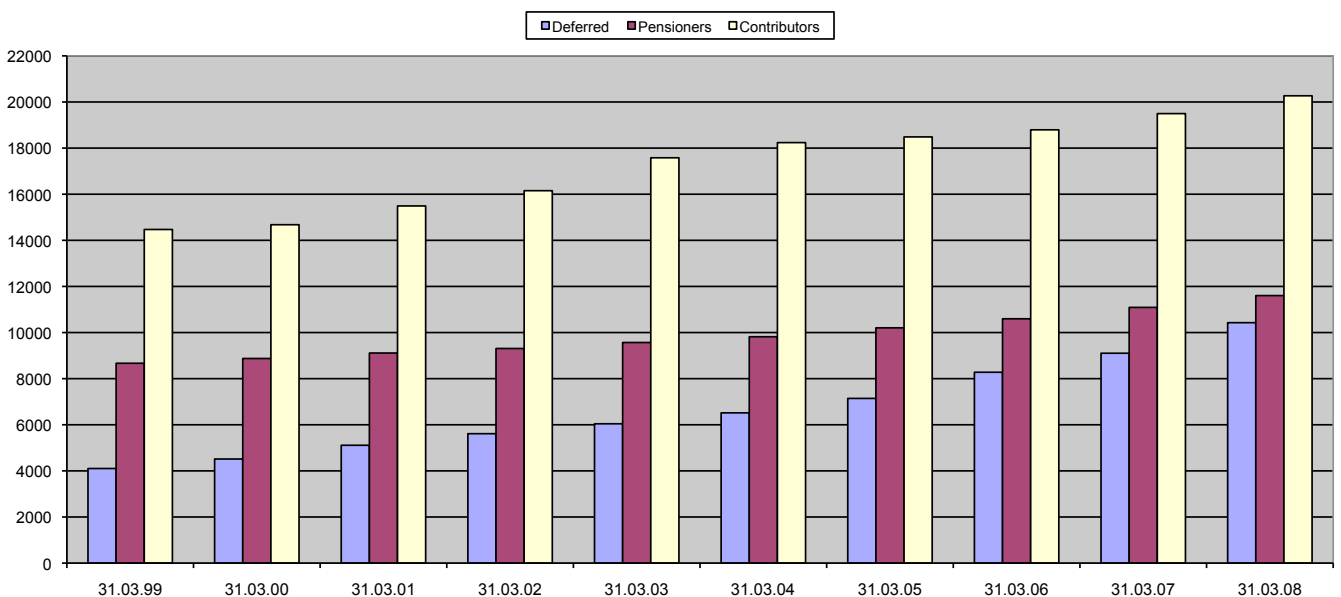


Figure 1. Numbers of pensioners and contributors

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 2007/2008 for each fund by means of a time-weighted return, as recommended by the Society of Investment Analysts. The Worcestershire return of -5.5% underperformed the index benchmark return by 2.2% and also underperformed the Local Authority Weighted Average Fund return by 2.7%.

The 5-year period to 31 March 2008 shows that the Fund achieved a return of 12.0% compared to the Universe return of 12.4%.

A comparison of performance over the 10 years to 31 March 2008, published by the WM Company, shows an average annual return of 4.5% for Worcestershire and its predecessor, Hereford and Worcester County Council, compared to the Local Authority Universe performance of 5.1%.

