WEST MIDLANDS
PENSION FUND

report and accounts

2007

The Fund aims to provide service of the highest quality to the diverse range of individuals and organisations who have an interest in the Fund.

Nevertheless, as proud as we are of our achievements and standards of service, we constantly endeavour to improve.

There are approximately 190 employers in membership of the Fund including the boroughs of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall, Wolverhampton, and over 180 other bodies.

Chairman's Statement

Bert Turner

Chair of the Superannuation Committee

The publication of this year's Report and Accounts marks the start of my tenure as Chair of the Superannuation Committee.

The last year has proved to be a busy period for the Fund with membership rising to over 226,000 members.

The Fund's investments have also proved to be successful with a return for 2006/2007 of 8.2%

The Fund's overall unit cost (the latest figures available for the 2005/2006 financial year are sourced from the SF3 returns provided by the Department for Communities and Local Government – DCLG) of £37.59, compared to the average for all funds of £84.86. This reinforces the Fund's ability to provide a quality service at a reasonable cost, that it is acknowledged by its customers is a worthy goal for any organisation. To provide such a service whilst maintaining a unit cost well below that of other local government funds is a credit to the Fund and its staff.

The stability of ongoing employer pension contributions, as set by the Fund's actuary, through maximising returns on investments is the overriding responsibility of the Superannuation Committee.

Fund officers have continued to play an active role in the Local Authorities Pension Fund Forum (LAPFF), whose main objective is to encourage companies to operate responsibly and in accordance with the recommendations of reports, such as Myners and Cadbury.

The continuing focus on the Local Government Pension Scheme (LGPS) has served to confirm its importance as a major element of the strategy to recruit and retain staff. The DCLG have enacted some of the regulations which will determine the benefits, membership and contributions structure effective for the LGPS from 1 April 2008.

The new LGPS Regulations will form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards. Although the structure of the new LGPS will remain as defined benefit, the actual proportion of benefits that individuals build up will be different, 1/60th for every year of membership rather than 1/80ths plus 3/80ths lump-sum. However, the new Scheme will allow members to take more of their pension rights as a tax-free lump-sum and due to recent HMRC changes, the proportion of how much tax-free cash members can take will actually increase.

Fund officers continue to ensure that any proposals are widely communicated to Scheme members and employers. Consultations continue on further fine-tuning and the DCLG remain committed to the introduction of a new-look Scheme from April 2008.

Superannuation Committee place a great deal of importance on the long-term plans of the Fund. The Fund's Business Plan and Annual Report & Accounts provide excellent background material in this respect.

Chief Exective's Statement

Richard Carr

Chief Executive - Wolverhampton City Council

The West Midlands Pension Fund has recorded another successful year with strong returns on our investments and Scheme membership increasing by over 7,000. This together with the publication, by the Government, of details of the unit costs for Fund administration and management in England and Wales, continues to confirm value for money offered by the Fund.

Customer satisfaction remains high as identified through member and employers' satisfaction surveys. Details of the former are contained in this document.

The LGPS has undergone a further period of regulatory changes in preparation for the new-look Scheme from April 2008. Nevertheless, the Scheme continues to represent extremely good value for money for members and employers, and is the most cost-effective way in which provision can be made for a financially secure retirement for the workforce.

During 2006/7, the Pensions Service won:

- 'Best Public Sector Scheme' at the 2006 Professional Pensions Awards.
- 'Best Corporate Governance' at the Local Government Chronicle Finance Awards.
- 'Best Popular Report & Accounts' at the Engaged Investor Trustee Awards.
- The Fund was also a finalist in the CIPFA 'Public Accountability and Reporting Awards'.

We are proud of all our achievements and the level of satisfaction expressed by our customers – however, we know that we can introduce further improvements. If you have any suggestions for ways in which we can improve our service to you, or require any further information on the Fund, please contact Mike Woodall, Chief Pensions Officer, on 01902 554610 or at mike.woodall@wolverhampton.gov.uk

Executive Summary

In this financial year, we have:

Distributed annual benefits statements and Pensions Update 2006 to all active members.

Issued Pensions Update 2006 to all pensioners.

Issued annual AVC statements to over 3,000 account holders.

Distributed four editions of Superlink to our pensioners.

Issued three editions of our technical newsletter, The Brief, to participating employers.

Won 'Best Public Sector Scheme' at the 2006 Professional Pensions Awards.

Won 'Best Popular Report & Accounts' at the 2006 Engaged Investor Trustee Awards.

Maintained our unit cost for administration and fund management below the average for all LGPS administering authorities.

Finalist in the CIPFA 'Public Accountability and Reporting Awards'.

Updated our website westmids-pensions.org.uk/kpis.htm to reflect the key performance indicators for the service.

Won 'Best Corporate Governance' at the 2006 Local Government Chronicle Finance Awards.

Conducted ongoing customer satisfaction survey with active, deferred and pensioner members.

Superannuation Committee

Management - Municipal Year 2006/2007

Councillor T H Turner*
Chair - Wolverhampton City Council

Councillor T Singh*
Vice Chair -
Wolverhampton City Council

Councillor F Docherty
Wolverhampton City Council

Councillor L Clark*
Birmingham City Council

Councillor Mrs H Johnson*
Coventry City Council

Councillor P Miller*
Dudley MBC

Councillor S Eling*
Sandwell MBC

Councillor L W P Kyles*
Solihull MBC (till 23/01/07)

Councillor G Allport*
Solihull MBC
(from 06/02/07)

Councillor Zahid Ali*
Walsall MBC

Councillor P Bateman MBE
Wolverhampton City Council

Councillor S M Constable
Wolverhampton City Council

Councillor P A Bilson*
Wolverhampton City Council

Councillor Evans
Wolverhampton City Council

Councillor J Yardley
Wolverhampton City Council
(till 07/02/07)

Councillor Mrs J M C Stevenson*
Wolverhampton City Council

Councillor Gwinnett
Wolverhampton City Council

Councillor Siarkiewicz
Wolverhampton City Council

Councillor S D A Jevon
Wolverhampton City Council

Councillor A Hart
Wolverhampton City Council
(from 07/02/07)

Observer Members 2006/2007

J Daly GMB

M Clift TGWU*

I Smith Amicus*

* Denotes Members of Investment Advisory Sub-Committee

Administering Authority

Wolverhampton City Council
Resources and Support,
Civic Centre, St. Peter's Square
Wolverhampton WV1 1SL.

R Carr
Chief Executive (from July 2006)

B Bailey
Director for Resources and Support

S B Stephens
Chief Legal and Procurement Officer, Resources and Support

J Saunders
Chief Investment Officer

M Woodall
Chief Pensions Officer

Main External Advisors

General
P Gale Gartmore Investment Ltd

E A Owens
Mercer Investment Consulting Ltd

Property

J Fender John Fender Consultancy

H Meaney Cushman & Wakefield

Pension Scheme Registry (OPRA)
10079176

HMRC References
SCON No: S2700178F
ECON No: E3900002R
PSTR No: 00329946RE
PSTR Sub No: 49/16109

Actuary
Mercer Human Resource Consulting Ltd

Custodian of Assets
HSBC Global Investment Services

Banker National Westminster

Auditor
Local Government Auditor/PWC

AVC Providers
Prudential Assurance Company Ltd
Equitable Life Assurance Society

National Association of Pension Funds (NAPF)
Membership No: 2135

Superannuation Joint Consultative Panel

The subjects considered by the panel during 2006/2007 include:

- Membership of the Fund
- Numbers of pensioners and amounts in payment
- Reasons for retirements
- Pensions increase provisions
- Changes in social security, pension and disclosure legislation
- Audit of the accounts
- Investment management
- Provision of information to members, prospective members and beneficiaries
- Marketing of the Fund and the promotion of LGPS membership
- Additional voluntary contributions (AVCs)
- Applications for admission agreements

Solihull Metropolitan Borough Council · Walsall Council · Wolverhampton City Council

Member Training Report

Member (trustee) training and awareness raising is widely recognised as an important role for any pension Fund. A range of measures are in place within the West Midlands Pension Fund to equip members (trustees) to undertake their role. The outlined training scheme agreed as part of the Fund's Business Plan is as follows:

			Sub-Committee			
Area	**Superannuation Committee Reports**	**Presentation**	**Reports**	**Presentation**	**Conferences/ Seminars**	**Visits**
Investment governance	–			Occasionally	LAPFF December Conference	Partial
Investments						
i) Strategies	–	Occasionally	–	Occasionally		–
ii) Asset use	–			–	–	–
iii) Myners	–			–		
iv) Economies	–	Quarterly				–
Pensions administration	–	Occasionally			JCP meetings	
Role of members	– (Annual/website)					

Details of the relevant linked and awareness-raising training reports and presentations provided to the Superannuation Committee during 2006 were as follows:

Details	**Superannuation Committee Date**
Information on new-look LGPS	March 2006 June 2006 September 2006 December 2006
Governance activity report on LAPFF meeting	March 2006 June 2006 September 2006 December 2006 (including LAPFF Annual Report 2006)
Investment strategy (Gartmore-led) and economic updates	March 2006 June 2006 September 2006 December 2006
Government consultation – governance arrangements	September 2006
Pensions Reform White Paper	June 2006
Economic background to property portfolio strategy	June 2006
Agreement to business plan following consultation	March 2006
Review of Myners' Principles	March 2006

Details of presentations made to the Sub-Committee during 2006/07 were as follows:

Committee Date	Presented by	Subject of Presentation
January 2006	Royal London Asset Management Dawnay, Day Olympia	Corporate bonds Hedge funds
April 2006	European Credit Management	Gilts and index-linked
July 2006	Record Currency Management Goldman Sachs Asset Management	Active currency management infrastructure
October 2006	Goldman Sachs Asset Management	Emerging market debt and commodities
January 2007	Brian Bailey	Update on investment strategy and risk budget

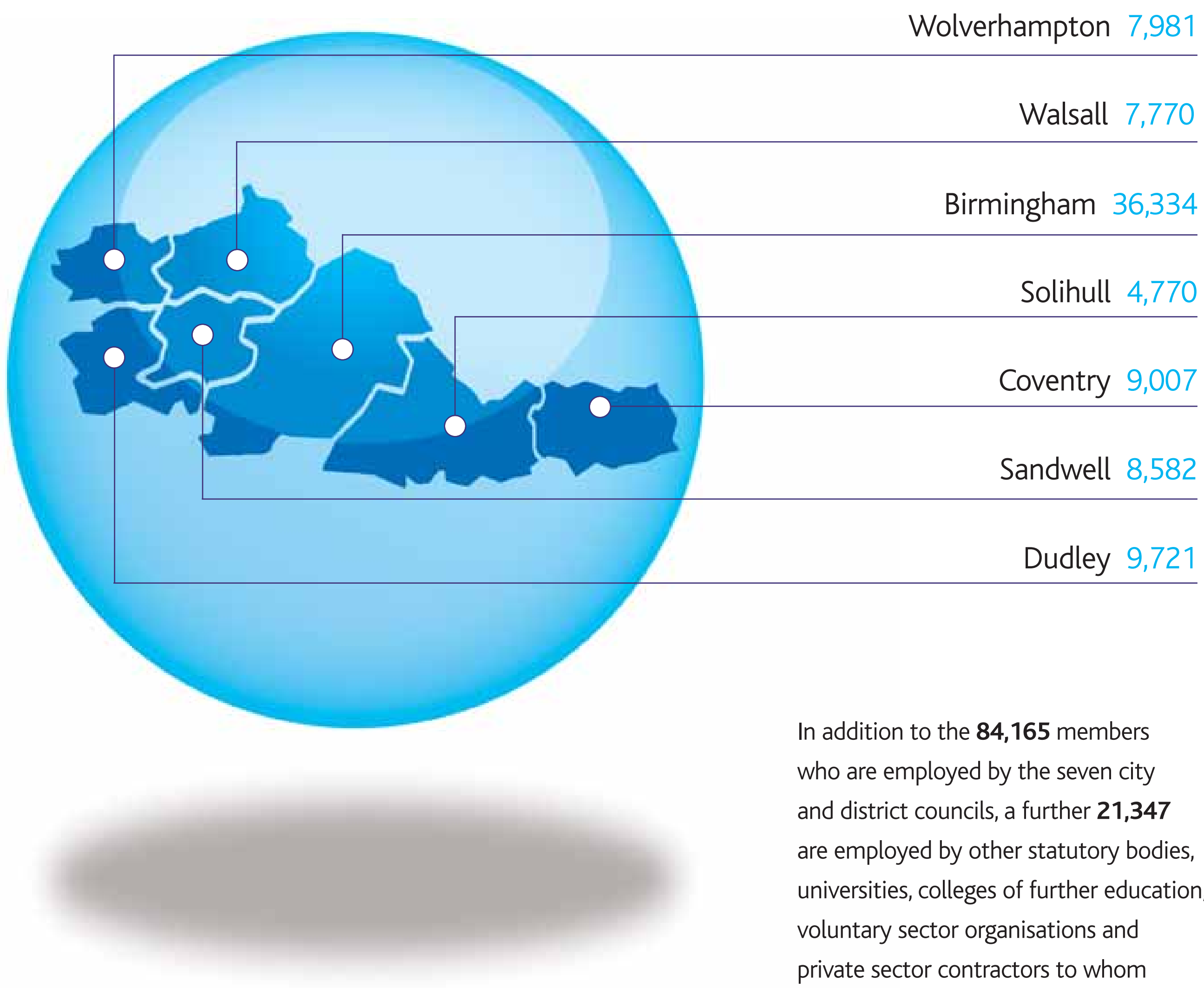
Details of presentations made to the JCP during 2006 were as follows:

Committee Date	Presented by	Subject of Presentation
3 February 2006	Brian Bailey Director for Resources and Support	LAPFF – Annual Report of Activities 2005
	Clive Anderton Principal Pensions Liaison Officer	The role of the Principal Pensions Liaison Officer
1 November 2006	Brian Bailey Director for Resources and Support	West Midlands Pension Fund – business plan and background information
	Martin Clift TGWU	The role of the trade union representatives
	Chris Hull Mercer Human Resource Consultants	The West Midlands Metropolitan Authorities Pension Fund 2006 funding update and new-look Scheme
	Richard Harrison Prudential	The role of AVCs in the LGPS

LAPFF conferences and training attended in 2006 by Investment Sub-Committee members were:

- LAPFF Annual Conference – Investor and Stakeholder Engagement 29 November – 1 December 2006.
- LAPFF Training – 15 September 2006 – Hedge funds.
- LAPFF Training – June 2006 – Mergers and acquisitions.
- The Chair attended the formal LAPFF business meetings during the year.
- The Chair attended the May 2006 NAPF local government conference.
- The member's website has been updated throughout 2006.

Supporting our Employers



In addition to the **84,165** members who are employed by the seven city and district councils, a further **21,347** are employed by other statutory bodies, universities, colleges of further education, voluntary sector organisations and private sector contractors to whom local authority services have been outsourced.

Active Members

21,347 are employed by other statutory bodies, universities, colleges of further education, voluntary sector organisations and private sector contractors to whom local authority services have been outsourced.

Deferred Members

These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Members in Receipt of Pensions

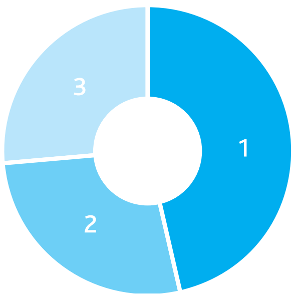
Pensions and other benefits amounting to over **£264m** each year are paid to retired members.

Fund Membership year ending 31 March 2007

31 March 2007

Total Membership

226,547

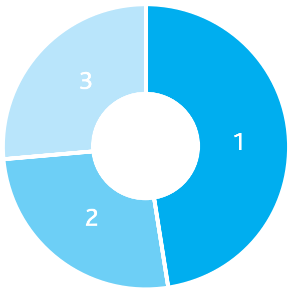


1. Active 105,512
2. Deferred 61,732
3. Pensioner 59,303

31 March 2006

Total Membership

219,176

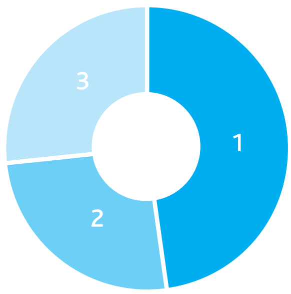


1. Active 104,414
2. Deferred 57,434
3. Pensioner 57,328

31 March 2005

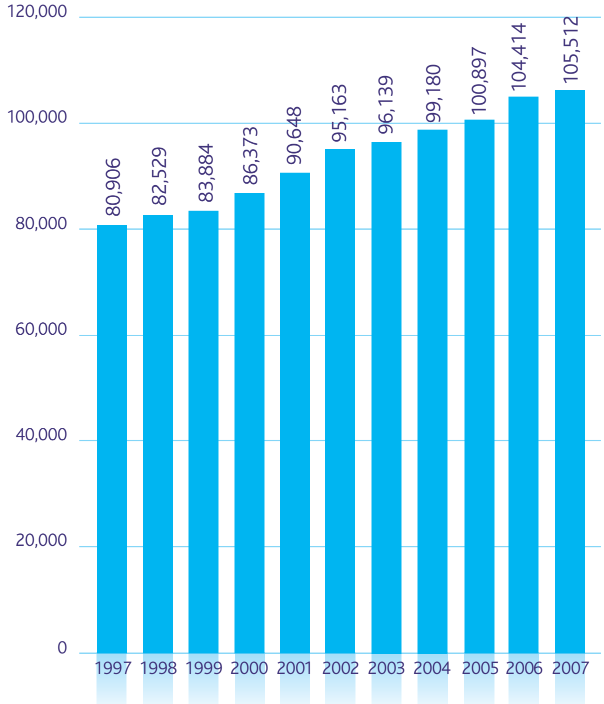
Total Membership

210,475

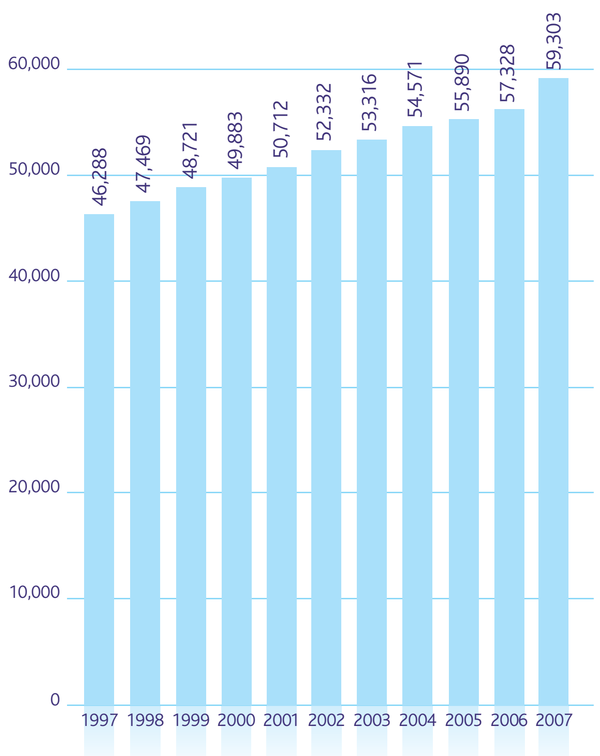


1. Active 100,897
2. Deferred 53,688
3. Pensioner 55,890

Number of Active Members as at 31 March



Number of Pensioner Members as at 31 March



Fund Employers

District Councils
Birmingham City Council
Coventry City Council
Dudley Metropolitan Borough Council
Sandwell Metropolitan Borough Council
Solihull Metropolitan Borough Council
Walsall Metropolitan Borough Council
Wolverhampton City Council

Major Employers
Centro
National Probation Service for England and Wales - West Midlands
West Midlands Fire & Civil Defence Authority
West Midlands Police Authority