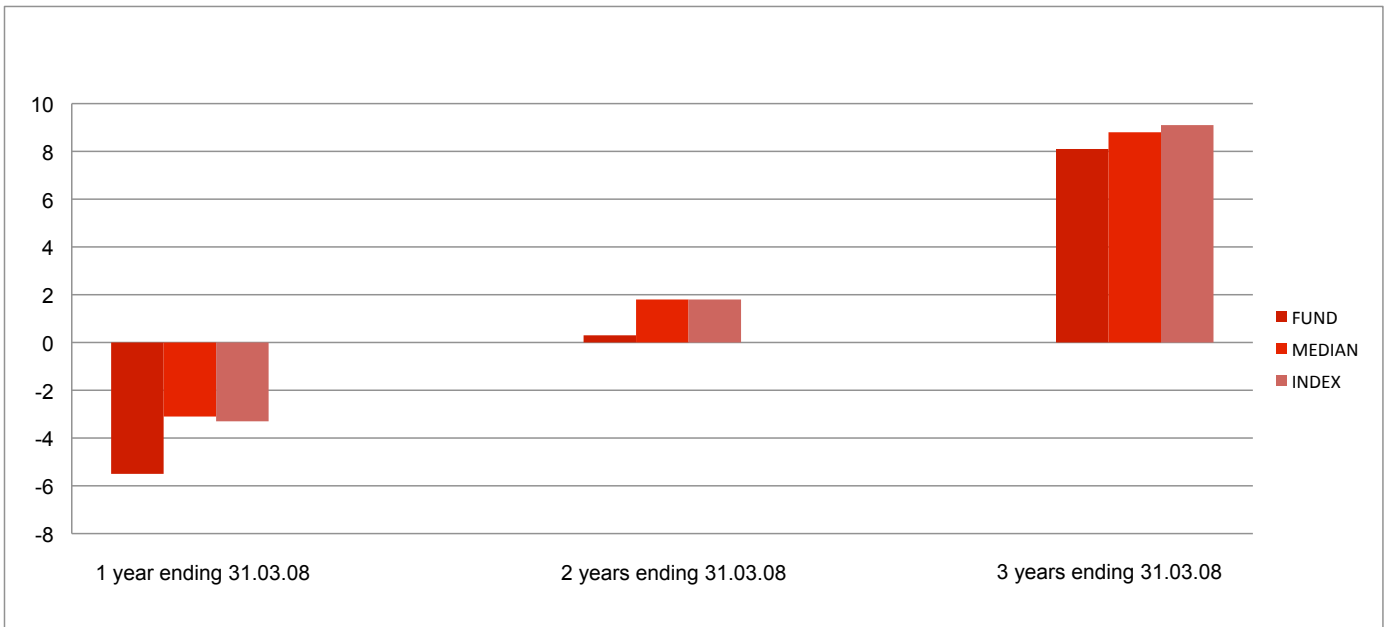


Figure 2. Comparison of average annual performance of the Fund with the Local Authority Median return and the composite index benchmark

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 1999 is given at Figure 3.

The market value of the Fund's investment portfolio decreased from £1,243.0m at 31 March 2007 to £1,183.1m at 31 March 2008.

Investment income for the year amounted to £27.4m being an increase of £2.7m on last year's figure.

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

A chart showing the total net assets of the Fund each year since 1998 is given at Figure 5.

Figure 6 shows the geographical spread of investments.

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

	Market Value at 31.3.08 £m	% of Fund Value at 31.3.08
HSBC Holdings	20.4	1.7
BP	19.7	1.7
Vodafone	18.3	1.6
Glaxosmithkline	14.6	1.3
Royal Dutch Shell	11.1	1.0
Rio Tinto	9.5	0.8
Royal Bank of Scotland	8.5	0.7
BT Group	8.0	0.7
Standard Chartered	6.9	0.6
HBOS	5.6	0.5

The total value of these ten holdings represents 10.6% of the whole Fund.

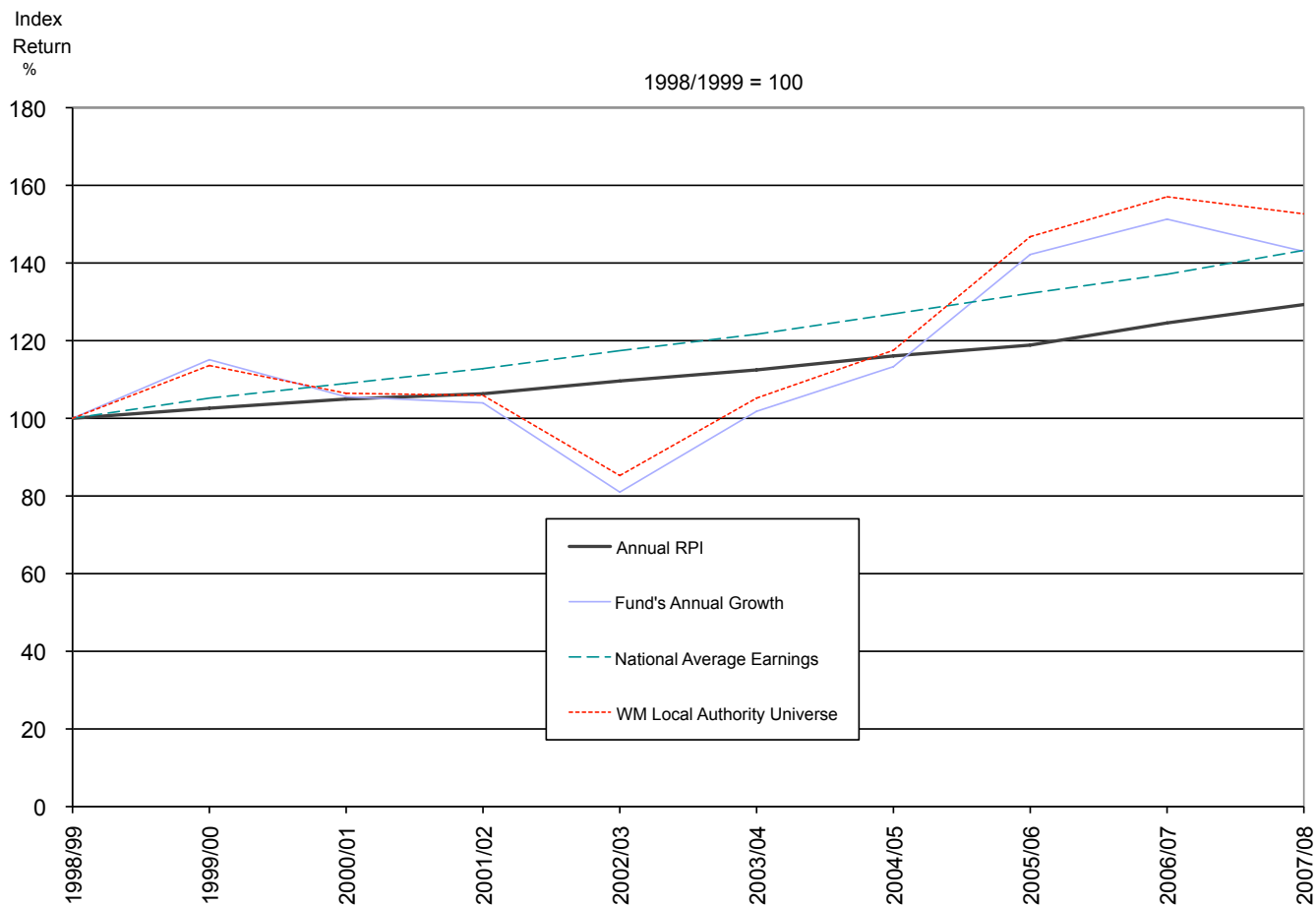


Figure 3. Fund's Annual Growth Compared To Retail Price Index, National Average Earnings And WM Local Authority Universe Returns