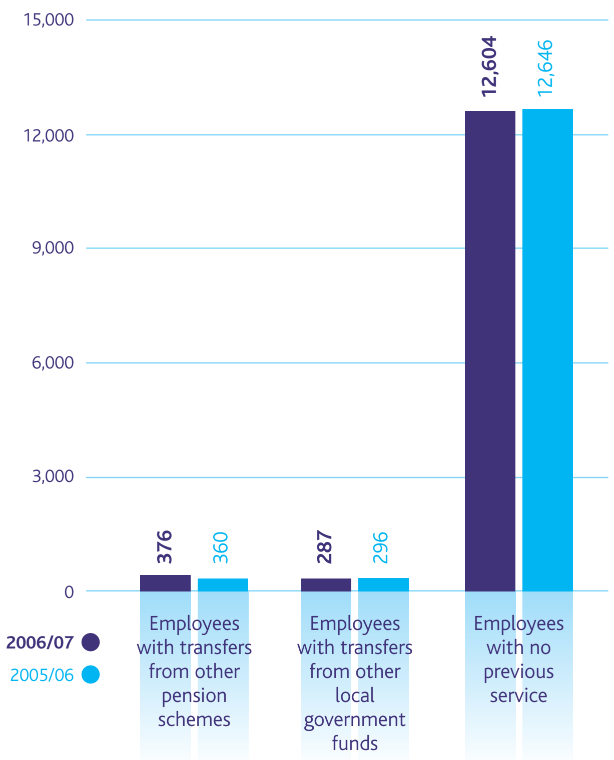
Universities (Former Polytechnics)
Coventry University
University of Central England (The)
University of Wolverhampton (The)

Colleges of Further Education and Higher Education
Birmingham College of Food Tourism and Creative Studies
Bournville College of Further Education
Cadbury Sixth Form College
City College, Birmingham
City College, Coventry
Dudley College of Technology
Halesowen College
Henley College
Hereward College
Joseph Chamberlain College
Josiah Mason College
King Edward VI College
Matthew Boulton College
Sandwell College
Solihull College
Solihull Sixth Form College
South Birmingham College
Stourbridge College
Sutton Coldfield College
Walsall College
Wolverhampton College

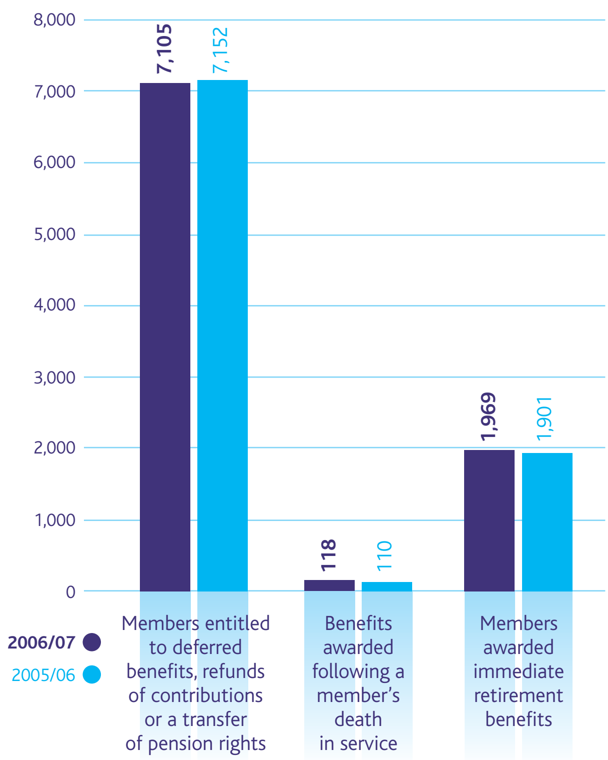
Schools
Deanery Church of England V.A Primary School
King Edward VI Aston School
King Edward VI Camp Hill School for Boys
King Edward VI Camp Hill School for Girls
King Edward VI Five Ways School
King Edward VI Handsworth School

Other Bodies
Balsall Parish Council
Bickenhill Parish Council
Castle Bromwich Parish Council
Chelmsley Wood Town Council
Coventry and Solihull Waste Disposal Company Ltd
Fordbridge Parish Council
Grace Academy
Hockley Heath Parish Council
Kingshurst Parish Council
Meriden Parish Council
Sandwell Academy
Sandwell Homes
Smiths Wood Parish Council
Solihull Community Housing
Valuation Tribunal Service (was Birmingham Valuation Tribunal)
Walsall City Academy Trust Ltd
Wolverhampton Homes

Membership Movement Analysis



Withdrawals from the Fund



Admission Bodies

With Active Members
Adoption Support
Age Concern Birmingham
Age Concern Wolverhampton
All Saints Haque Centre (last active left 07/07/06)
Aston University
B.I.D
Beechdale Community Housing Association Ltd
Birmingham and Solihull Connexions Services
Birmingham School of Speech Training and Dramatic Art Ltd
Black Business in Birmingham
Black Country Connexions
Black Country Consortium Ltd
Black Country Museum Trust Ltd (The)
Bloomsbury Local Management Organisation
BME United Ltd (The)
Brownhills Community Association Ltd
Burrowes Street Tenant Management Organisation Ltd (last active left 31/03/07)
Bushbury Hill Estate Management Board Ltd
Chuckery Tenant Management Organisation Ltd
Coventry Law Centre
Coventry Sports Trust Ltd
CSW Partnership Ltd
CV One Ltd
Delves East Estate Management Ltd
Dovecotes TMO
Druids Heath Tenant Management Organisation (closed 16/10/06)
Edith Cadbury Nursery School
Family Care Trust
Forest Community Association (last active left 31/08/06)
Heart of England Care
Heath Town Estate Management Board
Home Start - Northfield
Home Start - Stockland Green/Erdington
Home Start - Walsall
Leamore Residents Association Ltd
Leisure and Community Partnership Ltd
Lieutenancy Services (West Midlands) Ltd
Life Education Centres - West Midlands
Light House Media Centre
Manor Farm Community Association
Marketing Birmingham Ltd
Midland Heart Ltd
Milbury Community Services Ltd
Millennium Point Trust
MLA West Midlands
Murray Hall Community Trust
New Park Village Tenant Management Co-operative Ltd
Newman College
Northern Housing Consortium Ltd
Optima Community Association
Palfrey Community Association
Pendrells Trust (The)
Pool Hayes Community Association
Riverside Housing Association Ltd
Sandbank Tenant Management Organisation Ltd
Sandwell Community Caring Trust
Sandwell Mental Health NHS & Social Care Trust
Sandwell Regeneration Co.
Sickle Cell and Thalassaemia Support Project
Solihull Care Trust
South Warwickshire Tourism Ltd
Springfield/Horseshoe Housing Management Co-Operative Ltd
St Columba's Day Care Centre
Steps To Work (Walsall) Ltd
Sunderland ARC Ltd
Technology Innovation Centre
The Chris Laws Day Care Centre for Older People
The Museum of British Road Transport (Coventry) Ltd
The Sandwell Leisure Trust
University of Warwick
Walsall Housing Group
Walsall Regeneration Company Ltd
Watmos Community Homes
West Bromwich Afro-Caribbean Resource Centre
West Midlands E-Learning Company (closed 31/07/06)
West Midlands Local Government Association
West Midlands Transport Information Services Ltd
Whitefriars Housing Group
Wildside Activity Centre
Wolverhampton BME Consortium (terminated 30/06/06)
Wolverhampton Childcare Agency
Wolverhampton Community Safety Partnership
Wolverhampton Grammar School
Wolverhampton Network Consortium
Wolverhampton Voluntary Sector Council

Without Active Members
Aquarius Action Projects
Asian Welfare Centre
Asian Women's Adhikar Association (AWAAZ)

Belgrade Theatre Trust Ltd
Bilston and Ettingshall Sure Start
Birmingham and Solihull Learning Exchange
Birmingham Heartlands Development Corporation
Black Country Museum Development Trust (The)
Cannon Hill Trust (now Midlands Arts Council)
Celebral Palsy (formerly Midlands Spastic Assoc.)
Community Justice National Training Organisation
Coventry Voluntary Service Council
Dudley Zoo Development Trust
East Birmingham Family Service Unit
Job Change Ltd
Metropolitan Authorities Recruitment Agency (METRA)
Moseley and District Churches Housing Association Ltd
National Urban Forestry Unit
Relate
Smethwick Asra
Solihull Community Caring Trust
South Birmingham Family Services Unit
St Basil's Centre
TSB Bank plc (formerly Birmingham Municipal Bank)
University of Birmingham (Westhill)
Walsall Enterprise Agency Ltd
Wednesbury Education Action Zone
West Midlands (West) Valuation Tribunal
West Midlands Examination Board
West Midlands Local Authorities Employers' Organisation
Wolverhampton Race Equality Council

Transferee Admission Bodies (Best Value)

Accord Operations Ltd (Shrewsbury)
Accord Operations Ltd (Shropshire)
Accord Operations Ltd (Telford & Wrekin)
Amey Highways Ltd
APCOA Parking (UK) Ltd
Central Parking System
Enterprise plc
Galliford (UK) Ltd
Haden Building Management Ltd
Integral UK Ltd
Leisure Living Ltd
Methodist Homes for the Aged
Mitie Cleaning (Midlands) Ltd - Birmingham City Council
Mitie Cleaning (Midlands) Ltd (Wednesfield)
Mitie PFI Ltd
Mitie Property Services (UK) Ltd (Birmingham)
Morrison Facilities Services Ltd
Nationwide Windows (UK) Ltd
Pell Frischmann
Redcliffe Catering Ltd (Aston School)
Redcliffe Catering Ltd (Bordesley Green Girls School)
Redcliffe Catering Ltd (Camp Hill School)
Research Machines plc
Select Windows (Home Improvements) Ltd
Serco Ltd
Service Birmingham Ltd
Strand Ltd
Superclean Services
Target Excel plc (Walsall MBC)
Temple Security Ltd
Veolia Environmental Services Cleanaway (UK) Ltd
Vertex Data Science Ltd

Without Active Members
Accord Operations (Birmingham)
AWG Facilities Services Ltd
Birmingham Accord Ltd
JDM Accord Ltd (Shrewsbury & Atcham)
JDM Accord Ltd (Shropshire)
JDM Accord Ltd (Tamworth)
JDM Accord Ltd (Telford & Wrekin)
Kite Food Services Ltd
Revenue Management Services
Serviceteam Ltd
Target Excel plc (Magistrates Courts)
Target Excel plc (Solihull MBC)

Other Major Employers Who Have Participated in the Fund

Birmingham International Airport plc
Department of Transport
Department of Health and Social Security
Severn Trent Water Authority
West Midlands Travel Ltd*
West Midlands Magistrates Courts Committee
Preston Bus* (no actives)

*Participates in the West Midlands Passenger Transport Authority Pension Fund administered under agency by Wolverhampton City Council

Supporting Our Members

Our commitments to our members:

To deal with you promptly, fairly and efficiently at all times and to give you the best possible service in accordance with our standards.

To give you the standard of service you want.

To consult you wherever possible and to take account of your views before we make any changes.

To be accountable for what we do by monitoring the quality of our service and reporting on how well we have lived up to our standards.

To match or exceed the agreed investment performance criteria.

To continually monitor overall arrangements.

To maintain adequate management and accounting procedures/ records.

To comply with investment management regulations.

To provide a highly professional service that compares favourably with the best service providers in the public and private sector.

These are our standards of service. They specify the maximum turnround times in which we aim to take the action indicated.

Key Performance Indicators (KPIs) of the Fund

The Fund will provide in its publications, and on its website westmids-pensions.com/kpis.htm details of the KPIs that the Fund uses to measure its performance against the service it provides.

Our Commitment to Our New Members

Membership Certificate

We will issue a membership certificate to a new member within **ten days** of receiving a completed notification from the member's employer.

Transfers In

We will calculate the estimated benefits that a transfer value will buy for the member in the Local Government Pension Scheme (LGPS) and issue a quotation within **ten days** of receiving details from the member's previous scheme and any additional essential information required from the HM Revenue and Customs (Department for Work and Pensions - DWP). We will request payment of the transfer value within **five days** of receiving confirmation from the member that the transfer is to be made.

We will confirm the actual benefits purchased by the transfer value to the member within **ten days** of receiving payment from the member's previous scheme and confirmation (where necessary) of the member's accrued guaranteed minimum pension(GMP) from the HM Revenue and Customs (DWP).

Benefit Estimates

We will issue a quotation within **ten days** of receiving the member's special request for an estimate of prospective benefits.

Annual Benefits Statements

Provided pay details are received from employers promptly after the close of each financial year, and provided we hold all of the relevant information, we will send each year an annual benefits statement to each member at their home address showing the estimated current value of their accrued benefits, the value of their prospective benefits at normal retirement age and the estimated current value of their death-in-service benefits.

Our Commitment to Our Existing Members

Paying Extra Contributions

We will provide information within **two days** of receiving a request from a member wishing to pay extra contributions to buy an additional period of LGPS membership.

Retirements

We will send details of the benefits payable and pay the member's tax-free cash lump-sum within **ten days** of receiving all of the information required from the member's employer and/or the member.

Deaths

We will send details of the benefits payable within **seven days** of receiving all of the information required from the late member's employer, and we will pay the lump-sum death grant within **five days** of receiving grant of probate (or other appropriate documentation).

Early Leavers

We will send details of the benefit options available within **ten days** of receiving all of the information required from the employer.

Refunds

We will pay a refund, where applicable, within **five days** of receiving the member's formal request for payment.

Transfers Out

We will issue a quotation, guaranteed for three months, within **ten days** of receiving the member's request and confirmation of the member's accrued guaranteed minimum pension/State Second Pension (S2P) from the HM Revenue and Customs (DWP).

We will pay a transfer value within **five days** of receiving confirmation from the member that the transfer is to be made and all of the information we require to make payment.

The Fund places a great deal of importance on customer satisfaction.

Our Commitment to Our Deferred Members

Benefits Statements

We will provide a benefits statement within **ten days** of receiving the deferred member's special request for details of the current value of their deferred benefits (as increased in line with the Retail Prices Index).

Periodic Benefits Statements

We will provide each deferred member with a benefits statement periodically, showing the current value of their deferred benefits (as increased in line with the Retail Prices Index).

Deferred Benefits into Payment

Provided we hold a current address, we will send details of the benefits payable, so that they are received by the deferred member not later than the day before they are due to come into payment, and we will pay the deferred member's tax-free cash lump-sum, so that it is received on the day payment is due.

If we do not hold a current address, we will make every effort to trace the deferred member and we will send details of the benefits payable, and pay the deferred member's tax-free cash lump-sum within **ten days** of receiving all of the information we require to make payment.

Our Commitment to Our Pensioner Members

Changes in Personal Particulars

We will acknowledge receipt of a pensioner's written notification of a change in name, address, bank or building society details and make the appropriate amendments to the pensioner's payroll record within **three days** of receiving the written notification.

Change of Tax Code

We will update a pensioner's payroll record with a revised tax code within **two days** of receiving notice of the change from the HM Revenue and Customs (DWP).

However, due to the nature of payroll administration, any such changes may not take effect until a subsequent payroll has been run.

Deaths of Pensioners

We will acknowledge receipt of a notification of the death of a pensioner and start action to put into payment any dependants' benefits within **five days** of receiving the notification.

Newsletter

We will send a newsletter to each of our pensioners at least **three times** a year.

The Fund's participation in the CIPFA benchmarking exercise has not highlighted any issues or concerns in relation to the Fund's performance against its published service standards. Fund customer satisfaction surveys continue to provide excellent results in relation to the service provided, the results being analysed by the Fund management team every quarter.

Ongoing Customer Satisfaction Survey

Data provided is based on a sample of customer surveys completed between January and March 2007, copies of which are held on file at the Fund's offices.

The Fund places a great deal of importance on customer satisfaction, and has a programme of continual customer assessment. We issue all members with a questionnaire, either upon joining the Scheme, leaving the Scheme or when a member becomes eligible for the payment of benefits.

This ensures that we have a greater understanding of how the service we provide is viewed by our members, and will allow us to react and provide a more considered approach to any specific problems that are reported to us.

The results so far:

Of the completed questionnaires received:

11% of the membership stated that they had recently contacted us by telephone.

Sometimes our helpdesk lines can get very busy at peak periods. We currently take, on average, around 400 calls a day. This can rise to over 1,900 at significant times when we issue large mailings, such as annual benefit statements or on pensioner paydays. If you need to contact us urgently, please use one of the alternative methods available or, otherwise, leave us a message and we'll get back to you as soon as possible.

Of those that have contacted us by telephone:

92% of members were given the name of the member of staff to whom they were talking.

This ensures that if you need to call back, we can pass the call directly to the person you have spoken to. However, of the number of callers to the service, 67% of members told us that the person they initially spoke to was able to answer their enquiry. We're often contacted by our pensioner members who ask us for answers to questions that are simply outside our specific area of knowledge. Although we strive to achieve a positive customer experience, sometimes even we have to admit defeat.

...we have a greater understanding of how the service we provide is viewed by our members...

When speaking to members of staff:

100% of respondents regarded the member of staff as either "extremely polite and courteous" or "polite and courteous".

The Fund is proud of this key indicator regarding the level of service we provide and, although it works had to ensure that staff are trained in appropriate customer service skills, it is pleasing that this is recognised by Fund members.

Of those that have contacted us by written correspondence:

86% of respondents indicated that written correspondence "was about right in length and contained all the information required".

We have taken steps over recent years to rewrite the information that the Fund provides to its members. Sometimes legal requirements are such that we have to supply certain information. Where this is the case, we will ensure the information is as precise and jargon-free as possible.

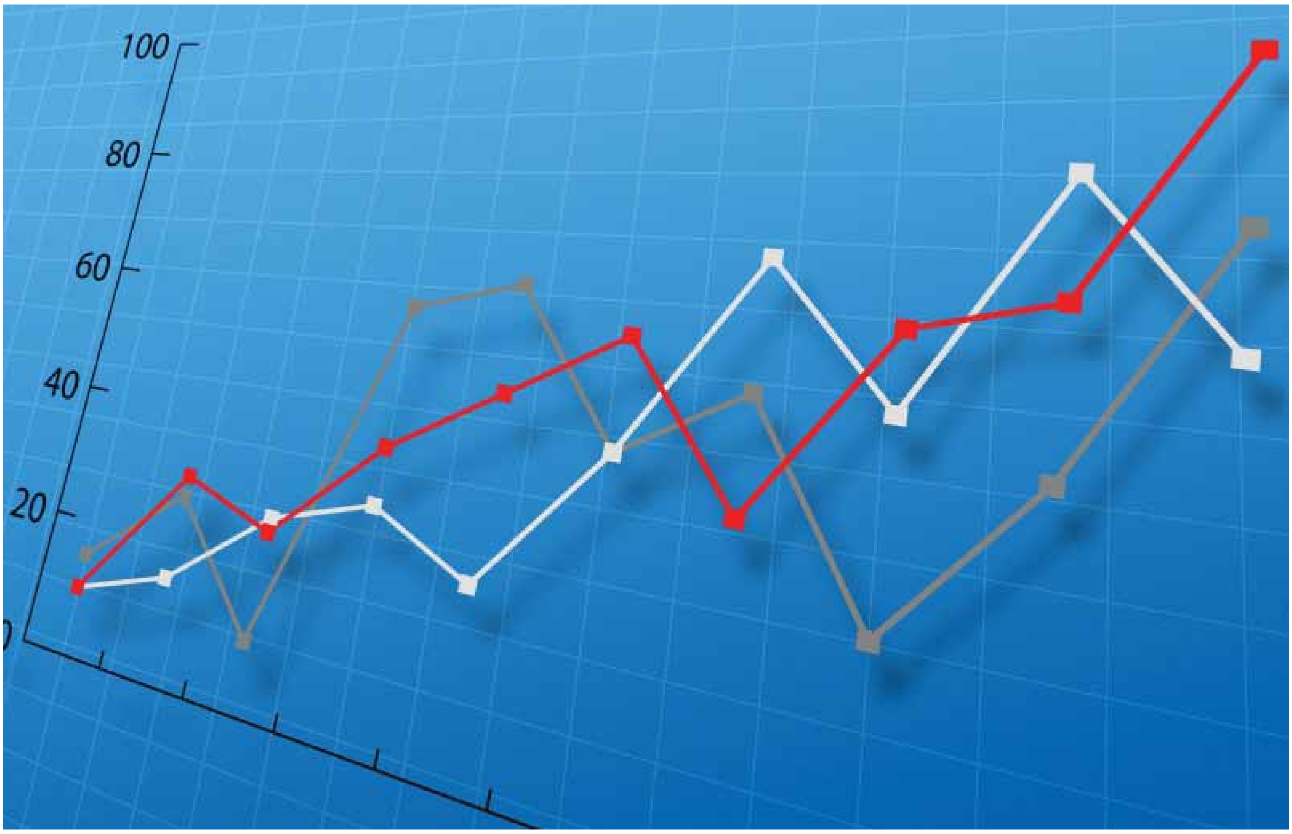
7% thought information was "too long-winded and contained information you did not require". This compares to the 1% who thought information was "too short and lacked detail".