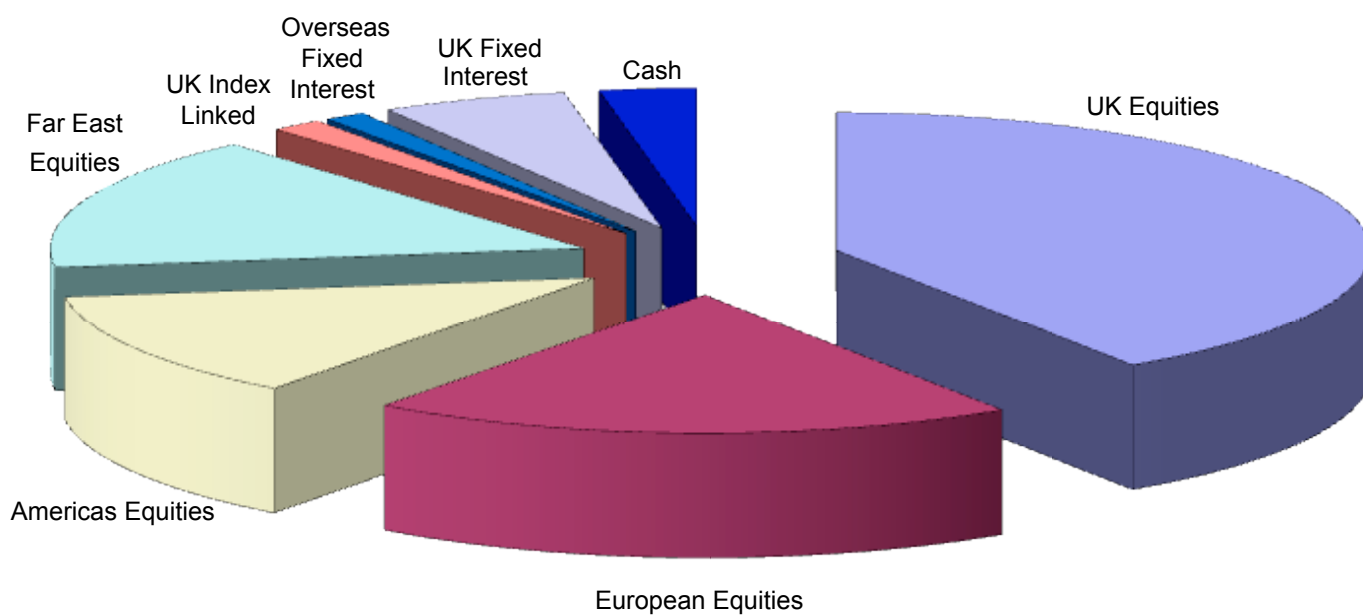


Figure 4. Portfolio Distribution

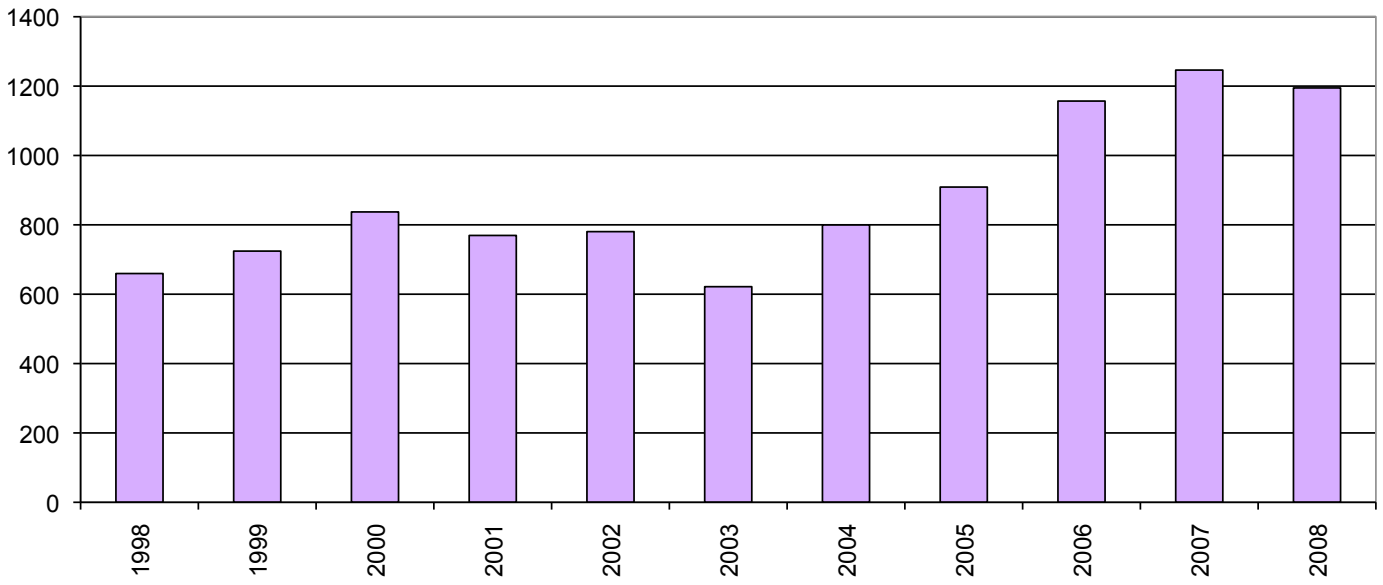


Figure 5. Total Net Assets March 1998 To March 2008

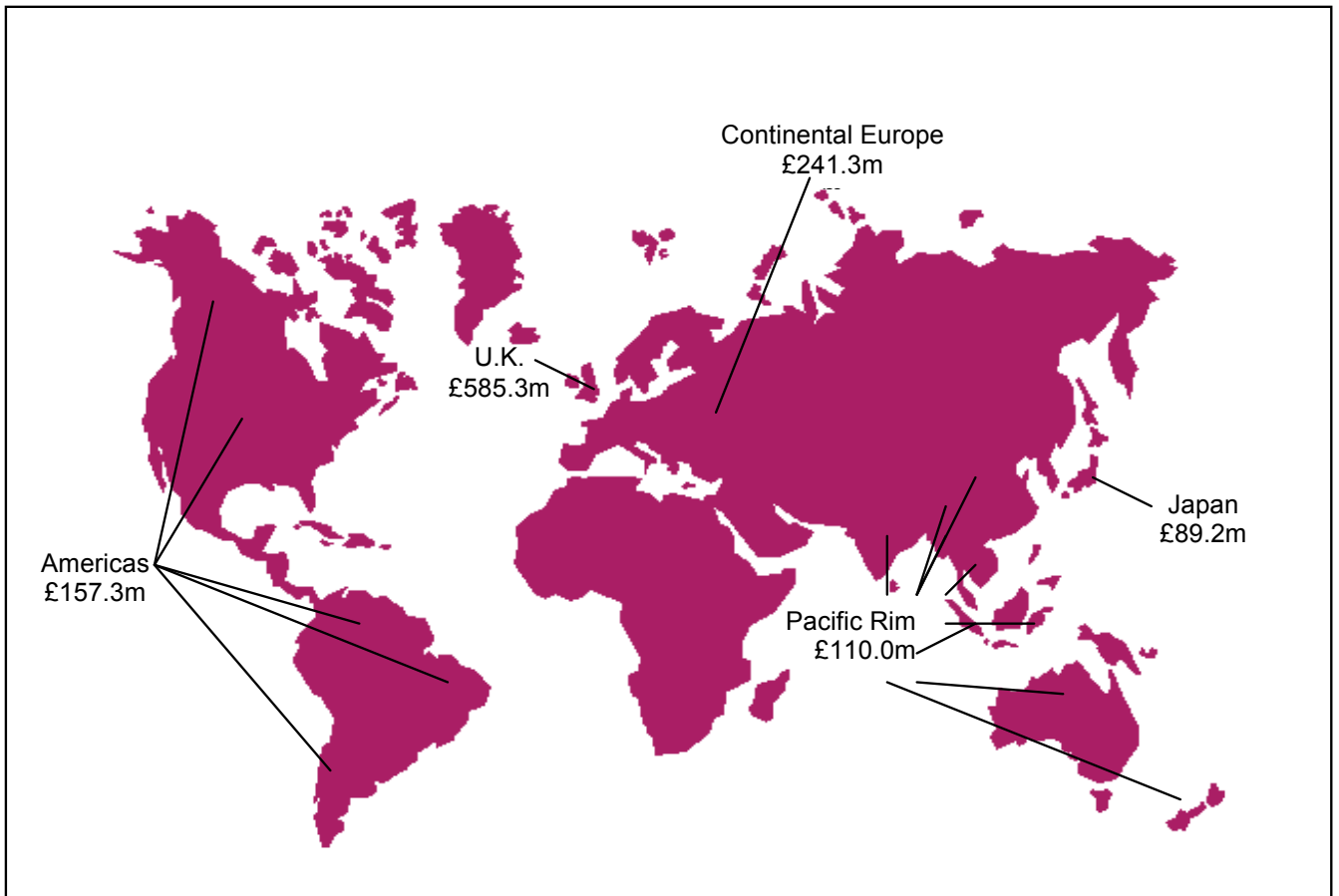


Figure 6. Geographical Spread of Investments

Report of the Independent Financial Adviser

Investment Review to 31 March 2008

The 'year' (twelve months) to 31 March 2008 witnessed turmoil in investment markets and the reversal of several recent trends. Equities delivered negative returns after a four year positive run. Property gave a negative return, for the first time since 1991. Corporate bonds were generally negative so significantly underperformed their Government equivalents. The common underpin of the turmoil was the global credit crunch following the onset of the US sub-prime crisis in the summer of 2007.

While equities in aggregate gave a negative return, there was considerable differential between markets. UK equities, as measured by the FTSE All Share Index, recorded a return of -7.7%. Overseas equities markets were mixed: North America returned -4.8%, with a slight negative contribution from a weak US dollar (-1.3% against sterling), Japan returned -15.4% despite a very strong yen which improved by over 17% against sterling. There were, however, positive returns; Continental Europe gave a return of 2.8% for the UK investor due to a 17% rise in the value of the euro against sterling, the Pacific ex Japan rose 11.2% while the Emerging Markets were up by 20.1%.

Bonds benefited from the turmoil – evidence of their 'safe-haven' status. There were good positive returns from UK gilts, 7.6%, although performance varied widely with medium dated issues returning almost 10% compared to a 5% return for long dated, and index-linked at 13.1%. The latter return was supported by a seemingly insatiable demand from corporate pension funds. Corporate bonds reversed their recent trend of outperforming gilts with a return of -0.8%, according to the Merrill Lynch Corporate Bond Index.

Property weakened alarmingly quickly and significantly late in 2007, and subsequently, giving a return over the twelve months of -10.7%.

In summary this 'year' was a very difficult time for all investors. The typical Local Authority pension fund, as represented by the WM Local Authority Universe average, returned -2.8%. This return was below the normal measures of the growth in liabilities; retail price inflation, 3.8%, and earnings inflation, 4.5%.

At the end of March 2008 Local Authority pension

funds had an average exposure of about 65% to equities: they remain supportive of equities generating good investment returns over the long term. Bonds and cash represented just over 20% of the average fund's investments. Property and alternatives; Private Equity, Hedge Funds, Active Currency 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, all of the Fund's active managers underperformed their respective benchmark indices. Overall, the Worcester Fund recorded a negative return of -5.5% compared to the average Local Authority fund which returned -2.8%. 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 4.5% per annum is below the Local Authority average of 5.1% per annum. Inflation over the ten years was 2.8% per annum as measured by the Retail Prices Index and 4.1% as measured by the National Average Earnings index.

Over the last three years the Fund returned 8.1% per annum against the 9.1% per annum attained by the Local Authority average. Over this period Retail Price inflation was 3.6% per annum while National Average Earnings grew at 4.1% per annum.

Pension Fund Account

For the year ended 31 March 2008

	Notes	2006/07 £000	2007/08 £000
Contributions and Benefits			
Contributions Receivable	5	68,613	74,189
Transfers In	6	12,859	11,232
		81,472	85,421
Benefits Payable	7	53,801	58,116
Leavers	8	6,903	6,187
Administrative expenses	9	733	881
		61,437	65,184
Net additions from dealings with Fund members		20,035	20,237
Returns on Investments			
Investment Income	10	26,623	29,348
Change in Market Value of Investments	11	47,895	(95,820)
Taxation (irrecoverable withholding tax)		(1,892)	(1,976)
Investment management expenses	12	(3,328)	(3,280)
Net returns on investments		69,298	(71,728)
Net increase / decrease (-) in the Fund during the year		89,333	(51,491)
Opening net assets of the Fund		1,156,856	1,246,189
Closing net assets of the Fund		1,246,189	1,194,698

Net Assets Statement as at 31 March 2008

	Notes	2006/07 £000	2007/08 £000
Investments	11		
Fixed Interest Securities		87,107	81,874
Equities		733,720	677,648
Index Linked Securities		20,663	18,486
Pooled Investment Vehicles		387,403	370,354
Cash Deposits		14,147	34,699
Other Investment Balances		5,260	6,388
		1,248,300	1,189,449
Current Assets and Liabilities	13	(2,111)	5,249
Net Assets of the Fund at 31st March		1,246,189	1,194,698

Notes to the Pension Fund

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees (except Teachers), those of the Herefordshire Council, the District Councils and other bodies in the County Area. There were 20,269 contributors to the fund at 31 March 2008, 11,603 pensions were paid and there were 10,428 deferred members of the Fund. A list of scheduled and admitted bodies contributing to the Fund is provided in Appendix 2.