When asked for the overall view of the way in which the Fund has dealt with the member, the majority 70% felt that it was "excellent" or "good" with a further 17% stating that their experience of the Fund had been "acceptable".

9% of members however, felt that their experience was "poor". We are looking at ways to combat this, but we are aware that many poor customer experiences are often because of a delay in employers providing information to us in a timely manner.

We will continue to work with employers, to ensure that we are told in an appropriate fashion of any changes to our members' circumstances that may have an impact upon benefits, membership and contributions under the LGPS rules.

Service Performance Plan



The West Midlands Pension Fund continues to be fully committed to meeting the Government's Best Value requirements.

The Fund recognises the benefits which result from the development of a local performance plan, linked to delivering high quality services that are valued by the users of those services.

In the Report and Accounts for the year ending 31 March 2000, we published our local performance plan showing our performance against the targets set. Since most of our targets relate to major areas of activity, they will remain in our local performance plan and, where appropriate, be subject to any improvements in performance that can be achieved.

The Pensions Administration Service has already undertaken a great deal of work in order to identify and provide a quality customer-focused service which meets the needs of service users.

Wherever possible, we have sought external accreditation in order to confirm the achievement of this objective. Whilst providing a quality service is important, to do so on a cost-effective basis is equally so. The Fund has achieved a reduction in our unit cost per member for Fund administration which stands at £16.68 per annum*. This places the West Midlands Pension Fund at a unit cost approximately 59% below the average for all authorities administering the LGPS.

* The latest figures available are for the 2005/2006 financial year and are sourced from the SF3 returns provided by the Department for Communities and Local Government (DCLG).

Performance Targets (Administration)

Activity	Benchmark	Target 2006/2007	Achievement 2006/2007	Target 2007/2008
To provide a pensions administration service that delivers value for money.	Comparison of unit cost per Scheme member against other best practice pension funds in the private and public sector. Appeals to Ombudsman and Secretary of State, use of Internal Dispute Resolution Procedure.	Unit cost at least 25% below unit cost for all LGPS administering authorities.	Fully achieved.	Unit cost at least 25% below unit cost for all LGPS administering authorities.
		Processing all Internal Dispute Resolution cases within 12 weeks.	Fully achieved.	Processing all Internal Dispute Resolution cases within 12 weeks.
		The Secretary of State to uphold 95% of administering authority decisions.	Fully achieved.	The Secretary of State to uphold 95% of administering authority decisions.
To provide a pensions administration service which meets its published service standards which are based on the best practice within the pensions industry and perception of customers.	Performance measured against published service standards. Evidence of satisfaction rates following customer consultation process including surveys. Retention of external quality accreditations (e.g. Charter Mark/ Investors in People).	Satisfaction rate of 90%.	Fully achieved.	Satisfaction rate of 90%.
		Carry out review of UPM - LG to identify business case for implementing UPM - LG - Version 2.	Fully achieved.	Progress application functionality of UPM - LG - Version 2 and validate associated calculation suite.
To communicate regularly and cost-effectively with pensioners and future pensioners of the Fund.	Frequency and cost per copy of pensioners' newsletter. Range and type of comments received from customers.	4 copies per year of pensioners' newsletter with unit costs of around 8 pence.	Fully achieved.	4 copies per year of pensioners' newsletter with unit costs of around 9 pence.
		Introduction of annual newsletter to active members.		Assess need for annual newsletter to active members.

Performance Targets (Administration)

Activity	Benchmark	Target 2006/2007	Achievement 2006/2007	Target 2007/2008
To provide Scheme members with information on a cost-effective basis in respect of their pension provision.	Cost per copy of annual benefit statements. Cost per copy of abridged Report and Accounts. Availability of user-friendly Scheme literature produced on a cost-effective basis.	Main Scheme booklets to be produced at less than 44 pence per copy.	Fully achieved.	Main Scheme booklets to be produced at less than 46 pence per copy.
		Short Guide to be produced for under 15 pence per copy.	Fully achieved.	Short guide to be produced for under 16 pence per copy.
		Annual benefits statements to be produced at less than 10 pence per copy.	Fully achieved.	Annual benefits statements to be produced at less than 12 pence per copy.
		Abridged Report and Accounts to be produced at less than 14 pence per copy.	Fully achieved.	Abridged Report and Accounts to be produced at less than 16 pence per copy.
To ensure an effective communication process between the Fund and its employing bodies.	Frequency and content of formal dialogue process with major employers. Production of Employers' Guide and newsletter.	Monthly meetings with appropriate Principal Pensions Liaison Officer and major employers.	Fully achieved.	Monthly meetings with appropriate Principal Pensions Liaison Officer and major employers.
		Circulation of employers' newsletter biannually.	Achieved.	Circulation of employers' newsletter biannually.
		Annual meeting with employers.	Not achieved.	Annual meeting with employers.
		Implement revised employers' contribution rating as a result of outcome of valuation with effect from 1 April 2005.	Fully achieved.	Complete consultation exercise and valuation as at 31 March 2007.

Performance Targets (Investments)

Activity	Benchmark	Target 2006/2007	Achievement 2006/2007	Target 2007/2008
Investment return objective is achieved.	Medium and long-term investment returns to at least match returns of other funds.	Match the five and ten year investment returns of pension funds, which are likely to be in the order of 7.5%.	Fully achieved	Match the medium and long-term investment returns of pension funds. Meet the actuarial projections of between 7 to 8% p.a.
The Fund has an effective corporate governance policy and response to social responsible issues.	Number of company AGMs where proxy vote was cast. Corporate governance activity over a 12 month period.	Proxy votes cast at over 900 general meetings. Expand proxy voting in US. Maintain proxy voting activity on the Fund website.	Fully achieved.	Increase engagement with companies through LAPFF. Maintain proxy voting activity on the Fund website.
Investment management procedures follows best practice.	Analysis of quarterly compliance reports to Superannuation Committee.	No major compliance problems arising from the testing and auditing undertaken during the year.	Fully achieved.	No major compliance problems arising from the testing and auditing undertaken during the year.

High priority is given to communicating with Scheme members, and the Fund continues to further develop communication channels that ensure members are fully briefed on pension developments, both within the public and private arena. The Fund has introduced its own chat room during 2006/07, which provides a forum for members to share views and discuss concerns about changes to the LGPS

The commitment to effective communication is further reflected in the provision of a comprehensive annual benefit statement programme to active members and deferred members with the distribution of *Pensions Update*, an abridged version of the Fund's *Report and Accounts*, being included with the benefit statement pack. The Fund also issues *The Reliable Source* to members, which aims at keeping active and deferred members up to date with developments within the LGPS and the UK pensions industry.

Additionally, a pensioners' newsletter, *Superlink*, which is edited by a group of Fund pensioners, is produced and circulated to all pensioners four times each year.

The Investment Division continues to be committed to achieving the Fund's investment objectives and delivering a service that matches the best practice of public and private sector investment management, and provides a consistent and acceptable return on the Fund's investments.

The effectiveness of the Fund's investment policy is supported by a range of independent advisers and consultants, who ensure that the objectives are met on an ongoing basis by regular performance monitoring of investments and compliance with independently validated procedures and practices.

A wide range of investments and a limited exposure to any single investment is seen as one of the keys to the best overall return. As with pensions administration costs, the Fund's investment management net costs are significantly below the average public and private sector costs. The Fund's investment approach continues to gain returns that match its investment objectives.

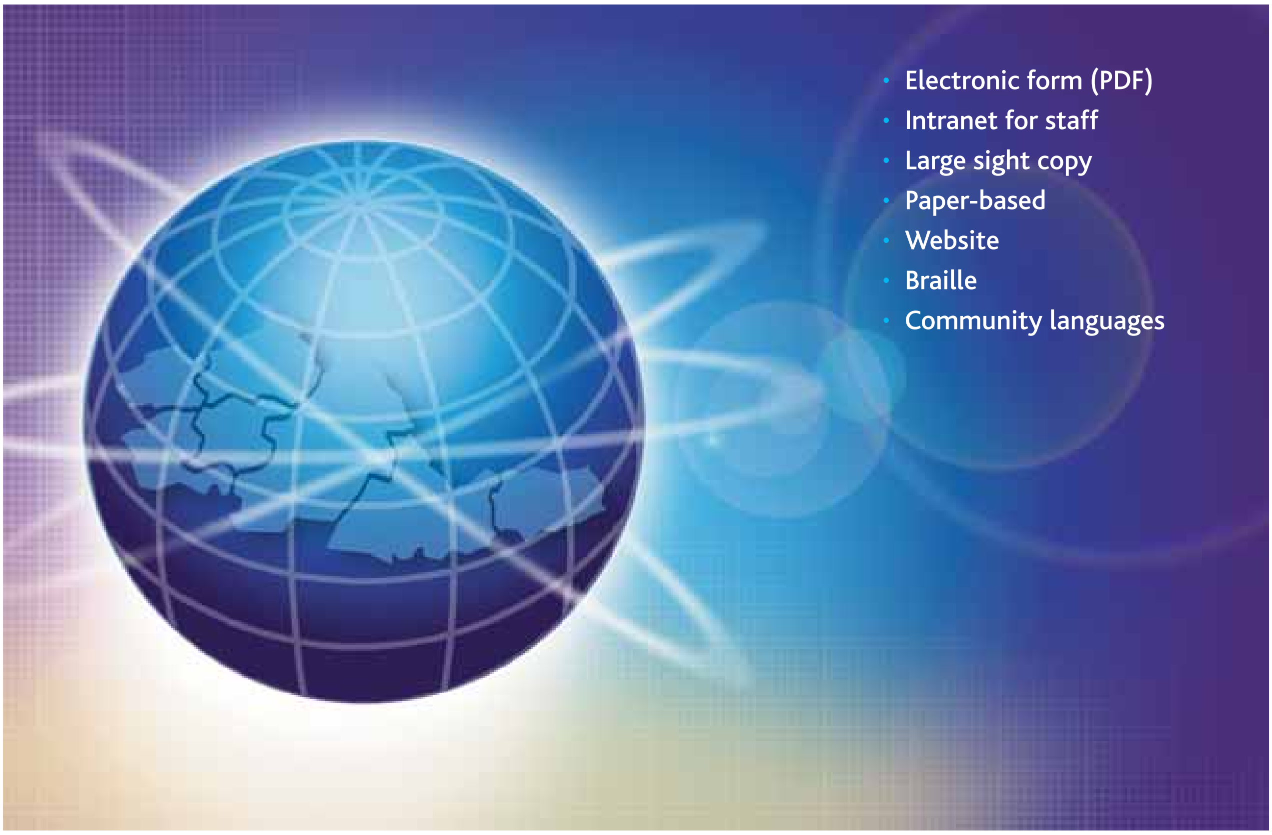
As a founding member of the Local Authority Pension Fund Forum, LAPFF will actively engage with companies on socially responsible investment (SRI) issues. The Fund has also developed a number of global SRI and corporate governance partnerships such as the Institutional Investor Group on Climate Change and the US based Council of Institutional Investors. The most challenging investment activity for the Fund in this particular field is actively seeking SRI investments, provided these meet the Fund's requirements on fundamental investment grounds.

To date the Fund has committed around 1.5% of its total assets in investments where strong returns are combined with best practice in SRI and/or corporate governance.

Judy Saunders
Chief Investment Officer

Mike Woodall
Chief Pensions Officer

Communications Policy Statement



An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

There are six distinct groups with whom the Fund needs to communicate:

- **Trustees**
- **Scheme members**
- **Prospective Scheme members**
- **Scheme employers**
- **Fund staff**
- **Other bodies**

To this end, the Fund introduced a communications policy statement in December 2004, to formally list the type and amount of communications that each stakeholder within the Fund could expect to receive, as a minimum, in any given financial year.

As set out in the statement, the Fund aims to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication.

The media matrix, shown on pages 30 and 31, demonstrates the availability of Fund publications in their various forms, along with their publication frequency and the review periods.

Media Matrix

Communication Material	Paper-based	Electronic Form (PDF)	Intranet for Staff
Short Guide to the LGPS	✓	✓	✓
All About Your Scheme	✓	✓	✓
All About Your Retirement Benefits	✓	✓	✓
All About Your Deferred Benefits	✓	✓	✓
Benefits Statements	✓	Non-personalised form	✓
Information Sheets (various)	✓	✓	✓
Report and Accounts	✓	✓	✓
Chief Pensions Officer’s Core Briefing	✓	✓	✓
Glossary of Pension Terms	✓	✓	✓
The Role of Actuary & Advisor	✓	✓	✓
Pension Fund Background Note	✓	✓	✓
Customer Charter (Our Service Standards)	✓	✓	✓
Superlink (Pensioners’ Newsletter)	✓	✓	✓
Dialogue Meeting Notes	✓	✓	✗
Employers’ Manual	✓	✓	✓
Pay Advice	✓	✗	n/a
Pension Officer Group Minutes	✓	✗	✗
Press Articles	✓	✓	✓

Website	Large Sight Copy	Braille	When Published	When Reviewed
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Constantly available	Biannually
✓	Upon request	Upon request	Constantly available	Biannually
Non-personalised form	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Constantly available	Constant review
✓	Upon request	Upon request	Annually	Annually
✗	n/a	n/a	Monthly	Monthly
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Annually	Annually
✓	Upon request	Upon request	Constantly available	Quarterly
✓	Upon request	Upon request	Published Dec, March, June & September	After each publication
✗	n/a	n/a	Major employers Others	Monthly Annually
✓	Upon request	Upon request	Constantly available	Annually
✗	Upon request	Upon request	Produced monthly	After each publication
✗	✗	✗	Quarterly	Quarterly
✓	Upon request	Upon request	As required	After each publication

Actuarial Valuation

What is an Actuarial Valuation?
Possibly the most important task performed by the actuary for the Fund. In simple terms, an actuarial valuation is an examination of two questions:

- **How much is the employer's contribution?**

- **When to pay?**

The Local Government Pension Scheme Regulations require that the Fund obtains an actuarial valuation of assets and liabilities every three years. The last valuation was in 2004. Therefore, revised contribution rates applied from 1 April 2005, with the next valuation being carried out as at 31 March 2007, with contribution rates applicable from 1 April 2008.

Funding Strategy Statement (FSS)
The LGPS Regulations require the Fund to have in place an FSS. After extensive consultation with employers (see page 81), the Fund has now achieved this.

The funding of current and future pension liabilities needs to have regard for a clear and reasonable investment strategy that, taking into account the investment risks, sets strategy that aims to meet the actuarial assumptions and funding objectives. The Fund engages consultants to assist with this exercise every three years to link with the valuation exercise.

From 1 April 2005, revised rates of contribution are effective, based on the results of the 2004 actuarial valuation.

Funding strategy statement

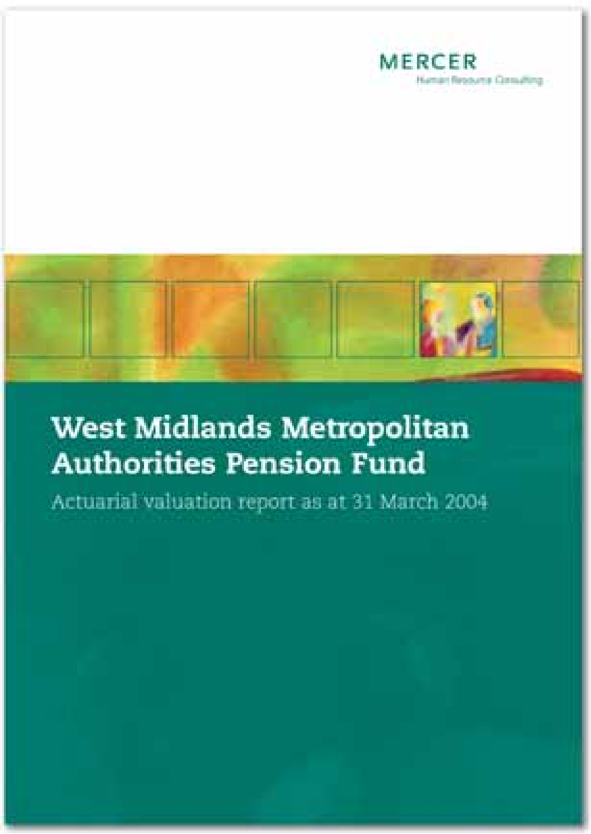
HM Revenue and Customs maximum

Ongoing

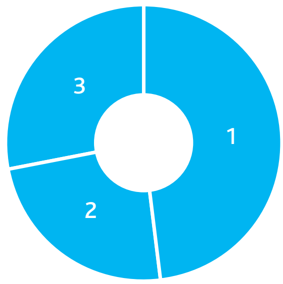
Minimum funding requirement

Outgoings

© Jon Feingersh/zefa/Corbis

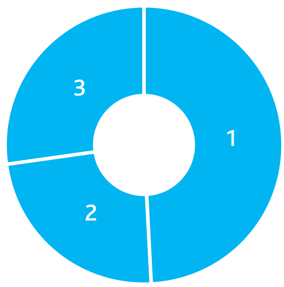


Summary of Membership
as at 31 March 2001



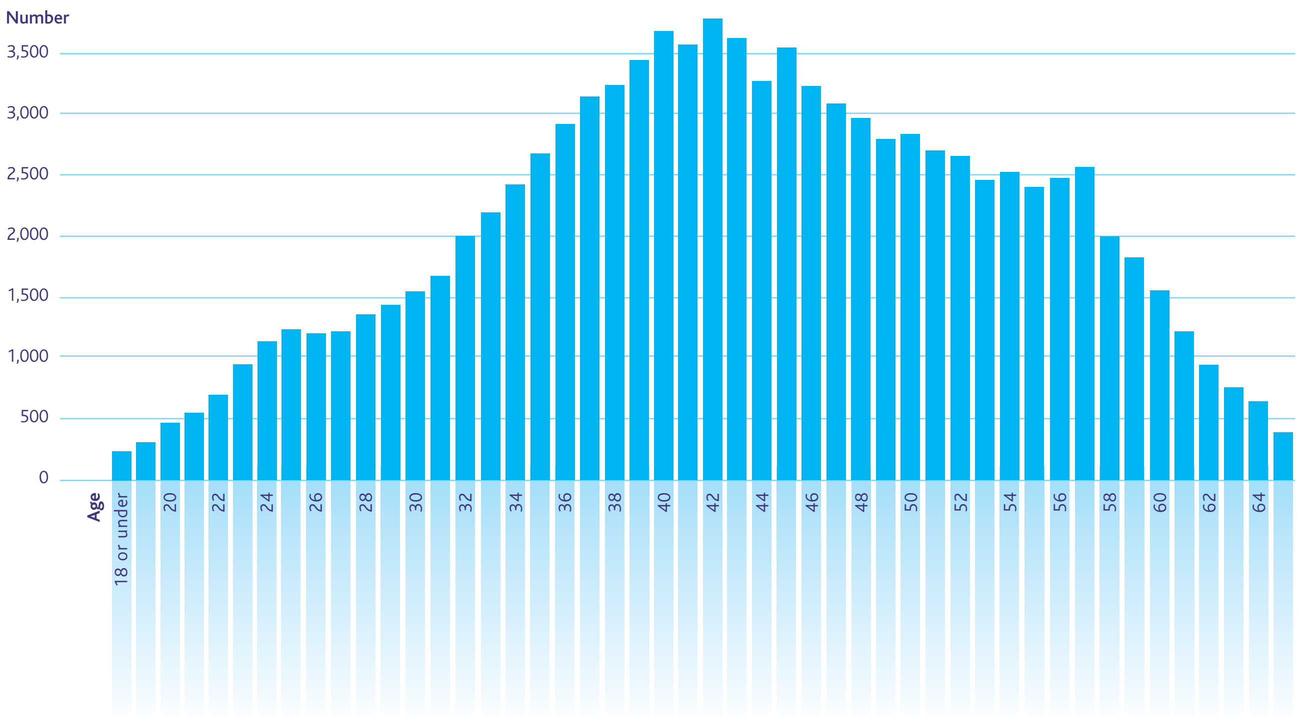
1. Actives 89,560
2. Deferreds 44,725
3. Pensioners 51,715

Summary of Membership
as at 31 March 2004



1. Actives 98,992
2. Deferreds 47,596
3. Pensioners 54,221

Age Profile of Active Members
as at 31 March 2004



The Statement of the Consulting Actuary

An actuarial valuation of the West Midlands Metropolitan Authorities Pension Fund was carried out as at 31 March 2004. On the basis of the assumptions adopted, the valuation showed that the value of the Fund's assets represented 74% of the Fund's accrued liabilities at the valuation date.