Basis of Preparation

The Financial Statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (Financial Reports of Pension Schemes) and follow the 2007 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

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

2. Accounting Policies

Investments

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

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

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

Acquisition costs are included in the purchase cost of investments.

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

Investment Income

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

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

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

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

Foreign Currencies

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

Contributions

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

Benefits Payable

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

Other benefits are accounted for on the date the member leaves the Plan or on Death.

Transfers to and from other schemes

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

3. Actuarial Valuation

An actuarial valuation of the fund undertaken as at 31 March 2007 indicated that the Fund's assets were £1,246.2m and covered 72.0% of the fund's liabilities. This compared 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: -

	Past Service Per Annum	Future Service Per Annum
Investment Return		
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 Fund is valued using the projected unit method which is consistent with the aim of achieving a 100% funding level as described above.

The changes in contribution rates resulting from the actuarial valuation as at 31 March 2007 are effective from 1 April 2008.

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.

4. Pension Fund Investments 2007/08

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

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

External Fund Manager	31 March 2007 £000	%	31 March 2008 £000	%
JP Morgan Asset Management	108,119	9	112,278	10
UBS Global Asset Management (Active)	134,997	11	27,803	2
UBS Global Asset Management (Passive)	365,480	29	454,613	38
Capital International Ltd	105,540	8	96,770	8
SG Asset Management	346,483	28	301,190	26
Nomura Asset Management UK Ltd	182,421	15	190,407	16
	1,243,040	100	1,183,061	100

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

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

The total amount of stock lent at the year end was £81,250,800 (2007 £87,025,977). The total collateral, which consisted entirely of equities and sovereign debt, was £88,786,533 (2007 £91,548,882) representing 109% of stock lent.

Income received from stock lending activities was £183,356 for the year ending 31 March 2008 (2007

£108,951). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

5. Contributions Receivable

Contributions receivable are analysed below:

	2006/07 £000	2007/08 £000
Employers		
Normal	47,647	51,593
Special	2,465	3,198
Members		
Normal	18,161	18,860
Special	340	538
	68,613	74,189

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

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

	2006/07 £000	2007/08 £000
Worcestershire County Council	26,346	28,236
Scheduled Bodies	35,985	39,553
Admitted Bodies	6,282	6,400
	68,613	74,189

6. Transfers In

During the year individual transfers in from other schemes amounted to £11.232 million (£12.859 million in 2006/2007).

7. Benefits Payable

	2006/07 £000	2007/08 £000
Pensions	42,024	44,989
Commutations and Lump Sum Retirement Benefits	10,625	12,333
Lump Sum Death Benefits	1,152	794
	53,801	58,116

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

	£000	£000
Worcestershire County Council	22,322	24,174
Scheduled Bodies	27,088	29,942
Admitted Bodies	4,391	4,000
	53,801	58,116

8. Payments to and on account of leavers

	2006/07 £000	2007/08 £000
Individual transfers to other schemes	6,875	6,146
Refunds to members leaving service	28	41
	6,903	6,187

9. Administrative Expenses

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

A breakdown of these costs is set out below:

	2006/07 £000	2007/08 £000
Employee Expenses	379	368
Support Services	300	287
Actuarial Services	59	101
Other Expenses	53	175
Printing / Publications	27	24
Recharges to other bodies	(85)	(74)
	733	881

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

10. Investment Income

	2006/07 £000	2007/08 £000
Fixed Interest Securities	3,972	4,619
Equities	19,784	23,344
Index Linked Securities	553	602
Cash Deposits	2,200	596
Securities Lending	109	183
Commission Recapture	5	4
	26,623	29,348

11. Investments

	Value at 01/04/2007 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2008 £000
Fixed Interest Securities	87,107	49,984	(52,817)	(2,400)	81,874
Equities	733,720	272,141	(255,425)	(72,788)	677,648
Index Linked Securities	20,663	4,426	(7,839)	1,236	18,486
Pooled Investment Vehicles	387,403	4,851	(32)	(21,868)	370,354
	1,228,893	331,402	(316,113)	(95,820)	1,148,362
Cash	14,147				34,699
Outstanding dividend entitlements and recoverable withholding tax	5,260				6,388
	1,248,300				1,189,449