The valuation also showed that a common rate of contribution of 11.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members to meet all liabilities arising in respect of service after the valuation date.

The common rate is then adjusted to have regard to the individual circumstances of each employer. As a result of the valuation, contribution rates have been revised for the three years commencing 1 April 2005 for all employers participating in the Fund.

The levels of contribution paid into the Fund in 2004/05 were governed by the 2001 actuarial valuation of the Fund.

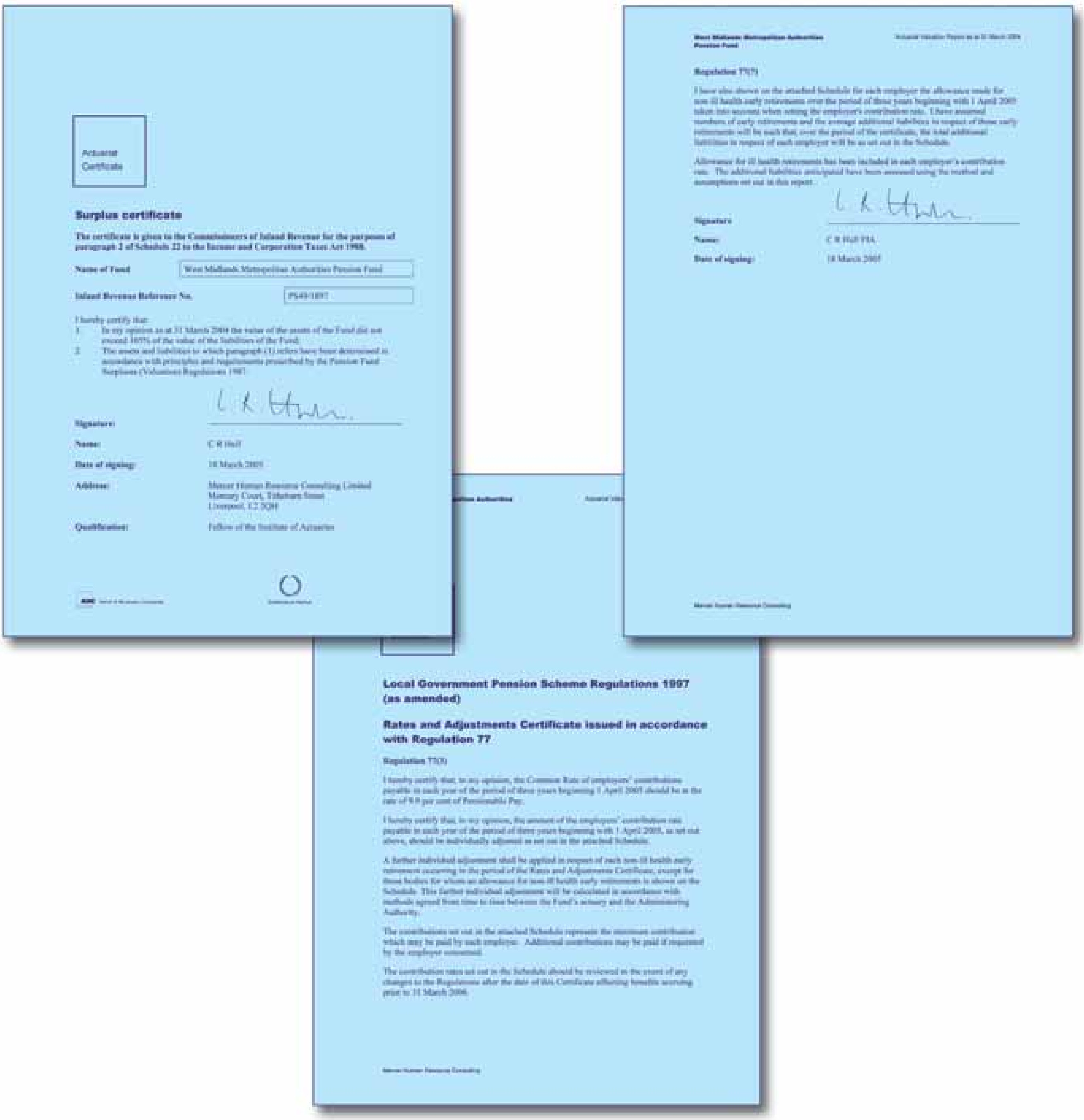
Each employer paid the contribution rate certified in our contribution certificate dated 27 February 2002 – these rates were determined having regard to the individual circumstances of that employer.

The 2004 valuation was carried out using the projected unit actuarial method and the main actuarial assumptions were as follows:

	Past service	Future service
Investment return		
Pre-retirement	6.6% p.a. (5.6% p.a.)	6.5% p.a. (6.5% p.a.)
Post-retirement	5.6% p.a. (5.6% p.a.)	6.5% p.a. (6.5% p.a.)
Pensionable pay increases	4.55% p.a. (3.8% p.a.)	4.25% p.a. (4.0% p.a.)
Pension increases	2.8% p.a. (2.3% p.a.)	2.5% p.a. (2.5% p.a.)

C. R. Hull.

C R Hull
Fellow of The Institute of Actuaries
Mercer Human Resource Consulting Limited
18 March 2005



Actuarial Certificate

Surplus certificate

Name of Fund: West Midlands Metropolitan Authorities Pension Fund

Signature:

Name: C R Hall

Date of signing: 18 March 2005

Address: Mercer Human Resource Consulting Limited
Mercury Court, Tithebarn Street
Liverpool, L2 2QH

Qualification: Fellow of the Institute of Actuaries

West Midlands Metropolitan Authorities Pension Fund

Regulation 77(7)

Signature

Name: C R Hall FIA

Date of signing: 18 March 2005

Mercer Human Resource Consulting

Local Government Pension Scheme Regulations 1997 (as amended)

Rates and Adjustments Certificate issued in accordance with Regulation 77

Regulation 77(3)

Mercer Human Resource Consulting

Funding Strategy Statement (FSS)

Background

The LGPS Regulations require funds to produce a Funding Strategy Statement (FSS) by 1 April 2005, having regard to the guidance produced by CIPFA. This statement has been drawn up by the West Midlands Pension Fund in accordance with the regulations and following consultation.

The FSS complements and adds to the Statement of Investment Principles (SIP). The SIP is a supporting document. The Fund has arranged an investment strategy review which informs the FSS and SIP. This review report is also a key supporting document to the FSS.

The statements relate as follows: The Fund's actuary takes account of the FSS in his actuarial work for the Fund, most notably, the actuarial valuation process. This has been done in respect of the 2004 valuation.

The FSS reflects the statutory nature of the LGPS, particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long-term through an accountable, transparent process with full disclosure of relevant details and assumptions.

There is a considerable amount of debate in the press regarding the future of the LGPS, particularly having regard to its current solvency. The first thing to realise is that the LGPS is a long-established, well-managed, funded final salary scheme. There is no immediate 'crisis' and the work currently being carried out by the Department for Communities and Local Government (DCLG) through its stocktaking exercise is intended to ensure its sustainability into the longer term.

The Fund, like all similar public and private sector funded schemes, has seen a gap open up between its assets and pension liabilities. A number of factors have contributed to the funding gap and rise in contribution rate:

(a) poor investment returns following falling equity markets in 2001 and 2002.

(b) liabilities are valued by reference to index-linked gilt yields. These have fallen substantially, thus raising the value of liabilities and increasing the likely fund deficit.

(c) increases in longevity of pensioners.

There are some steps that the actuary can take to assist authorities. These include:

(a) recognising the long-term nature of local government, so that deficits are recovered over time. At the last valuation, the period was thirteen years - the average remaining service life of an employee. However, active service and drawdown of benefits will occur over a much longer period going forward, and this has been increased to 25 years, which is the broad current average service life of employees.

(b) phasing increases in contributions over six years.

(c) recognising such financial 'improvements' as a reduction in ill-health retirements, and changes to the LGPS (such as retirement at aged 65, and no early retirements before 55).

The Fund, since it was established in 1974, has seen variations in its funding level as did the earlier district funds. The funding level has previously dipped to 75% and recovered. Over this long period, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy and balanced management of the risks.

The current arrangements continue this approach. The critical element is securing investment market returns from the world markets. The Fund has a long record of achieving solid returns for all of its portfolios. The approach adopted is to ensure a priority is given to achieving at least a market return and, as recommended best practice indicates, use asset allocation to deliver the overall investment target. The investment returns have, until the recent poor equity markets, given good long-term returns of 13.7% per annum. The poor market return years of 2001 and 2002 gave Fund returns of -11.8%, -17.6% with a recovery in 2003, when returns were 16.1% (calculated on calendar year end figures).

Purpose of the Funding Strategy Statement in Policy Terms

The purpose of this FSS is:

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

The Fund currently has a strong net cash inflow. The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. The LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the West Midlands Pension Fund acting on expert advice and following consultation. The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme and funding of the benefits now and in the future.The solvency of the Fund is a long-term management issue. Currently, the net cash inflow is £200m per annum, but it is essential that funds are made available to ensure all future benefits payments can be met when they become due.

Aims and Purpose of the Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the liabilities.
- manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.
- ensure that sufficient resources are available to meet all liabilities as they fall due.
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income.

- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses. The LGPS regulations and in particular the LGPS (Management and Investment of Funds) regulations 1998 define these purposes.

Responsibilities of the Key Parties

The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out.

The administering authority (Wolverhampton City Council):

- collects employer and employee contributions.
- invests surplus monies in accordance with the regulations and agreed strategy.
- ensures that cash is available to meet liabilities as and when they fall due.
- manages the valuation process in consultation with the Fund's actuary
- prepares and maintains an FSS and an SIP, both after consultation with interested parties.
- monitors all aspects of the Fund's performance and funding. Amends the FSS and SIP as appropriate.

The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade unions representatives combined with consultation with interested parties.

The individual employers:

- 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 and early retirement strain.
- notify the administering authority promptly of all changes to membership, or as maybe proposed, which affect future funding.
- discharge their responsibility for compensatory added years which the administering authority pays on their behalf, and is subsequently recharged to them.

The Fund's actuary:

- prepares valuations, including the setting of employers' contribution rates after agreeing assumptions with the administering authority, and having regard to the FSS.
- sets employer's contribution rates in order to secure the Fund's solvency, having regard to the aims of maintaining contribution rates that are as constant as possible.
- prepares advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency Issues and Target Funding Levels

The Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities, through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed, so as not to cause volatility in employing body contribution rates.

The LGPS regulations require the long- term funding objectives to achieve and maintain assets sufficient to meet the projected accrued liabilities. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

The approach to the actuarial valuation process and key assumptions used at each three yearly valuation are consulted upon and the 2004 valuation forms part of the consultation undertaken with the FSS.

The overall valuation results for 2004, compared with 2001, are outlined below.

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 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. 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

	2001	2004
Cost of ongoing pension liabilities	17.1%	15.8%
Less employee contributions	5.9%	5.9%
Plus adjustment for current funding gap	1.6%	6.1%
Average employer rate	12.8%	16.0%
Funding level	95.5%	74%
Fund value 31 March	£5.0bn	£4.7bn

Current market value £5bn at September 2004

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)	1.0%	n/a
Real earnings inflation	1.75%	1.75%
Discount rate (pre-retirement)	6.6%	6.5%
Discount rate	5.6%	6.5%
Price inflation	2.8%	2.5%
Earnings inflation	4.55%	4.25%
Pension increases	2.8%	2.5%

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.

Links to Investment Policy Set Out in the Statement of Investment Principles (SIP)

The Fund has, for many years after each actuarial valuation, used an asset liability study or some other form of stochastic modelling, in order to assist the process of formulating a strategic asset allocation. The outcome from the last exercise are reflected in the SIP. The exercise has been repeated as part of the 2004 valuation exercise and has been part of the consultation on it and the FSS. A revised SIP has been produced to reflect the FSS and investment strategy review.

Identification of Risks and Countermeasures

Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks. Some of the key risks taken into account and responses are:

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 reallocations in volatile markets may lock in past losses.
- Pay and price inflation significantly more or less than anticipated.
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general.

The Fund undertakes a three yearly review of its investment strategy, taking into account investment risk and future benefit payments, to determine a bespoke investment strategy, that for a variety of future economic outcomes, gives a high degree of certainty that the investment objectives will be achieved. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark. Investment management briefs reflect the importance of capturing at least a market rate of return and minimising the risk of significantly underperforming an investment market. Further information is available in the SIP, the Summary of Review of Investment Strategy Report and on the Fund's website.

Demographic

- The longevity horizon of beneficiaries continues to expand.
- Cost of early retirements.

The Fund has, in place, policies and procedures to identify, for employing bodies, the impact of these factors and agrees how they will be managed in terms of annual contribution rates and/or as special additional contributions.

Regulatory

- Changes to regulations, e.g. more favourable benefits package, potential new entrants to Scheme.
- Changes to national pension requirements and/or HM Revenue and Customs rules.

These changes, agreed and proposed, are evaluated and taken into account in the actuarial valuation and closely monitored between valuations, in case any action is required.

Major employing bodies are invited to make provision within their contribution rate or make contributions to the Fund, as cases are approved for early retirement cases and other employing body discretions that, when exercised, alter future liabilities.

Governance

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, 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.

The Fund has established inter-valuation monitoring and working relations with its employers to ensure changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, bond arrangements where appropriate, and the assessment of the financial standing of employers that are not tax-raising bodies.

Employers

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

The Fund's approach to the outcome of the 2004 valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account. A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis has looked at the following levels of risk:

Low Risk

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS.
This category would cover:

- a local authority, or equivalent.
- a body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent).
- a body which receives funding from local or central government (e.g. colleges and universities).
- a body which has a funding deficiency guarantee from local or central government.
- a best value-type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 78(2A).

Medium Risk

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin, but:

- can provide satisfactory evidence of financial security (e.g. parent company guarantee, bond, indemnity, insurance).
- is part of a group of related or pooled bodies which share funding on default.

High Risk

An admitted body:

- with no external funding guarantee or reserves.
- with a known limited lifespan or fixed contract term of admission to the Fund.
- which has no active contributors and/or is closed to new joiners.
- which relies on voluntary or charitable sources of income.

This analysis indicates the risk to the Fund's solvency and ability to meet prior liabilities to be low. It will, however, continue to be monitored.

The 2005 FSS, formulated as part of the 2004 valuation, will be revised as part of the 2007 valuation consultation process.

Ten Year Summary Statistics for the Fund

Account	1997/ 1998 £m	1998/ 1999 £m	1999/ 2000 £m	2000/ 2001 £m	2001/ 2002 £m	2002/ 2003 £m	2003/ 2004 £m	2004/ 2005 £m	2005/ 2006** £m	2006/ 2007 £m
Revenue Account										
Income										
Contributions (net)	187.7	211.3	210.9	221.6	234.1	249.0	264.9	288.4	309.1	**341.4**
Investment income (net)	109.7	114.8	126.3	118.1	128.3	123.6	137.1	157.4	166.1	**166.2**
Profit on realisation of investments	138.4	48.1	190.1	170	128	92.0	57.4	154.2	188.4	**224.5**
	435.8	374.2	527.3	509.7	490.4	464.6	459.4	600.0	663.6	**732.1**
Expenditure										
Pensions and benefits (net)	164.1	171.9	178.2	187.2	201.6	209.1	216.2	228.2	239.5	**263.8**
Transfer values (net)	27.3	(14.2)*	(19.7)‡‡	(10.6)#	(2.8)	(6.7)	(11.0)	10.0	2.4	**(4.0)**
Excess of income over expenditure	244.4	212.2	367.0	333.1	291.6	262.2	254.2	361.8	421.7	**472.3**
Net assets of the Fund 31 March	4,173.8	4,544.4	5,412.8	4,951.5	4,866.4	3,805.2	4,751.4	5,396.1	6,886.3	**7,513.4**

* Includes £8.0m received in respect of pensions misselling.

‡‡ Includes £12.7m received in respect of pensions misselling.

\# Includes £5.6m received in respect of pensions misselling.

** From 2005/2006, the accounts exclude figures relating to AVC schemes run by the Equitable Life and Prudential.

The Statement of Responsibilities for the Fund Accounts

Brian Bailey

Director for Resources and Support

Wolverhampton City Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director for Resources and Support.
- To manage the affairs of the Fund to secure economic, efficient and effective use of resources and safeguard its assets.

The Director for Resources and Support's Responsibilities

The Director for Resources and Support is responsible for the preparation of the Pension Fund accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), are required to present fairly the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2007.

The Fund believes that this report & accounts complies with *"The Financial Reports of Pension Schemes (Revised May 2007)"* which has been issued by Pensions Research Action Group (PRAG).

PRAG is recognised by the Accounting Standards Board (ASB) as the appropriate body within the pensions industry for issuing statements of recommended practice governing the form and content of financial statements for pension schemes.

In preparing the accounts, the Director for Resources and Support has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates which were reasonable and prudent.
- complied with the Code of Practice in all material aspects.

The Director for Resources and Support has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of Director for Resources and Support
I certify that the above responsibilities have been complied with and that the accounts herewith present fairly the financial position of the Fund as at 31 March 2007 and its income and expenditure for the year ended the same date.

Signed: B Bailey
Date: 26 June 2007

B Bailey, B.Sc., C.P.F.A.
Director for Resources and Support

Accounting Report

Year ending 31 March 2007

The value of the Fund's assets fluctuate in line with the movements in investment markets. Regardless of whatever direction these movements take, the pension benefits paid by the Fund will not be impacted, as these are fixed by regulation and cannot be altered by the Fund or employing body. The Fund has a strong net inflow of cash and an adequate funding level for its current and future pension commitments, and has developed an investment strategy that will place it in a strong position in various market conditions.

The Fund's investment strategy is based on diversification, risk and the correlation of the different asset classes. The Fund still maintains a high exposure to equities, which is managed by limiting the exposure to any single investment, whilst also maintaining a broad spread of investments. In addition, the Fund actively promotes best practice in corporate management in the companies in which it is a stakeholder through the Fund's corporate governance and SRI policies, which in the long-term will enhance the value of the investment. Going forward, the Fund will continue to diversify and manage risk by slightly reducing the equity allocation and building up its allocation to complementary investments. The following accounts confirm the strong financial position of the Fund.

B Bailey, B.Sc., C.P.F.A.
Director for Resources and Support

1. The following statements comprise the accounts for the **West Midlands Metropolitan Authorities Pension Fund**. The accounts cover the financial year from **1 April 2006 to 31 March 2007**.

2. The financial statements have been prepared in line with the requirements of the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended. They follow the recommendations of the Statement of Recommended Practice (SORP) 'The Financial Reports of Pension Schemes' and follow the 2005 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

   The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the actuary's report.

   Where member employing organisations have not submitted certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns of those bodies.

3. The accounts are set out in the following order:

- **Statement of Responsibilities for the Accounts** which sets out the respective responsibilities of the Council and the Director for Resources and Support for the Fund's accounts.
- **Statement of Internal Control** which explains the system of internal control which facilitates the effective exercise of the Council's functions.
- **Statement of Accounting Policies** which explains the basis of the figures in the accounts.
- **Fund Account** which discloses the size and character of financial additions to, withdrawals from, and changes to the value of the Fund during the accounting period, between contributions received and benefits paid, and returns on investments (including both investment income and gains and losses on investments). It also reconciles the net assets of the Scheme at the beginning of the year with those at the end of the year.
- **Net Assets Statement** which discloses the size and disposition of the net assets of the Scheme at the end of the Scheme year.
- **Notes to the Accounts** which gives supporting details and analysis concerning the contents of the accounting statements, together with information on the establishment of the Fund, its membership and actuarial position.
- **Audit Opinion** which contains the external auditor's certificate and opinion on the Fund's accounts.

Statement of Accounting Policies

(a) Inclusion of Income and Expenditure

(i) Fund Account
In the Fund account, income and expenditure are accounted for in the year in which they arise by the creation of debtors and creditors at the year end where necessary. However, provision has not been made where the amount payable or receivable was not known at the year end (see note 6).

(ii) Contribution Income
Contributions receivable have been included in the accounts on the accruals basis at the rates set out in notes 1 and 3 for basic contributions. Additional contributions as notified by employers for the period have also been included.

(iii) Transfers To and From Other Schemes
Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. Transfers to or from the Scheme are accounted for when the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

In previous years, transfers were provided for when the Scheme was notified of an individual's intention to transfer. As the Pension SORP considers that transfer liabilities are typically accepted by a scheme only when the transfer of cash is received, a change has been made to the accounting for transfers in the transfers out, against the approach in the previous year to remove the provisions for transfer in and out notified to the scheme, but not yet completed. This has been adjusted in the prior year accounts reducing creditors in note 15 by £1,927,000. Transfers out for 2005/06 are, therefore, adjusted to £35,501,000 from £33,574,000.

(iv) Benefits Payable
Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2007 relating to the financial year 2006/2007.

(v) Foreign Currency Transactions
Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2007.

(vi) Investment Income
Dividends, interest and property management income and expenditure have been accrued for in the accounts where amounts were known to be due at the end of the accounting period. This includes income from pooled investment vehicles. All unquoted portfolio distributions tend to arise from sales of investments and are, therefore, treated as capital transactions.

(b) Valuation of Investments

The market values of investments as shown in the net assets statement have been determined as follows:

(i) Quoted Securities
Securities have been valued at the mid-market price ruling on 31 March 2007 where a quotation was available on a recognised stock exchange or unlisted securities market.

(ii) Unquoted Securities
Unquoted securities are valued according to the latest dealings, professional valuation, asset values or other appropriate information. A proportion of interests in the venture capital funds is valued using directors' valuations obtained at the time the accounts were prepared

(iii) Pooled Investment Vehicles
Pooled investment vehicles are stated at the mid-point of the latest prices quoted or the latest valuation by the fund managers for unquoted holdings.

(iv) Freehold and Leasehold Properties
These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by DTZ Debenham Tie Leung, Chartered Surveyors as at 31 March 2007. Agricultural properties were valued by F P D Savills Limited, Agricultural Valuers at the same date. A full valuation takes place prior to the full actuarial valuation of the Fund which takes place every three years with desktop valuations carried out in the intervening years. The valuation undertaken at 31 March 2007 was a full valuation.

(v) Foreign Currencies
Investments held in foreign currencies have been valued as set out in paragraphs (b) (i) to (b) (iii) above and translated at exchange rates ruling at 31 March 2007. Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

(v) AVCs
AVCs of £15,766,000 were included in the Scheme assets in the prior year accounts. Under updated CIPFA guidance AVCs should not be included in LGPS accounts and hence they have been removed and the prior year balance restated accordingly. AVCs held by Scheme members are separately disclosed in note 16.

(c) Monitoring and Benchmarking of Investment Management Expenses

Investment management expenses are monitored whether in-house or externally managed. In addition the return on investments is assessed independently by external specialists against the Fund's benchmarks and the industry generally. All income and expenditure is accounted for on an accruals basis.

Fund Account
for the year ended 31 March 2007

Contributions and Benefits	Notes	2006/07 £000	2005/06 £000
Contributions receivable	5	**341,400**	309,059
Transfers in	6	**26,045**	34,299
Total contributions and benefits income		**367,445**	343,358
Benefits payable	7	**263,765**	239,541
Payments to leavers	8	**22,087**	36,683
Other payments		**490**	279
Administration expenses	9	**3,769**	3,657
Total contributions and benefits expenditure		**290,111**	280,160
Net additions from dealings with members		**77,334**	63,198
Returns on Investments			
Investment income	10	**166,197**	166,141
Change in market value of investments		**390,674**	1,276,110
Investment management expenses	9	**(7,177)**	(4,584)
Net return on investments		**549,694**	1,437,667
Net increase in the Fund during the year		**627,028**	1,500,865
Net assets of the Fund at the beginning of the year		**6,886,339**	5,385,474
Net Assets of the Fund at the End of the Year		**7,513,367**	6,886,339

Net Assets Statement
as at 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Investment Assets (at Market Value)	11/12/14		
Fixed interest securities		**288,881**	541,027
UK equities		**2,415,123**	2,083,770
Overseas equities		**2,135,333**	1,511,422
Index-linked securities		**285,858**	278,322
Pooled investment vehicles		**1,703,298**	1,735,653
Property		**567,236**	522,792
Foreign currency holdings		**17,306**	24,947
Cash deposits		**65,190**	146,050
Other investments		**(502)**	(501)
Outstanding dividend entitlement and recoverable withholding tax		**17,047**	22,365
Total Investments*		**7,494,770**	6,865,847
Net Current Assets*	15	**18,597**	20,492
Net Assets of the Fund at the End of the Year		**7,513,367**	6,886,339

*2005/06 figures restated regarding transfer values and AVCs.

Notes to the Accounts

1. General

The West Midlands Metropolitan Authorities Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

The City Council Superannuation Committee administers the Pension Fund function. It meets at approximately quarterly intervals, and has members from each of the seven metropolitan district councils in the West Midlands region. An Investment Advisory Sub-Committee and a Joint Consultative Panel have been established to deal with these two areas of management and administration of the Fund.

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations 1997 (as amended). Membership of the Fund is available for all local government employees, including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of admitted bodies. Employees' contributions are payable at the rate of 6% of pensionable pay or 5% for former manual workers, while employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary.

The long-term obligations to pay benefits are dealt with in the actuary's statement and not in the accounts.

The Fund's statement of investment principles (SIP) can be found in the annual report and on the Fund's website: www.westmids-pensions.org.uk

2. Membership

Overall membership of the Fund at the end of the year was as follows:

	31 March 2007	31 March 2006
Active members	**105,512**	104,414
Deferred members	**61,732**	57,434
Pensioner members	**59,303**	57,328

A detailed list of member bodies is available at note 17.

3. Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2004 by the Fund's actuary, C R Hull of Mercer Human Resource Consulting Limited.

In accordance with the Local Government Pensions Scheme Regulations, the actuary has determined employers' contribution rates to meet 100% of the Fund's existing and prospective liabilities over a period of 25 years in line with the Funding Strategy Statement of the Scheme. Employers' contribution rates include provision for the funding of pensions increase costs.

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

Contribution rates consist of a common rate, expressed as a percentage of employees' pensionable pay, payable by all employers together with a secondary rate which is individually assessed for each employer to reflect circumstances peculiar to any one employer. These rates are to be phased in over a period of three years.

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

The results of the valuation as at 31 March 2004, and the main actuarial assumptions used are set out below.

	31 March 2004 Valuation
Funding target as % of existing and prospective liabilities	100%
Common rate of employers' contributions (calculated using the projected unit method)	9.9%
Employers' contributions rates as funding target	
- District councils	12.5% to 16.2%
- Other bodies	6.1% to 25%
Market value of the Fund	£4,739m
Actuarial value of liabilities	£6,437m
Deficit in relation to past service	£1,698m
Funding level in relation to past service liabilities	74%

The key financial assumptions used for the valuation are as follows:

	Past Service	**Future Service**
Valuation rate of interest	6.6%	6.5%
Rate of general pay increases	4.55%	4.25%
Price inflation	2.8%	2.5%

Because of the small number of employees remaining with Centro (The West Midlands Passenger Transport Executive), the actuary has determined that Centro shall pay, in addition to a percentage of employees' pensionable pay, an annual fixed contribution to meet the accrued unfunded liabilities which arose as a result of premature retirements prior to the formation of West Midlands Travel Limited in 1986. Employer's contributions for Centro are as follows:

	Employers' Rate %	Fixed Amount £m
2005/06 to 2007/08	9.5	7.0

Pensions increases in respect of a number of bodies which had no active members in the Fund at the valuation date will continue to be recharged direct. These include the Trustee Savings Bank plc and Severn Trent Water plc.

4. Taxation

(i) Value Added Tax

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HM Customs and Excise. The accounts are shown exclusive of VAT.

(ii)Taxation of Overseas Investment Income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available, it may be either in full at source (USA, Belgium, Australia and Hong Kong), or partial relief by claim (Austria, Denmark, France, Luxemburg, Netherlands, Switzerland and Spain).

In some markets (Finland, Japan, Canada, Italy, Norway and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia and Singapore) where no double taxation agreements exist and where the full amount is payable.

5. Contributions Receivable

Contributions receivable are analysed below:

	2006/07 £000	2005/06 £000
From Employers		
Basic contributions	**232,187**	211,466
Augmented membership	**2,601**	10
Additional cost of early retirement	**8,075**	4,607
	242,863	216,083
From Employees		
Basic contributions	**97,204**	91,694
Additional contributions	**1,333**	1,282
Subtotal	**98,537**	92,976
Total Contributions	**341,400**	309,059

The additional contributions above represent the purchase of added membership or additional benefits under the Pension Scheme and are included in the revenue accounts.

Several organisations made small augmented membership payments as one-offs to extinguish liability relating to individual employees who had left their employment.

Payments can be analysed by type of member body as follows:

	2006/07 £000	2005/06 £000
Administering authority	**28,201**	27,652
Scheme employers	**284,952**	260,233
Admitted employers	**28,247**	21,174
	341,400	309,059

6. Transfers In

	2006/07 £000	2005/06 £000
Individual transfers in from other schemes	**26,045**	34,299

In addition to the provisions in the accounts, it is estimated that potential transfers in respect of moves before 1 April 2007 may amount to some £4.0m.

7. Benefits Payable

An analysis of expenditure on benefits by type is given below:

	2006/07 £000	2005/06 £000
Pensions		
Retirement pensions	**207,130**	196,808
Widows' pensions	**20,130**	19,303
Childrens' pensions	**715**	766
Widowers' pensions	**1,425**	1,205
Ex-spouse	**5**	3
Equivalent pension benefits	**62**	26
	229,467	218,111
Lump-Sum Benefits		
Commutations and retirement benefits	**44,519**	32,814
Death grants	**5,997**	4,432
	50,516	37,246
Benefits Recharged to Employers		
Compensatory added years	**(10,724)**	(10,652)
Pensions increases	**(5,493)**	(5,163)
Supplementary pensions	**(1)**	(1)
	(16,218)	(15,816)
Total Benefits Payable	**263,765**	239,541

The total benefits payable can be analysed by type of member body as follows:

	2006/07 £000	2005/06 £000
Administering authority	**22,730**	22,427
Scheme employers	**225,299**	207,060
Admitted employers	**15,736**	10,054
	263,765	239,541

8. Payments To and On Account of Leavers

	2006/07 £000	2005/06 £000
Individual transfers out to other schemes	**21,903**	31,790
Group transfers out to other schemes	**0**	3,711
Refunds of contributions	**180**	706
Stake scheme premiums	**4**	476
	22,087	36,683

In addition to the provisions in the accounts, it is estimated that potential transfers out in respect of moves before 1 April 2007 amount to some £3.7m.

9. Investment and Administration Expenses

Costs incurred in the management of the investments of the Fund and the administration of the Fund have been charged to the Fund in accordance with the Local Government Pension Scheme Regulations and can be analysed as follows:

	2006/07 £000	2005/06 £000
Administration		
Pensions administration	**3,556**	3,488
Actuarial fees	**157**	113
Audit fees	**48**	48
Legal and other professional fees	**8**	8
	3,769	3,657
Investments		
External management of investments	**4,309**	2,526
In-house management of investments	**1,953**	1,602
Performance measurement service	**22**	26
Property and legal fees	**124**	38
Safe custody expenses	**769**	392
	7,177	4,584

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council and the costs shown in the table above are recharged to the Fund each year on an estimated basis with an end of year adjustment for actual costs shown as a debtor or creditor in the accounts. This is a related party transaction as Wolverhampton City Council is also a member body of the Fund.

10. Investment Income

Investment income is analysed below:

	2006/07 £000	2005/06 £000
Dividends and Interest		
Fixed Interest Securities		
UK public sector – quoted	**1,471**	13,360
UK private sector – quoted	**12,489**	13,075
Equities		
UK	**76,513**	68,113
Overseas	**29,562**	29,042
Index-Linked Securities		
UK public sector	**5,063**	6,819
Overseas public sector	**0**	101

Pooled Investment Vehicles		
UK	**475**	33
Overseas	**5,939**	3,216
Interest on cash deposits	**9,463**	10,682
Stocklending	**619**	0
UK tax, irrecoverable	**(15)**	(12)
Overseas taxation	**(2,218)**	(2,078)
Total Dividends and Interest	**139,361**	142,351
Property management income	**28,358**	25,207
Property management expenses	**(1,522)**	(1,417)
	26,836	23,790
Total Investment Income	**166,197**	166,141

Stocklending

The Fund currently has a securities lending programme with HSBC which generates an annual income of $1m. Following the restart of securities lending in June 2006, the value of securities on loan at 31 March 2007 was £806m, backed by collateral valued at £853m.

11. Investment Assets

Further analysis of the market value of investments as set out in the net assets statement is given below:

	31 March	
	2007 £000	2006 £000
Fixed Interest Securities		
UK public sector – quoted	**0**	254,447
UK companies – quoted	**89,430**	0
UK companies – segregated (external)	**199,451**	286,580
	288,881	541,027
UK Equities		
Quoted – in-house	**2,216,398**	2,083,770
Quoted – segregated (external)	**198,725**	0
	2, 415,123	2,083,770
Overseas Equities		
Quoted – in-house	**1,603,917**	1,511,422
Quoted – in-house (external)	**531,416**	0
	2,135,333	1,511,422
Index-Linked Securities		
UK public sector - quoted	**280,565**	278,322
UK companies – quoted	**5,293**	0
	285,858	278,322
Pooled Investment Vehicles		
Managed funds		
UK quoted fixed interest	**336,219**	0
UK quoted equities	**93,563**	0
Overseas equities	**331,188**	563,110
UK unquoted equities	**85,490**	63,641
Overseas unquoted equities	**269,957**	202,635
Unit Trusts		
UK quoted equities	**430,729**	597,859
Overseas quoted equities	**150,646**	303,060
Overseas property	**5,506**	5,348
	1,703,298	1,735,653
Property		
UK freehold	**496,011**	458,587
UK leasehold*	**71,225**	64,205
	567,236	522,792
Foreign Currency Holdings		
United States dollars	**3,880**	2,807
Euro	**6,034**	4,715
Canadian dollars	**653**	204
Danish kroner	**113**	387
Hong Kong dollars	**862**	5,704
Swedish kroner	**146**	671
Swiss francs	**918**	1,477
Japanese yen	**2,135**	1,034
Norwegian kroner	**185**	300
Malaysian ringgits	**30**	3,319
Singapore dollars	**866**	1,835
Australian dollars	**1,472**	2,482
New Zealand dollars	**12**	12
	17,306	24,947
Cash Deposits		
UK	**65,190**	146,050
Other Investments		
Broker balances	**(502)**	(501)
Outstanding Dividend Entitlement and Recoverable Withholding Tax	**17,047**	22,365
Total Investment Assets	**7,494,770**	6,865,847

* All leasehold properties are held on long leases

11. Investment Assets (continued)

The proportion of the market value of investment assets managed in-house and by each external manager is set out below:

	31 March 2007 £000	2007 %	2006 £000	2006 %
In-house	**4,958,440**	**66.3**	4,905,838	71.6
Alliance Bernstein	**84,627**	**1.1**	82,027	1.2
Artemis	**36,550**	**0.5**	33,103	0.5
Ashmore Investment Management	**61,170**	**0.8**	0	0
Axa Rosenberg	**56,551**	**0.8**	54,487	0.8
Barclays Global Investors	**356,306**	**4.8**	347,191	5.1
Blackrock	**51,808**	**0.7**	52,039	0.8
DIAM	**77,892**	**1.0**	69,020	1.0
European Credit Management	**72,122**	**1.0**	0	0
Goldman Sachs	**261,215**	**3.5**	178,787	2.6
Henderson Global Investors	**67,218**	**0.9**	60,445	0.9
Intech/Janus	**77,730**	**1.0**	78,968	1.2
Legal and General Asset Management	**264,097**	**3.5**	0	0
Managers – active currency	**107,516**	**1.4**	0	0
Managers – emerging markets	**248,029**	**3.3**	290,909	4.2
Martin Currie	**25,029**	**0.3**	19,453	0.3
MFS Investment Management	**142,975**	**1.9**	140,335	2.0
Nomura Asset Management	**39,832**	**0.5**	46,837	0.7
Northern Trust	**0**	**0**	34,346	0.5
Royal London Asset Management	**199,451**	**2.7**	192,884	2.8
Schroder Investment Management	**27,686**	**0.4**	25,823	0.4
State Street Global Advisors	**228,512**	**3.1**	205,511	3.0
UK – other managers	**32,967**	**0.5**	0	0
US – other managers	**0**	**0**	25,479	0.4
	7,477,723	**100.0**	6,843,482	100.0
Outstanding dividend entitlement and recoverable withholding tax	**17,047**		22,365	
Total Investment Assets	**7,494,770**		6,865,847	

12. Investment Assets – Market Value Movements Analysis

The change in the value of investments during 2006/07 is set out below:

	Value at 31 March 2006 £000	**Purchase Cost £000**	**Sales Proceeds £000**	**Change in Market Value £000**	**Value at 31 March 2007 £000**
Fixed interest securities	541,027	35,351	(269,803)	(17,694)	**288,881**
UK equities	2,083,770	289,213	(165,796)	207,936	**2,415,123**
Overseas equities	1,511,422	763,642	(291,216)	151,485	**2,135,333**
Index-linked securities	278,322	86,236	(81,337)	2,637	**285,858**
Pooled investment vehicles	1,735,653	831,461	(864,541)	725	**1,703,298**
Property	522,792	14,914	(12,611)	42,141	**567,236**
	6,672,986	2,020,817	(1,685,304)	387,230	**7,395,729**
Broker balances	(501)				**(502)**
Foreign currency	24,947				**17,306**
Cash deposits	146,050				**65,190**
Outstanding dividend entitlement and recoverable withholding tax	22,365				**17,047**
Total Investments	6,865,847				**7,494,770**

Purchases also include transfers in of investments, take-over of shares, etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds, etc. and reductions in cash deposits including profits or losses realised on the sale. There were a small number of late payments of contributions during the year which constituted employer-related investments until the amounts were received. Other than this there were no employer-related investments. The change in market value of investments comprises 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.

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

13. Foreign Currency Hedging

Investments denominated in overseas currencies may be hedged into sterling at various times. The purpose of this action is to reduce the Fund's exposure to foreign currencies and fluctuations in exchange rates depending on conditions and expectations in these markets.

During this financial year there was no hedging activity.

14. Investment Commitments

Investment commitments at the end of the financial year in respect of future payments were:

	31 March	
	2007 £000	2006 £000
Unquoted investments via pooled investment vehicles	**323,721**	233,166
Property	**10,250**	7,000
	333,971	240,166

15. Net Current Assets

Further analysis of net current assets as set out in the net assets statement is given below:

	31 March	
	2007 £000	2006 £000
Debtors and Prepayments		
Contributions receivable		
- Employers	**18,502**	16,589
- Employees	**8,222**	7,690
Wolverhampton City Council	**714**	743
Other debtors	**1,356**	1,831
	28,794	26,853
Creditors and Receipts in Advance		
Pensions and lump-sum benefits	**(4,059)**	(555)
Other creditors	**(6,721)**	(6,721)
	(10,780)	(7,276)
Cash	**583**	915
Total Net Current Assets	**18,597**	20,492

Contributions receivable from employing bodies in respect of employer and employee contributions must be paid within 19 days of the end of the relevant month. All contributions were received by 19 May 2007.