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

	31 March 2007 £000	%	31 March 2008 £000	%
Fixed Interest Securities				
UK Public Sector Quoted	30,809	2	25,690	2
UK Quoted	49,048	4	43,039	4
Overseas Public Sector Quoted	(2,313)	0	(18,038)	(2)
Overseas Quoted	1,948	0	41,191	4
UK Future Contract	(11,428)	0	(1,892)	0
US Public Sector Future Contracts	13,330	1	26,291	2
Overseas Future Contracts	5,713	0	(34,407)	(3)
	87,107	7	81,874	7
Equities				
UK Quoted	301,108	24	256,768	22
Overseas Quoted	433,013	35	420,880	36
US Stock Index Future Contracts	(401)	0	0	0
	733,720	59	677,648	58
Index Linked				
UK Public Sector	14,428	1	13,441	1
UK Other	4,677	0	5,045	0
Overseas Public Sector	1,558	0	0	0
	20,663	1	18,486	1
Pooled Investment Vehicles				
UK Pooled	245,873	20	224,284	19
Overseas Pooled	141,530	11	146,070	12
	387,403	31	370,354	31
Cash				
Short Term Loans/External Deposits	21,361	2	24,691	2
Cash backing open futures	(7,214)	0	10,008	1
	14,147	2	34,699	3
Total	1,243,040	100	1,183,061	100

12. Investment Management Expenses

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

	2006/07 £000	2007/08 £000
Administration, Management and Custody Fees	3,249	3,227
Performance Monitoring Service	24	23
Other Advisory Fees	26	16
Other Expenses	29	14
	3,328	3,280

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

13. Current Assets and Liabilities

	2006/07 £000	2007/08 £000
Current Assets		
Contributions due	3,791	3,982
Other Debtors	267	259
	4,058	4,241
Current Liabilities		
Investment Management Expenses	(625)	(679)
Other Creditors	(78)	(90)
	(703)	(769)
Cash Balances	(5,466)	1,777
Current Assets and Liabilities	(2,111)	5,249

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 2008 represent a short term loan to the Council that is disclosed in the Council's Balance Sheet.

14. Related Party Transactions

Other than those already disclosed in the financial statements, there are no related party transactions relating to the Pension Fund to disclose for 2007/08.

15. Contingent Liabilities

The Fund had no material contingent liabilities as at 31 March 2008.

16. Additional Voluntary Contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2007/08 some members of the pension scheme paid voluntary contributions and transfers in of £337,000 to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits of £251,000 were purchased during the year. The contributions are paid directly from scheme members to the AVC provider and are therefore not included in the Pension Fund accounts. The combined value of the AVC funds at 31 March 2008 was £3.544 million.

Audit Opinion

The Pension Fund accounts are subject to external audit by independent auditors appointed by the Audit Commission. The audit opinion is included in the County Council's Statement of Accounts which also contains the Pension Fund accounts. The external auditors have issued an unqualified audit opinion on the 2007/2008 accounts.

Appendix 1

Local Government Pension Scheme (LGPS)

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

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

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

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

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

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

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

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

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

Appendix 2

Participating Employers of the Fund at 31 March 2008

Scheduled Bodies

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

Admitted Bodies

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

Appendix 3

Funding Strategy Statement (FSS)

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

1. Introduction

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

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

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

The Scheme is a defined benefit final salary scheme under which the benefits are specified in

the governing legislation (the Local Government Pension Scheme Regulations 1997 (as amended), “the Regulations”). The required levels of employee contributions are also specified in the Regulations.

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

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

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

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

3. Aims and purpose of the Scheme

The aims of the Scheme are to:

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

The purpose of the Scheme is to:

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

4. Responsibilities of the key parties

The Administering Authority should:

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

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with

agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and

- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Scheme actuary should:

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

5. Solvency issues and target funding levels

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

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

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

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

Underlying these assumptions are the following two tenets:

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

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

In relation to future service (i.e. calculation of the future service contribution rate) the assumptions are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price

inflation) of 4.0% per annum, with a long term average assumption for price inflation of 2.5% per annum. This approach means that the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In the market conditions applying as at the 2004 valuation date this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of past service liabilities.

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

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

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

- The total employer contribution rate will be made up of an element in respect of the ongoing accrual of benefits for current members, plus an addition in respect of deficit recovery (or if applicable an offset in respect of surplus).
- For funding purposes, including valuation calculations, some smaller employers in the Scheme will be grouped. These groupings comprise Town and Parish Councils and two other groups comprising certain small bodies (split into those entering the Fund before and after 1992).
- A maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

- Where increases in employer contribution rates are required from 1 April 2005, following completion of the 2004 actuarial valuation, the increase from the rates of contribution payable in the year 2004/05 may be implemented in steps, over a maximum period of 6 years, where this is considered appropriate by the Administering Authority.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

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

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

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

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

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

Scheme, as set out in the SIP.