16. Additional Voluntary Contributions

The Fund Scheme provides for additional voluntary contributions (AVC) for Scheme members. In 2006/07, some members of the Scheme paid voluntary contributions and transfers in of £3.273m to the Prudential Assurance Company and Equitable Life to buy extra pension benefits when they retire. Retirement benefits of £1.16m were purchased during the year. The contributions are paid directly from Scheme members to the AVC provider and are, therefore, not included in the Fund accounts. The combined value of the AVC funds at 31 March 2006 was £18.76m. These accounts are not included in the Fund accounts in accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

Audit Opinion

The accounts for the year ended 31 March 2007 are subject to audit.

Statement of Internal Control

The overall responsibility for the Fund accounts rests with Wolverhampton City Council. Although there is no formal requirement for a separate statement of internal control, as this is covered in the City Council's report and accounts, the Fund believe that the statement of internal control is nevertheless relevant for full disclosure and as such is reproduced below:

1. Scope of Responsibility

Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Authority is also responsible for the strategic management and administration of the West Midlands Authorities Pension Fund.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's and Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Wolverhampton City Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

3. The Internal Controls Environment

The internal control environment contains a number of key elements against which the Council is able to establish and implement policies and monitor the achievement of objectives.

The Council's priorities are set and monitored through the following framework below:

The following published policy documents support and underpin the overall vision:

- **Community Plan 2002-2012**
- **Strategic Plan 2007-2010**
- **Corporate Plan 2005 - 2008 and 2006-2007**
- **Improvement Plan**
- **Best Value Performance Plan (BVPP)**
- **Medium-Term Financial Strategy**

These high-level corporate plans are supported by a number of additional departmental strategies and policies, a selection of which include:

- **Sustainability Charter**
- **Asset Management Plan**
- **Human Resources Strategy**
- **Neighbourhood Renewal Strategy**
- **Children and Young People's Plan 2006-2009**
- **Supporting People Strategy 2005-2010**
- **Crime Reduction Strategy 2005-2008**
- **Cultural Strategy 2006-2009**
- **Pension Fund Strategy and Statement of Investment Principles**

At the operational level, service and workforce plans with balanced scorecards, business and operational plans and detailed work programmes containing objectives, targets and relevant performance measures linked to the strategic plan and wider corporate priorities are reviewed and monitored on a regular basis. The Council has also agreed a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The constitution has been reviewed during the year as a result of changes made to delegated powers. Other sections of the constitution have been revised as required during the year and submitted to members for approval.

The Council has developed and implemented a risk management strategy through a process involving executive members, the chief executive, directors, senior managers and representatives from external and internal audit and risk management and insurance. Risk workshops are held with senior staff representing all service groups and arrangements are in place for risk identification, assessment, management and monitoring for all key financial and operational risks. Risk registers now exist which are subject to review and update as required and will continue to be developed with the introduction of a new risk management software package in 2007-08. Headline assessments of risk are also included in respective service plans by service managers.

The Council's core policy priorities are expressed in the Corporate Plan 2005-2008 'Corporate Plan – Delivering for Our City and Communities'. This document sets out the Council's vision and strategic priorities and affirms the commitment to achieving continuous service improvement. With this in mind, the Council is focussed on business transformation and has commenced dialogue with potential strategic partners with a view to entering into a formal arrangement to assist in future delivery of services.

The Council, as a member of the Local Strategic Partnership, has also entered into a Local Public Service Agreement (LPSA) with the Government which covers twelve priority targets where the Council is committed to improve public services faster than normal. The LPSA was originally planned to last from April 2003 to March 2006. However, in line with a number of similar authorities, target one, regarding educational attainment, has been extended to March 2008. The second phase LPSA is now included within our Local Area Agreement (LAA) which runs to March 2009. In order to monitor progress towards achieving objectives in all of the Council's plans and service areas, a corporate performance management system has been implemented and is subject to ongoing development.

The use of this tool will greatly enhance performance management information. The Council also recognises the challenges and risks in working with over 100 people/organisations with separate, but linked, joint working arrangements.

The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:

- comprehensive budgeting systems;
- a robust medium term financial planning process linking budgets to Council priorities;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure and income against the forecasts;
- clearly-defined capital expenditure guidelines; and
- formal project management disciplines.

All of the above are subject to continuous monitoring and review and regular reports are submitted to the Council for information and approval as necessary. The Authority has made a significant contribution to the production of a community plan which sets out the strategic aims for the city and reflects national as well as local priorities. The community plan has been drawn up in consultation with staff, community and partners and is based on a needs assessment of the community and evaluation of alternatives.

In addition, the Authority has put in place arrangements for determining the key strategic priorities and has defined a number of related standards and targets. These targets are cascaded throughout the Authority and are included in service plans which define service and individual objectives and which are subject to ongoing review and monitoring.

With regard to the Fund, day-to day management of the Fund is carried out by two separate teams of staff who are dedicated solely to the functions of pensions administration and investments with appropriate support and advice from external investment managers.

The key elements of the internal control environment include:

- procedures for establishing and monitoring the achievement of the Fund's objectives;
- the facilitation of policy making and decision making;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Authority are exercised;
- the financial management of the Authority and the reporting of financial management;
- the performance management of the Authority and the reporting of performance management.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control under Regulation 4 of the Accounts and Audit Regulations (2003). The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

In addition, the Accounts and Audit (Amendment) (England) Regulations 2006, now requires the Council to review the effectiveness of the system of internal audit once a year and for the findings of the review to be considered by a committee of the Council as part of the consideration of the system of internal control referred to in regulation 4. Responsibility for this function has been delegated to the Council's Audit Committee and the findings of the review were reported to members on 16 April 2007.

The Council's constitution clearly sets out the responsibilities of members and senior managers, particularly the three statutory posts of the head of paid services, monitoring officer and section 151 officer. A new chief executive was appointed during the year and, following the resignation of the director of performance, temporary arrangements have been put in place to ensure that the Council continues to have strategic direction. The constitution also sets out the responsibilities of members and senior managers in relation to operation of the Fund and the Director for Resources and Support has been given the responsibility to review independently and report annually to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it both in respect of the Council and the Fund.

The Council continually assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and is able satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council has an Audit Committee which has clearly defined terms of reference in relation to the Authority's accounting and stewardship functions. The Audit Committee has specific responsibility to oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work.

Following previous reviews of the policy and operational decision-making arrangements contained in the constitution, the Council now operates under a Cabinet structure with three Cabinet panels reporting up to the main Cabinet. There are also five scrutiny panels who work with a scrutiny board. A performance panel, with independent representation also assists the Council in the implementation of its improvement agenda.

Arrangements for the provision of internal audit are contained within the Council's constitution.
The Director for Resources and Support is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003 and Amendment Regulations 2006. Internal audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day-to-day control of the Head of Audit Services who acts independently. The Internal Audit Division plans and prioritises its work through a combination of assessment and review of the Council's corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and fraud and corruption reviews and scheduled visits to Council establishments. The resulting work plan is discussed and agreed with directors and chief officers and shared with the Council's external auditor. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to elected members, directors, chief officers, school heads and chairs of governors as appropriate. Our review of the effectiveness of the system of internal control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter, and
- reports by other independent inspection bodies (Audit Commission, CSCI, Ofsted, BFI etc).

The Council has reviewed existing policies and procedures in place to prevent fraud and corruption.
In addition, new and revised policies on whistle-blowing

and anti-money laundering have been introduced to further improve the existing arrangements.

We have been advised on the implications of the result of the overview of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the system is in place as set out in Section 5.

5. Significant Internal Control Issues

The Council recognises that the identification and analysis of risks faced by the organisation is one of the key aspects in providing this statement. There are now clear links between risk and corporate objectives although it is acknowledged that further work remains to be done in 'embedding' the process throughout the organisation and obtaining the necessary assurances required.

The Council has identified that it needs to make significant budget savings over the medium term in order to take account of a number of issues including single status job evaluation whilst balancing the demands for Council services and the impact on local taxpayers. In connection with this, the Council continues to go through a period of rapid and intense change and is currently exploring and evaluating options to enter into an arrangement with a strategic partner in relation to improving customer services and efficiency. It is acknowledged that consideration of new methods of service delivery through such partnerships and other initiatives, such as private finance initiative (PFI), brings new challenges and risks. It is also acknowledged that the Council needs to review a number of partnership agreements and be able to demonstrate how risks are being assessed and managed.

The Council continues to acknowledge that the revised management arrangements in respect of the Council's housing stock have brought new and significant challenges and risks to the Council, and work will continue with Wolverhampton Homes to monitor and manage these issues.

Work continues in enhancing project management skills, performance management and in taking forward the Council's improvement agenda. It is, however, recognised that the organisation continues to face significant risks in the event of failure to deliver the transformation programmes (BPR, performance management, organisation development) required in order to move the organisation forward.

The Authority recognises that the substantial changes to the pension benefit regulations and continual development of financial instruments and investment opportunities present potentially significant risks. The identification and analysis of these risks faced by the Fund is one of the key aspects in providing this statement. It is acknowledged that, whilst significant progress has been made in this matter, further work remains in ensuring these risks continue to be effectively managed.

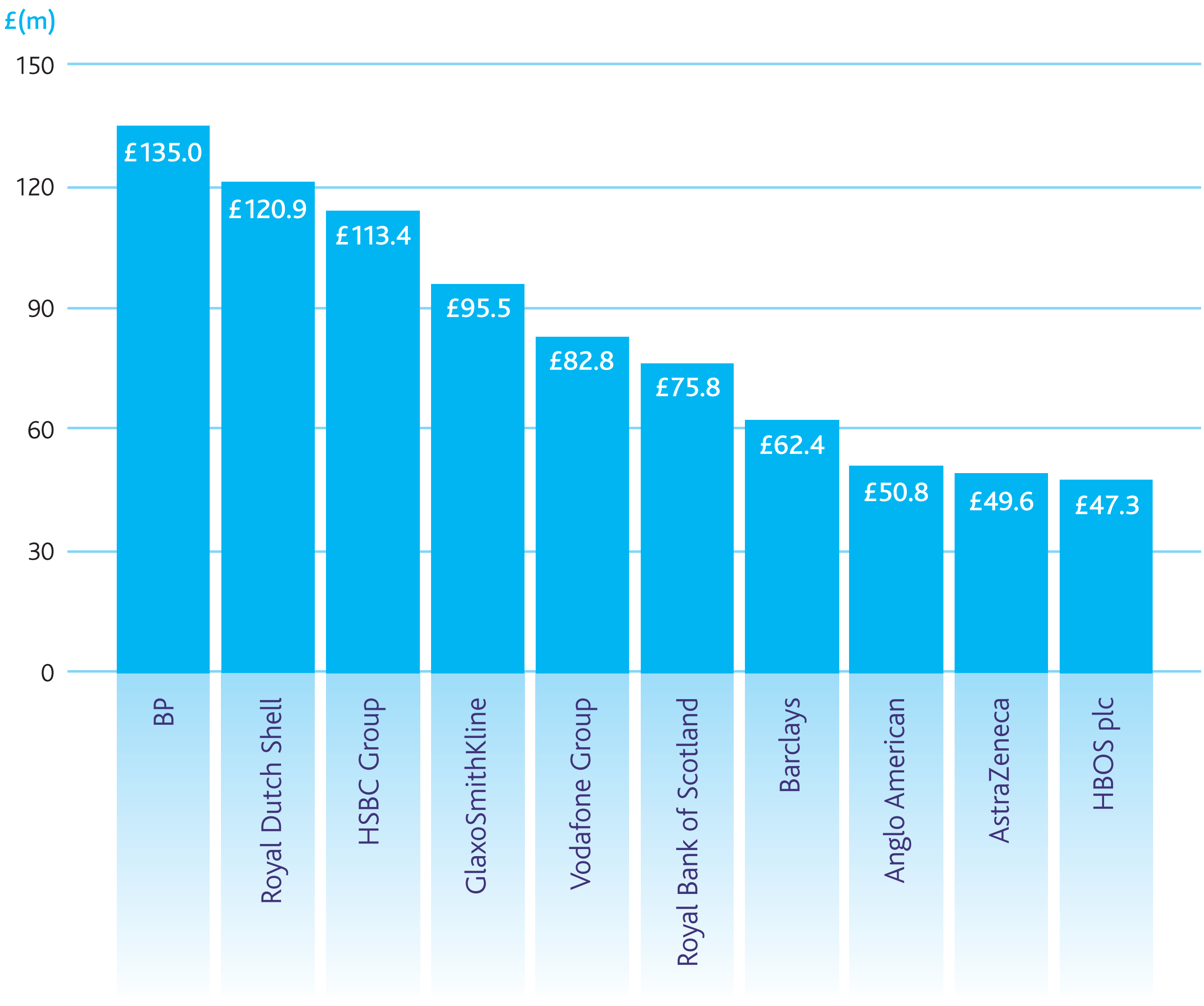
In approving this statement, the views of all directors and a number of senior managers have been obtained and suitable assurances obtained confirming their support to the statement.

Richard Carr
Chief Executive
Date: 26/06/07

Councillor Roger Lawrence
Leader of the Council
Date: 26/06/07

Top Ten 2007

Main Fund Top Ten Holdings as at 31 March 2007



Investment Report

Investment Management

The tactical investment policy of the Fund is considered at each quarterly meeting of the Superannuation Committee. The approved policy is implemented by the Investments Division within Resources and Support. The Investments Division structure includes a number of specialist teams each dealing with the management in-house of the investments of one or more asset classes and also the monitoring of any appointed segregated external managers and collective investment vehicles. The Division manages more than 65% of total investments in-house, with the balance invested in pooled vehicles or managed by segregated specialist external investment managers. The Division also deals with investment accounting, safe custody, the settlement of global investment transactions worldwide, and the collection of investment income.

Investment Policy

During the year some £243m of new money became available for investment: £166m from investment income together with £77m made up of income received from contributions and net income from transfer values after taking account of all payments from the Fund, principally in respect of pensions and benefits.

Investment policy comprises two main elements: (a) the Committee's longer-term asset allocation benchmark and (b) the shorter-term tactical asset allocation weighting adjustments.

Following completion of the 2004 actuarial valuation, the Superannuation Committee approved a new benchmark and revised investment strategy.

This followed a period of extensive consultation by the Fund's advisors. The review quantifies the investment risks being taken by the Fund for the strategy that best balances the risk and aim of improving the funding position over the medium to long-term.

The Fund's benchmark as at 31 March 2007 is summarised as follows:

	2006/2007 Benchmark		
	%	%	%
UK equities		37	
Overseas equities		27	
North America	8		
Europe (ex UK)	10		
Japan	3.5		
Pacific Basin	3		
Emerging markets	2.5		
Global equities		6	
Total Equities			**70**
Gilts		5	
Index-linked gilts		5	
Non-government bonds		5	
Cash		0	
Total Fixed Interest			**15**
Private equity		5	
Property		8	
Other complementary*		2	
Total Complementary			**15**
Total			**100**

* Other complementary investments include commodities, active currency, emerging market debt and infrastructure.

Note: benchmark was revised in June 2007 and is shown in the SIP on page 74.

Performance of Investment Markets

The total returns generated by the major investment markets to a UK-based investor, as calculated by the WM Company on a calendar year basis for 2006, are set out on the right. Total returns are the sum of capital movements plus income returns together with the effect of currency changes where applicable.

Prior to 2000, the Fund's long-term returns were comfortably above the average fund returns. However, the three years of poor equity market returns from 2000 to 2002 had a negative impact with the Fund's ten year return falling below that of the average fund. This has now moved back up to 7.7% due to four strong years of market returns. This is well in excess of both RPI 2.8% and average earnings 4.2%. The 2006 return was 12.6% compared with the average fund return of 10.7%. This followed on from a return of 21.1% in 2005 compared with the average return of 20.3%. The Fund's three calendar year annualized return of 15.0% is now above the average fund return of 14.1%. The return for the year ended 31 March 2007 was 8.2%.

Growth of Investment Portfolio

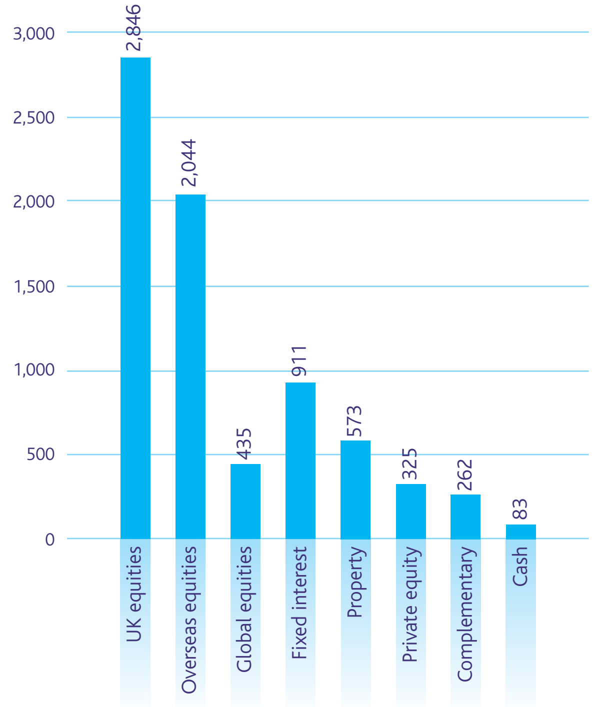
At the beginning of the year, the Fund's market value was £6,901m. By the end of March 2007, the value of the Fund was £7,494m. Taking the ten-year period from 1 April 1997, the total growth in value has amounted to £4,189m from a starting value of £3,305m.

Current Portfolio

The distribution of the portfolio within the main investment markets is set out overleaf. Brief comments on each of the major market areas are given in sections (i) to (vi) that follow.

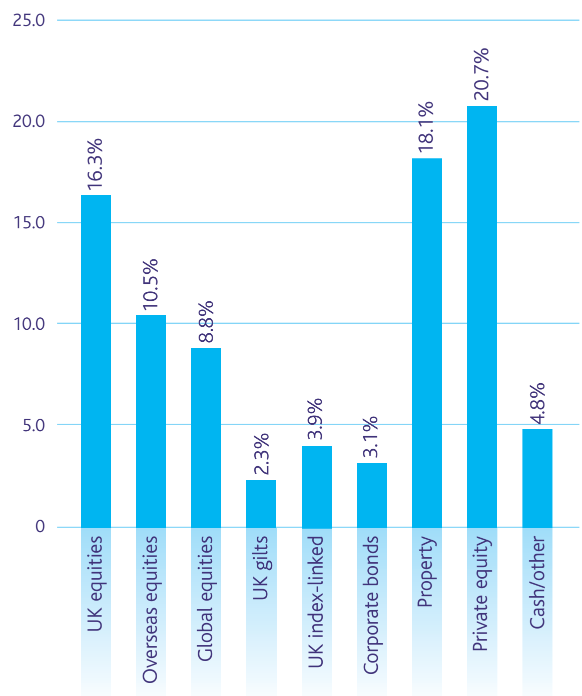
Investment Summary 2006/2007

Market value as at 31 March



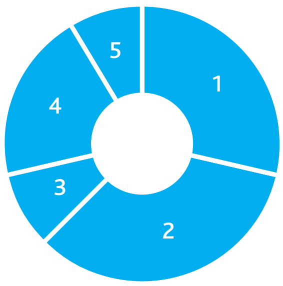
Investment Market Returns 2006

Calendar year basis



(i) Fixed Interest Portfolio Distribution

Market value as at 31 March 2007

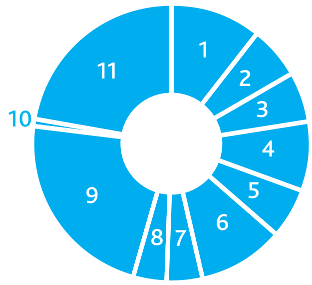


1.	UK index-linked	28.8%
2.	UK conventional gilts (external)	33.8%
3.	UK non-government bonds (in-house)	9.0%
4.	UK non-government bonds (external)	20.0%
5.	Liquid assets	8.4%

The fixed interest portfolio as at 31 March 2007 represented 12% of the total Fund and liquid assets represented a further 1%. The index-linked portfolio is managed in-house on a passive basis whilst the UK gilts portfolio is externally managed, part of it being actively managed by European Credit Management and part passively by Legal and General. The corporate bond portfolio is actively managed partly in-house and partly by Royal London Asset Management.

(ii) UK Equities Portfolio Distribution

Market value as at 31 March 2007

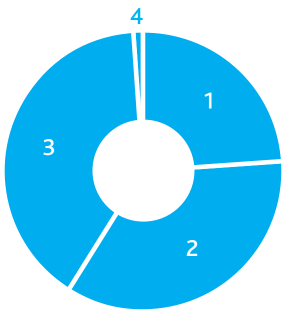


1.	Oil & gas	10.7%
2.	Basic materials	6.0%
3.	Industrials	5.8%
4.	Consumer goods	8.3%
5.	Healthcare	5.8%
6.	Consumer services	10.0%
7.	Telecommunications	4.2%
8.	Utilities	3.7%
9.	Financials	22.6%
10.	Information technology	0.8%
11.	Specialist vehicles	22.1%

The majority of the portfolio is designed to track the All Share Index and is managed by an in-house team on a passive basis. The balance of the portfolio is managed actively consisting of externally managed specialist vehicles ranging from enhanced indexation to traditional active management and an in-house portfolio. Over the year as a whole, the FTSE All Share Index provided a total return of +7.7%. Within this total, the FTSE Mid 250 Index generated the highest return of +18.7%, whilst the FTSE 100 Index and FTSE Small Cap Index returned +5.8% and +11.1% respectively. The market value of the UK equity portfolio as at 31 March 2007 was £2,846m representing 38% of the total Fund.

(iii) Unquoted Equities Portfolio Distribution

Market value as at 31 March 2007



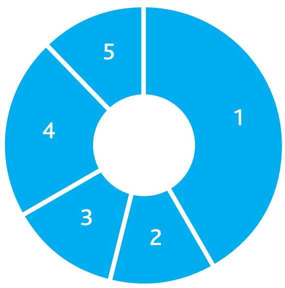
1.	United Kingdom	24%
2.	United States	35%
3.	Europe	40%
4.	Other	1%

Private equity investment requires a high level of resources and a wide variety of skills. Consequently, the most efficient way for the Fund to invest in this asset class is through a portfolio of funds managed by specialist private equity firms. The selection and monitoring of existing and potential managers is carried out in-house.

In recent years, there has been a significant improvement in private equity activity. Continued confidence in the economy and public markets has driven the pace of fundraising, investments and exits even further.

(iv) Overseas Equities Portfolio Distribution

Market value as at 31 March 2007



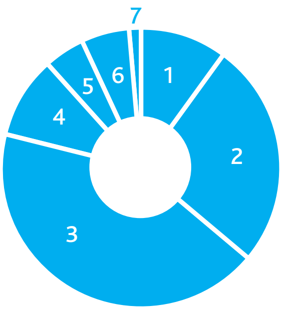
1.	Continental Europe	41.9%
2.	Japan	12.0%
3.	Pacific Basin (excluding Japan)	12.9%
4.	North America	21.1%
5.	Emerging markets	12.1%

The majority of the overseas portfolios are managed in-house, with the balance being with specialist investment managers ranging from enhanced indexation to traditional active management. Emerging markets' investments are managed externally in collective investment vehicles offering a wide country coverage.

The Japanese, Pacific Basin and European portfolios are broadly based across a range of sectors and markets. The in-house US portfolio is managed passively to capture market returns. The market value of overseas equities represented 27.3% at 31 March 2007.

(v) Global Equities Portfolio Distribution

Market value as at 31 March 2007



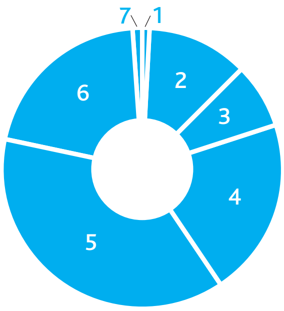
1. UK	10.1%
2. Continental Europe	26.1%
3. North America	42.7%
4. Japan	9.6%
5. Pacific Basin (excluding Japan)	4.6%
6. Emerging markets	5.6%
7. Cash	1.3%

The global equity portfolios are managed totally externally by four managers each with very different styles. As a result each portfolio has distinct characteristics and different country weightings versus the benchmark, this being the FTSE All-World Index.

As at 31 March 2007, the global equity portfolio represented 5.8% of the total Fund.

(vi) Property

Market value as at 31 March 2007



1. Agriculture	0.9%
2. Shops	11.8%
3. Shopping centres	7.4%
4. Retail warehouses	20.7%
5. Offices	37.7%
6. Industrials	20.5%
7. Indirect investments	1.0%

The property portfolio primarily consists of directly owned assets within the retail, office, industrial and agricultural sectors, all of which are located in the UK. The Fund also holds a small proportion of indirect investments in the form of a unit trust, which provides exposure to overseas property markets.

Over the course of the year, capital values of commercial property increased and this, combined with the good rental income the property portfolio provides, gave very respectable overall returns. The Fund's property portfolio represented 7.7% as at 31 March 2007.

The Fund made one purchase and one sale during the course of the year.

Investment Return Report

West Midlands Pension Fund	UK	Europe	US	Japan	Pacific Basin (ex. Japan)	Emerging Markets	Global	Gilts	Index-Linked	Corporate Bonds	Property	Private Equity	WMPF Average	Average Fund Return
One year (31 December 2006)	16.3	18.5	1.5	-9.3	23.0	16.8	8.8	2.3	3.9	3.1	18.1	20.7	**12.6**	10.7
Three years (31 December 2006)	16.9	18.3	8.4	10.5	23.2	27.9	13.4	4.6	6.2	6.7	17.5	22.5	**15.0**	14.1
Five years (31 December 2006)	8.2	8.9	0.6	4.8	18.1	20.2	-	-	6.7	-	13.3	6.6	**7.8**	8.6

In January 2007, the Fund sold its holding in Princes Street, Edinburgh for £12.5m. The sale came after the Fund had successfully negotiated a longer lease with the existing tenant, enhancing the value of the investment. The sale capitalised on this and also took advantage of a strong bid for an asset that had little prospect of rental growth.

In February 2007 the Fund purchased the property known as the Alliance Paper Unit, Midpoint Park, Birmingham. The property should perform well on its own merits, but there is the additional potential to create value through combining the two sites at some point in the future.

Work continued throughout the year on the redevelopment of the Fund's office building in Newhall Street, Birmingham. Completion of the building took place just outside of the reporting period on 14 May 2007 and was, therefore, substantially complete at 31 March 2007. The finished building is of very high specification, situated in the heart of Birmingham's business district.

The Fund makes all significant decisions regarding the property portfolio in-house, but receives advice from an independent property adviser (John Fender Consultancy) and a leading firm of surveyors (Cushman & Wakefield Investors). The latter also dealing with the day-to-day management of the portfolio. The operational and strategic management of the property portfolio is going out to tender in late spring, the mandate being that of advisory.

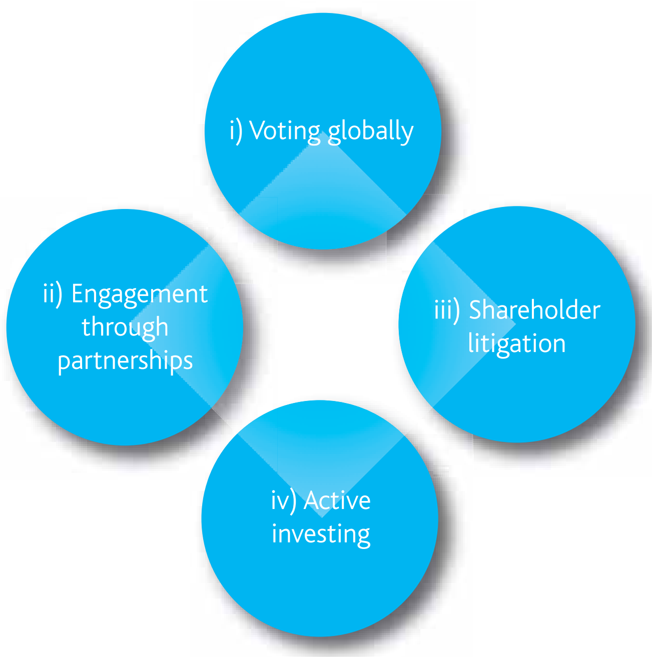
Judy Saunders
Chief Investment Officer

Corporate Social Responsibility and Corporate Governance

Harvesting eucalyptus, Brazil

The Fund's objective is to generate acceptable returns in order to meet its commitments to those who receive pensions and other benefits. The Fund also recognises that corporate social responsibility (CSR) is a growing concern for companies and investors, and believes strongly that we along with other financial institutions have an important part to play. The Fund views CSR as part of sustainable development – along with economic growth and ecological balance and, therefore, a key component for a sustainable future.

The Fund's approach to corporate governance (CG) and socially responsible investment (SRI) divides into four areas:



Voting Globally

The Council's SIP clearly indicates that the Fund will have an active policy of engagement with companies and this is reflected in its CG activity. The Fund uses its proxy votes at all major UK company AGMs and EGMs. The Fund votes on all UK companies in the FTSE All Share Index where it has a holding and, where possible, its US and European holdings. It has very recently started to vote on its Japanese holdings.

The Fund uses its role to express its concern over CG issues, often alongside a number of institutional shareholders. It is hoped that if a significant number of shareholders express their concern by the way they vote, company boards will be forced to take notice and will move towards best practice in terms of CG. Where possible, the Fund operates a policy of non-abstention when voting at UK meetings and will oppose a resolution rather than abstain.

Karlstad Research Centre, Sweden

The vast majority of company resolutions were supported in the year ending March 2007, with the most commonly opposed resolution being that of the remuneration report. The Fund's voting policy ensures that over-generous executive compensation packages for mediocre performance receive an opposition vote.

Other issues such as length of directors' contracts, the lack of independence of non-executive directors, the independence of the auditors and the level of non-audit fees paid have also proved contentious. The revised 2004 combined code requires companies to indicate the number of abstentions received, enabling management to assess the true level of support or opposition for particular resolutions. It also requires companies to comply or explain why they are not following the code.

During the 12 months, the Fund voted at 657 UK company meetings (a mixture of AGMs and EGMs).

The Fund was able to vote in favour of all resolutions at only 11% of AGMs and opposed over 21% of all resolutions. In Europe, the Fund voted at a total of 173 company meetings and, in the US, voted at a total of 476 company meetings and just two company meetings in Japan. The overall analysis of the Fund's voting at UK meetings for the 12 months ending March 2007 is as follows:

	No. of UK AGMs	% of total Fund oppose votes
AGMs in total	489	
Voted in favour of all resolutions	53	
Voted against in respect of:		
Remuneration report/policy		29%
Appointment of directors		22%
Appointment of auditors		20%
Share option schemes/LTIPs		11%
Report and accounts (mainly on environmental policy)		5%
Political donations		5%
Issue shares for cash/with pre-emption rights		1%
Share repurchases		1%

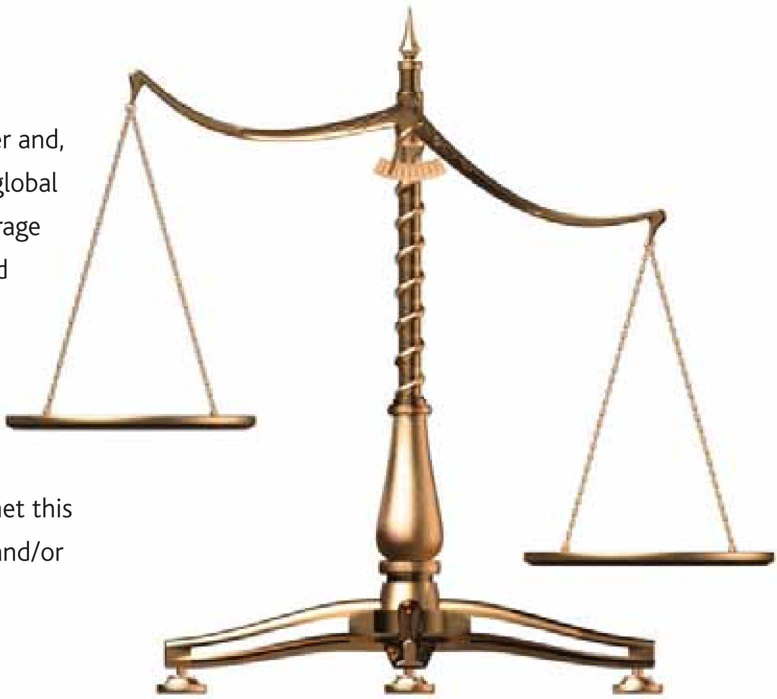
Whale in the Western South Atlantic

Veracel Pulp Mill, Bahia

Engagement Through Partnerships

In recent years, the Fund has developed a number of CSR and CG partnerships. In addition to that of the Local Authority Pension Fund Forum, which now consists of 40 members representing over £70bn of local authority pension fund assets, it belongs to the Institutional Investor Group on Climate Change and the influential US-based Council of Institutional Investors. Being members of these partnerships reaffirms the Fund's belief that working with other institutional investors maximises their influence as responsible investors.

The SIP reflects the Fund's commitment to the active promotion of sound employment practices, concerns for communities, human rights issues, improved environmental policies and high ethical business standards, all issues which are addressed by the partnerships.



Shareholder Litigation

The Fund works in partnership with a US lawyer and, where appropriate, submits class actions on a global basis. It is hoped that this approach will encourage corporate management to behave honestly and responsibly.

Active Investing

Achieving strong returns for an acceptable level of risk is the Fund's objective. The Fund actively seeks investment opportunities that met this objective combined with best practice in CSR and/or CG.

Statement of Investment Principles

Introduction

The West Midlands Pension Fund has drawn up this Statement of Investment Principles (SIP) to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. This statement is available to anyone with an interest in the Fund and the public generally.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Superannuation Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in Section 2 on page 5. The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The Committees meet at least four times a year. A Joint Consultative Panel made up of local trade union members meets three times a year.

The roles of the members and Committee are as follows:

Role Of Superannuation Committee Member

Principal Accountabilities

1. To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
2. To put in place and monitor the administration of contributions and payments of benefits as required by the regulations and the proper management and investment of monies held for the purpose of paying benefits.
3. To determine and review the provision of resources made available for the discharge of the function of administering authority.

Key Duties

(a) Superannuation Committee Members

1. Monitor compliance with legislation and best practice.
2. Determine admission policy and agreements.
3. Monitor pension administration arrangements.
4. Determine investment policy -
   (a) benchmark (medium-term)
   (b) tactical
5. Monitor policy.
6. Appoint committee advisers.
7. Determine detailed management budgets.

(b) Investment Advisory Sub-Committee

1. Monitor investment management arrangements.
2. Review strategic investment opportunities.
3. Appoint and dismiss segregated managers.
4. Monitor implementation of investment policy.

The Council delegation to Superannuation Committee is as follows:

(a) To exercise the functions of the Council in relation to the administration of the West Midlands Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, and any subsequent related legislation.

(b) To exercise all the general powers and duties of the Council granted to cabinet teams and standing bodies provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.

(c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

(d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.

The delegation to the Investment Advisory Sub-Committee is as follows:

(e) To advise on the establishing of policies in relation to investment management include the appointment and approval of terms of reference of independent advisers to the Fund.

(f) To monitor investment activity and the performance of the Fund.

(g) To oversee the investment management functions of the Fund.

The Director for Resources and Support implements the Committee policy and manages the day-to-day functions as described in Section 3.

This SIP has been prepared taking into account the 2004 actuarial valuation, the FSS and Investment Strategy Review Report 2004 together with subsequent approved changes.

Investment Objectives and Risk

Investment Objectives

The Authority has set the following objectives:

(i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.

(ii) Emphasise markets that over time are likely to give better returns.

(iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.

(iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided.

Risk

There are various risks to which any pension scheme is exposed and these are described in the FSS and Investment Strategy Review. It is believed that the investment risks are managed at an acceptable level and are tightly controlled within the risk budget.

There are a number of risks:

(i) The risk of a deterioration in the funding level of the Fund due to investment markets not delivering the expected returns. Managed by an optimum benchmark reflecting low correlation between asset classes and diversification.

(ii) The risk that the active managers will not achieve their set targets. Managed by the optimum split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a range of specialists returning alpha at varying levels of risk and return.

(iii) The risk of not achieving the long-term return of 7-8% as identified by the actuarial review. Managed by an investment structure designed to deliver the core return of 7.7% from beta. Any returns generated by active management is in excess of the core return.

Investment Strategy

The Authority sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives set out above and in its FSS. This is reviewed at least every three years, after each actuarial valuation and monitored on an ongoing basis to facilitate any necessary changes.

The present split between the three main asset classes and the expected returns is illustrated in the diagram at the bottom of the page:

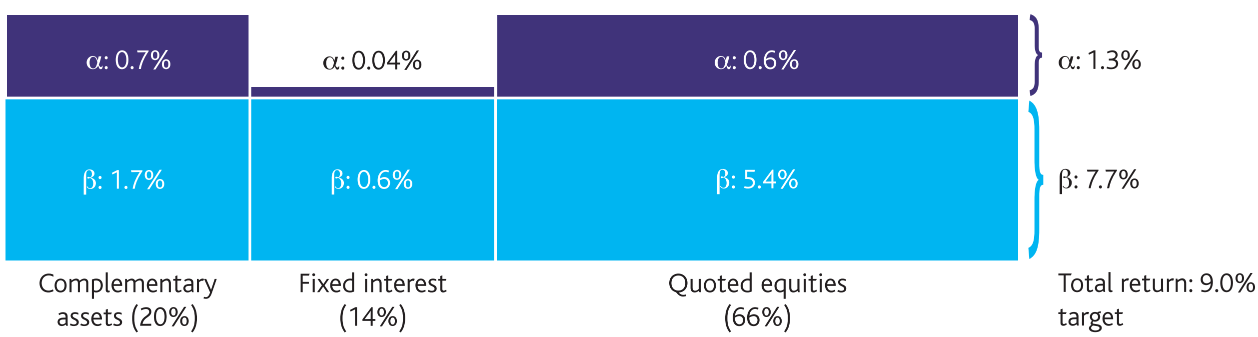
The table shows that:

(i) the bulk of the Fund's overall return (5.9%) comes from its core/passive equity investments.

(ii) although the Fund only has a 15% allocation to 'complementary' asset classes, almost 50% of the alpha is derived from these.

The introduction of these complementary asset classes increases the overall returns whilst reducing the overall level of risk due to diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the extra alpha more than offsets any increase in volatility.

Tactical asset allocation decisions are taken on a quarterly basis by the Superannuation Committee, based on advice from Gartmore Investment Management and its other professional advisers.



Day-to-Day Management of the Assets

Main Assets

The Authority invests the assets of the Fund in portfolios, 'vehicles' and structured products operated by both internal and external investment managers. The Authority is satisfied that the level of diversification (and correlation) and degree of active management combined with beta provides the appropriate risk/return structure for the Fund.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 65% of the Fund's investments. The majority of quoted equities are still managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets.

PFID sometimes uses pooled specialist funds to achieve the core objectives, for example, pooled funds for small and mid-cap companies.

The remainder of the assets are with external managers who have the specific skills set necessary to provide the target returns required. These vary from enhanced indexing to high alpha mandates. The managers used are listed as follows:

Asset Class	Manager
Equities	
UK	PFID State Street Global Advisers Henderson Global Investors Goldman Sachs Asset Management
North America	PFID Intech Blackrock Financial Management
Europe	PFID Barclays Global Investors DIAM International
Japan	Nomura Asset Management Legal & General Asset Management
Pacific (excluding Japan)	PFID Schroder Investment Management
Global	MFS Investment Management Barclays Global Investors Alliance Bernstein Axa Rosenberg Investment Managers
Emerging markets	PFID through specialist funds
Complementary investments	
Private equity	PFID through specialist funds
Infrastructure	PFID through specialist funds
Emerging market debt	Ashmore Investment Management
Currency alpha	Record Currency Management Overlay Asset Management Mellon Capital Management
Commodities	Goldman Sachs Asset Management
Fixed interest	
UK gilts	Legal & General European Credit Management
UK index-linked	PFID
UK non-government bonds	PFID Royal London Asset Management
Cash	PFID
Property	Cushman & Wakefield

Special arrangements exist for the management of private equity and some of the other complementary assets, which involves selecting specific funds. Property is also managed through specialist managers, subject to close in-house involvement and final decision taking on all, except minor, property matters. Index-linked bonds are managed in-house on a passive basis whilst part of the UK corporate bonds is managed externally. UK gilts are managed totally externally split between a high alpha and a passive mandate. The Fund currently uses currency hedging in-house when considered appropriate to protect the sterling value of some of its overseas holdings and will introduce passive overlay to a much wider part of the overseas asset allocation when timing is considered appropriate.