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

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

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

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

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

UK equities	45.0%
Overseas equities	45.0%
Bonds	10.0%

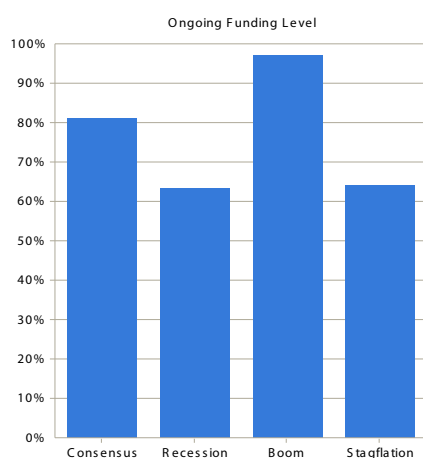
The funding strategy adopted for the 2004 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.75% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance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

7. Identification of risks and counter-measures

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

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

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



Financial

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

Demographic

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

Regulatory

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

Governance

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

8. Monitoring and Review

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

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

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

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

Appendix 4

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

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

Performance Monitoring

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

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

Realisation of Assets

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

Diversification

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

Socially Responsible Investment

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

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

Review

The Statement of Investment Principles is reviewed annually.

Investment Principles

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

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

1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund and after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

1.3 In particular, the statement must set out the Fund's policy on

- i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
- ii. the format, frequency and method of distributing such information or publicity; and
- iii. the promotion of the Scheme to prospective members and their employing authorities.

1.4 The County Council welcomes these regulatory developments as they support one of the Fund's key business objectives of developing clearer communications and providing a seamless service to individual members.

1.5 This document is the first Communication Policy for the Worcestershire County Council Pension Fund. We see this as a starting point and our aim is to significantly develop our communications strategy over time. Comments on the document are very welcome and can be sent to the Pensions Section at the address below or by e-mail to pensions@worcestershire.gov.uk

1.6 In this Communication Policy Statement, we have set out how we will meet the needs of our customers in relation to communications. In doing so we will use the most appropriate and effective communications vehicle to provide information.

2. 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 below.

Communications Aims

Organisation & Culture

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

Staff Competency Development

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

Procedures

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

Service standards

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

2.4 We have grouped our key stakeholders together as shown below and this document goes on to discuss our approach to meeting each group's communication needs

- Fund Employers
- Fund Members (Current Employees, Pensioners and Deferred Members)
- Fund Administration
- External Advisers

3. Communications with Fund Employers

The Fund comprises over 60 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.

Website

The Fund website was launched in 2004. The address is <http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm> It provides Scheme details, publications, contacts, and links to other organisations e. g. Employers Organisation.

Employer Updates

Employers are informed in writing or electronically of all changes in legislation etc and we aim to develop a website to provide employers with legislation, operational items and technical updates and support

Employer Reports

Membership and Benefits administration reports. Provided on request.

'Welcome Pack'

Employer "Welcome pack" setting out details of the process for joining the Fund

New Employer Training

Provision of Pensions Training for new employers. Ad hoc Meetings - to review operational issues

Employer Meeting

An annual forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters

Scheme literature

A range of publications for use by employers and scheme members including the scheme booklet, additional information leaflets (e.g. added years) etc

Administration Forms

Standard forms with guidance notes to notify Pension Section of key events affecting pension benefits.

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

4. Communications with Fund Members

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 main forms of communication we currently provide are:

Requests for information.

Provision of accurate, timely and informative details of the Local Government Pension Scheme and individual information to scheme members

Website

The Fund website was launched in November 2004. The address is <http://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm> It provides Scheme details, publications, contacts, and links to other organisations e. g. AVC providers.

Scheme Booklet

A guide to the Local Government Pension Scheme describing scheme benefits with explanatory notes is provided to all new members. Booklet is re-written to reflect legislation changes and is available on the website

Benefit Statements

Annual Benefit Statements are sent direct to members

Annual Reports and Accounts

A copy of the Funds Annual Report and Accounts is available to all Scheme members on request and is available on the website.

Pensions Presentations

The Fund attends and presents at employer sponsored pension seminars at employer's request

Member Newsletter

The Fund provides an update on developments within the Scheme.

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

5. Communications 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

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.

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.

DCLG

Responding to consultation proposals for change to the scheme as required by the DCLG

Providing information required under disclosure regulations

National Association of Pension Funds (NAPF)

Attending NAPF local authority forum meetings and topical seminars

Society of County Treasurers

A forum of Treasurers and Directors of Finance of all Shire County Councils sharing information and best practice on all financial issues, including matters relating to pension fund management

Pensions Officer Group

A local forum for exchanging information and best practice in benefits administration with other Administering Authorities in the North West and Midlands region

8 Published Documents

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

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

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

9. Contacts and further information

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

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

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.

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/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.

Appendix 7

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.

Deferred Pension benefit

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

Equities

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

Fixed Interest

Corporate Bond

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

Gilt

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

Index Linked

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

Scheduled Bodies

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

Statement of Recommended Practice (SORP)

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

Stock Lending

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

Transfer Values

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

You can contact us in the following ways:

For further information on 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

This document can be made available in other languages and alternative formats (large print, audio tape, computer disk and Braille) on request from the Consumer Relations Unit on telephone number 01905 766368 or by emailing japrice@worcestershire.gov.uk/shickman@worcestershire.gov.uk

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