The Fund has also used futures for protecting its quoted equity allocation whilst in the process of implementing its benchmark. Going forward, the Fund will give serious consideration to any structured product or derivative that is considered to be a 'permitted' investment under LGPS regulations and that is considered to be the most efficient use of the Fund's assets within the risk budget.

Investment Performance Benchmark

The benchmark is as set out below:

	2004 benchmark %	2007 benchmark %
UK equities	37.0	34.0
Global equities	6.0	6.0
Overseas equities	27.0	26.0
North America	8.0	6.0
Europe	10.0	11.0
Japan	3.5	3.0
Pacific Basin	3.0	3.0
Emerging markets	2.5	3.0
Total	**70%**	**66%**
Bonds	15.0	14.0
UK fixed interest gilts	5.0	4.4
UK index-linked gilts	5.0	4.3
Corporate bonds	5.0	4.3
Cash	0.0	1.0
Complementary investments	15.0	20.0
Private equity	5.0	5.5
Property	8.0	9.0
Currency alpha		1.5
Emerging market debt	2.0	1.5
Commodities		1.5
Infrastructure		1.5
Total non-equities	**30%**	**34%**
Total	**100%**	**100%**

Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios should match or exceed the specific targets set for each portfolio over time. The Investment Strategy Review 2004 indicated that with a target long-term return of 7.7% the risks associated with that target are manageable. The total return target for the Fund is 9.0% but this is split between the returns expected from beta (the core return of 7.7%) and those from alpha (1.3%).

Investment Restrictions

The investment managers are prohibited from holding investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The Fund operates at the limits set by the lower level of control under Regulation 11(2), except for contributions to partnerships where it has resolved to work to the upper limit of 15% under Regulation 11(2A). This reflects the level of investments planned for private equity and nature of some property holdings.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds. The Authority monitors from time to time the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit outgoings, etc, as the Fund's cashflow is positive.

Monitoring the Investment Manager

The performance of the internally managed assets and of the external investment managers is independently measured by the WM Company. In addition, officers of the Fund meet the investment managers regularly to review their management of the portfolio together with the reasons for the background behind the investment performance. The Investment Advisory Sub-Committee meets at least quarterly to review markets and managers.

Advisers

The Fund uses a range of advisers in addition to its own specialist officers as follows:

- **Gartmore Investment Management**
  Investment policy, quarterly asset allocation, general investment matters.
- **Mercer Human Resource Consulting**
  Actuarial matters.
- **Mercer Investment Consulting**
  Selection of investment managers, policy and investment matters relative to liabilities.
- **Cushman & Wakefield Investors**
  Commercial and industrial property matters, day-to-day management of properties and transactions, involving the sale and purchase of property (excluding agricultural).
- **John Fender Consultancy**
  Independent property advice.

- **Knight Frank**
Agricultural property management matters.

- **DTZ**
Independent property valuations.

- **Savills**
Independent agricultural property valuations.

- **Entec**
Planning matters (agricultural holdings).

- **Lawrence Gould**
Independent agricultural property advice.

- **Deloitte & Touche**
Investment management practices and regulations.

- **PIRC**
Company governance issues.

Fees paid to advisors are agreed on an individual basis and, except for Cushman and Wakefield, are a fixed sum or scale reviewed annually or as work is commissioned.

Social Responsible Investment (SRI) and Environmental Investment

(i) The Authority has determined that reasonable dialogue and proactive engagement with the companies in which it invests is the most effective means by which the social, environmental and business policies of those companies can be understood and influenced where necessary, whilst at the same time achieving financial returns compatible with the Fund's longer term financial objectives.

(ii) The corporate performance of companies and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Authority will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Authority expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

(iii) Going forward, the Authority actively seeks investments which meet both superior investment returns and SRI/environmental criteria, the returns being the prime factor. Such investments would include funds involved in alternative energy, climate change, urban regeneration and activist funds.

Corporate Governance

(i) The Authority recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Authority considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

(ii) In order to fulfil this responsibility, the Authority communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Authority's voting rights are an asset and will be used to further the long-term interests of the Fund beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility.
It is the Authority's policy to vote against a company's report and accounts where there is insufficient disclosure on environmental, employee and community policy. A copy of the Authority's corporate governance policy and a summary of its voting actions can be found on our website at: www.westmids-pensions.org.uk

(iii) The Authority uses the PIRC Corporate Governance Service for analysis of governance issues.
The Authority has developed its own bespoke voting policy which PIRC executes on the Authority's behalf. The Fund is also a member of the Local Authority Pension Fund Forum. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

(iv) The Authority is actively developing corporate governance partnerships as it believes this will maximise the influence of shareholders, will lead to best practice and will promote high standards on a global basis. Current partners include the Institutional Investors Group on climate change and the Council of Institutional Investors.

Compliance with this Statement

The Authority will monitor compliance with this statement. In particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement so far as is reasonably practicable.

Compliance with Myners

Following from the Myners' Report into Institutional Investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations and identified ten investment principles to apply to pension schemes. These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Fund supports the principles and complies with the principles (see page 100 and 101). Full details of compliance are on the Fund's website.

Review of this Statement

The Authority will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

Employer Consultation –
Investment Strategy Review of the Fund

Following an initial review carried out by the by the Fund's actuary, which took into account both the preliminary indicative results of the 31 March 2004 actuarial valuation and the environment of market conditions which the Fund faced, a process of extensive employer consultations took place during September/ October 2004, to obtain employer's comments on the proposed FSS.

The Fund will continue to consult on such matters from time to time, as required, and will utilise the Fund's website: westmids-pensions.com/consult/ as a direct communication channel which can be used by employers to provide feedback.

Background – Setting Investment Strategy

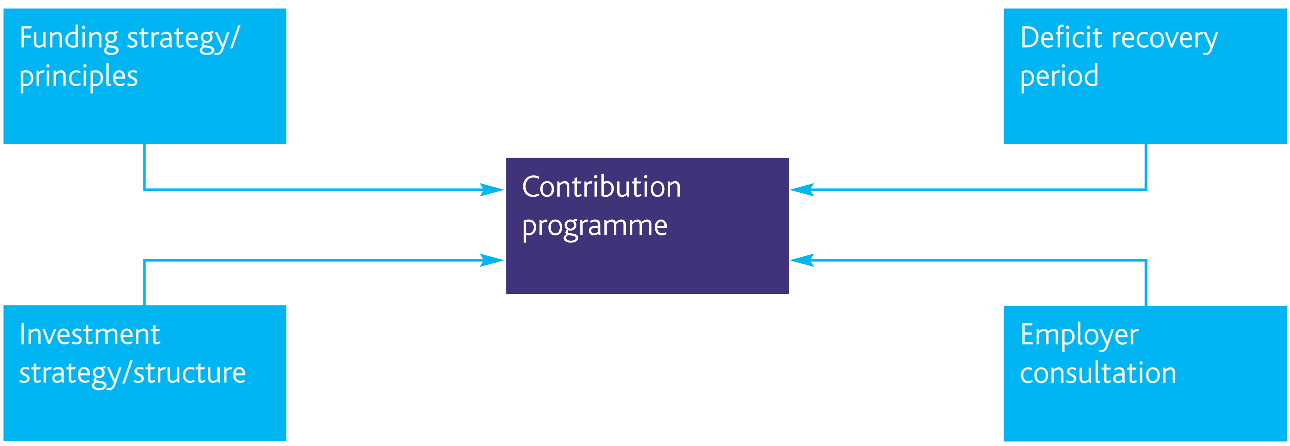
There is no single 'correct' answer to the question "What should investment strategy be?" The strategy decision must be made to meet the sponsoring employers' aims and also those of the Fund.
In particular, it should meet the preferred balance of risk and potential return. In the past, the Fund's investment strategy has been set based on the view that in the long-run the equity markets will produce returns over and above those of the bond markets. The aim of the strategy review was to quantify the risk being taken by the Fund in terms of how the investment strategy could affect the funding status at the next actuarial valuation.

Funding Strategy Statement (FSS)

In support of the valuation process, an FSS has to be produced after consultation with employers and covers:

- The purpose of the Fund.
- The target solvency rate.
- The overall aims of the Fund.
- The approach to balancing solvency and smoothing contributions.
- The identification of risks.
- What action would be required in response to adverse/positive outcomes.
- Links to investment policy set out in the Fund's SIP.
- An appropriate funding strategy.
- Monitoring arrangements.
- Consultation and communication with participating employers and other interested parties.

Contribution Programme



Background to Scheme Administration

Who Runs the LGPS?

The LGPS is a statutory scheme established by Act of Parliament. The Scheme rules, until 31 March 1998, were set out in the LGPS Regulations 1995, which were effective from 2 May 1995 and which consolidated all of the relevant regulations in force prior to that date.

From 1 April 1998, the LGPS Regulations 1997 and the LGPS (Transitional Provisions) Regulations 1997 became effective and introduced a 'new look' LGPS. The LGPS is run by administering authorities – for example, county councils – in accordance with regulations approved by Parliament.

New LGPS Regulations come into force on 1 April 2008 and will form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards.

Each administers their own fund, into which all contributions are paid. Every three years, independent actuaries carry out a valuation of each fund and set the rate at which the participating employers must contribute, to fully fund the payment of Scheme benefits for that fund's membership.

The administering authority for the West Midlands Pension Fund is Wolverhampton City Council.

What Other Legislation Applies to the Scheme?

The Scheme is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004.

The Civil Partnership Act came into force on 5 December 2005, which allows same sex couples to obtain legal recognition of their relationship. In addition, there are other overriding statutory provisions, in connection with national insurance contributions, benefits and income tax.

What Information are Members and Potential Members Entitled to?

Members and potential members are entitled to obtain a copy of the LGPS 1997 (Statutory Instrument Number 1997 No.1612) and subsequent amendments. The regulations are available from The Stationery Office. A current version, including all amendments, is available on the Local Government Employers' website at: http://www.lge.gov.uk/pensions/content/timeline.html

A copy of the regulations may be inspected at the Fund's offices during normal working hours. In addition, members and potential members are entitled to view, and take copies of the administering authority's 'annual report and accounts.

The West Midlands Pension Fund's accounts can be viewed online at the following address: westmids-pensions.com/accounts

How is the Scheme Amended?

The Scheme regulations are made under the Superannuation Act 1972. Changes to the rules are discussed at a national level by employee and employer representatives, but can only be amended with the approval of Parliament. The administering authority has a duty to keep members informed of any changes that are made.

Are the Scheme Benefits Protected?

As the Scheme is set up by statute, payment of the Scheme benefits is guaranteed by law.

Who Can Join the LGPS?

The LGPS is available to all employees in local government, and to employees in other organisations that have chosen to participate in it. Teachers, police officers, fire fighters and employees eligible to join another statutory pension scheme such as the Teachers' pension scheme or NHS pension scheme) are not allowed to join the LGPS. Employees cannot join the Scheme on or after the eve of their 75th birthday.

Day-to-Day Administration of the Fund

Wolverhampton City Council has administered the Fund since 1986.The function is carried out through the Superannuation Committee which meets regularly throughout the year. Membership of the Superannuation Committee, of the Investment Advisory Sub-Committee and of the Superannuation Joint Consultative Panel, includes elected representatives from the seven metropolitan authorities situated within the West Midlands county. Because the Scheme is a defined benefit scheme, members' benefits are calculated strictly in accordance with the regulations and are not subject to changes generally affecting the value of the Fund's assets. The Scheme is contracted-out of the state second pension (S2P).This means that any pension paid from the LGPS must at least be equal to the guaranteed minimum pension (GMP) otherwise provided by SERPS to 5 April 1997.

The Pensions Administration Service of Wolverhampton City Council carries out the daily administration of the Scheme. The Service provides a high quality pensions administration for seven district councils and over 180 other bodies.

At 31 March 2007, the total membership of the Fund (one of the largest funds in England and Wales) stood at 226,547 with the total value of the Fund's net assets amounting to £7.513 billion.

Of the 226,547 members, 105,512 are currently contributing to the Scheme (active members) with an average age of 44; 61,732 are no longer contributing, but have pension rights within the Fund (deferred members), with an average age of 46; 59,303 are now in receipt of a pension from the Fund (pensioner members).

Of the pensioner members, approximately 49,500 are current pensioners (average age 69) and 9,800 are dependant pensioners (of which 94% are spouses, with an average age of 73, and the remaining 6% are children's pension in payment, with an average age of age 16). Of the 105,512 active members, females represent approximately 72% of the total and male employees 28%. Of the active members, 53% are full-time and 47% are part- time.

The New LGPS

These come into force on 1 April 2008 and form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards (see page 87).

Key Issues

The main features of the 2008 Scheme as described in the regulations are:

- Only employees with a contract of employment of more than three months' duration are able to be members.
- Employee contributions will be set according to bands of previous year's full-time equivalent pay. DCLG estimate that the average contribution rate will rise from the current 5.8% to 6.3%.
- Some transitional protection for those currently paying 5% contributions is expected.
- For membership from 1 April 2008, pension accrues at the rate of 1/60th of final pay per year, with no automatic lump-sum, but members may (as at present) convert pension to lump-sum on a 12:1 basis, up to a maximum of 25% of the total capital value.

- Unreduced benefits payable early on redundancy or inefficiency grounds from age 55 (with protection of an age 50 minimum for existing members up to 30 March 2010).
- Benefits payable early on voluntary retirement from age 55 (or 50 where protection applies) subject to employer consent if under 60, and also to actuarial reduction reflecting the period to normal retirement date (i.e. age 65 as at present), if appropriate.

Costing Early Retirements

The importance of costing early retirements was first highlighted by the Audit Commission in a report in November 1997.

The report found that 75% of all retirements (nationally) were due to early retirement. This was, therefore, having a potential impact on the solvency of the LGPS funds and the resultant employer's contribution rates.

Therefore, it is imperative that before a decision to allow an employee's non ill-health early retirement is taken, the real cost (including the strain on the Fund) is appreciated by the employer, its appropriate officers and/or councillors. A revised methodology for costing early retirements has been adopted by the Fund.

The revised approach has been agreed by the Association of Consulting Actuaries Local Government Sub-Committee and has been adopted as a common standard for all LGPS funds.
In accordance with the Scheme Regulations, the Pensions Administration Service is required to monitor all non ill-health early retirements intervaluation.

If the actual volume and cost of an employer's early retirements exceeds the allowance made by the Fund's actuary, as agreed with the Fund following the 2004 valuation report, an immediate review of the employer's future contribution rate may be required.

Payment of Pensions

The number of pensions in payment continues to increase. After allowing for deaths during the year, there was a net increase of 1,975 in 2006/2007. This follows an increase of 1,438 in 2005/2006.

Additional Voluntary Contribution Scheme

Equitable Life had been the sole in-house AVC provider since such provision became a legislative requirement in 1988. Since October 1997, they have been joint providers with Prudential Assurance Company Ltd.

The Fund continues to work with Prudential, to ensure that members are informed of the options available to them under the current AVC arrangements. To this end, the Fund won 'Best AVC Initiative' at the Professional Pensions 2005 Awards.

	Equitable Life Assurance Society		Prudential Assurance Company Ltd	
Member type	2005/2006	**2006/2007**	2005/2006	**2006/2007**
Active members	1,067	**960**	2,312	**2,573**
Withdrawals	144	**154**	58	**74**

The Fund's AVC Providers

Equitable Life

Equitable Life, HECM Customer Services
PO Box 175,Walton Street,
Aylesbury, Bucks HP21 7QW
Tel: 01296 384904
Fax: 01296 385010
Email: gv19_Unit@elas.co.uk

PRUDENTIAL

Prudential LGAVC, Prudential,
PO Box 2711,
Reading RG1 3UL
Tel: 0845 607 0077
Fax: 0118 968 6208
Email: lgavc@prudential.co.uk

The 2008 Regulations – a Summary

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 1166/2007)

Regulations made	**3 April 2007**
Laid before Parliament	**4 April 2007**
Coming into force	**1 April 2008**

The regulations set out provisions relating to benefits, membership and contributions in the new LGPS ('the Scheme') which replace the current LGPS 1997 ('the 1997 Scheme').

Regulation 1	definitions.
Regulation 2	sets out who is a member of the Scheme – broadly speaking, this is anyone who is, or could have been had it continued in existence, a member of the 1997 Scheme.
Regulation 3	contains a table of rates of contributions on pensionable pay, and makes provisions for part-time and term-time workers. 'Pensionable pay' is defined in Regulation 4.
Regulation 4	definition of pensionable pay.
Regulations 5, 6 and 7	provides for a minimum membership of three months for entitlement to benefits in most cases, and explain how length of membership is calculated.
Regulations 8 to 11	provide for the calculation of final pay.
Regulations 12 and 13	respectively provide power for employing authorities to increase membership or award additional pension.
Regulations 14 and 15	respectively provide for voluntary additional payments to increase pension, and for AVCs.
Regulation 16	provides for the normal retirement age (65).
Regulation 17	for retirement after this age (65).
Regulation 18	for flexible retirement.
Regulation 19	makes provision relating to redundancy and inefficiency.
Regulation 20	makes provision relating to ill-health retirement.
Regulation 21	provides for commutation of pension, and Regulation 22 places a limit on the total amount of benefits.
Regulations 23, 24 and 28	(active members)
Regulations 32, 33 and 34	(deferred members)
Regulations 35,36 and 37	(pensioner members) provide for death grants, survivor benefits and children's pension for the respective classes of member.
Regulation 25	contains a definition of 'nominated cohabiting partner'.
Regulation 26	definition of 'eligible child' for these purposes.
Regulation 27	makes further provision about children's pensions.
Regulations 29 to 31	make provision relating to early payment of pension.
Regulation 38	provides for payment of increases under the Pensions Increase Act 1971.
Regulation 39	for commutation of small pensions.
Regulation 40	requires administering and employing authorities to have regard to guidance issued by the Secretary of State about future costs of the Scheme.

A regulatory impact assessment has been produced for the regulations and is available via the LGPS website at www.communities.gov.uk/lgps

Pensions in the Press

As you may have seen in the pensions press, there's been quite a debate on how the 2008 regulations have been formulated. In particular, the attention has been focused on an effective implementation of the regulations and how this can be achieved, when so much is still undecided with less than 12 months to the date of implementation. All articles by Jonathan Stapleton – Professional Pensions.

The song remains the same

Mike Woodall of the West Midlands Pension Fund finds the new-look local government pension scheme provokes a spooky feeling of déjà vu

If you would indulge the nostalgia of an ageing local government pensions officer, I would like to share with you the contents of the Poor Law Officers Superannuation Act of 1896.

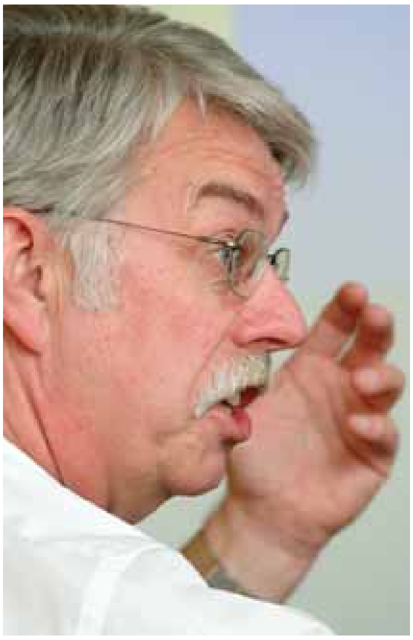
This act ensured a comfortable retirement for those officers who would have been responsible for the running of the work house where their unemployed inmates suffered a lifestyle reflecting the principle of less eligibility. This put simplistically meant that a resident of a work house endured a lifestyle no less austere than that enjoyed by the lowest paid working individual.

The pension scheme for work house employees, however:

- Provided a pension at age 65.
- Had tiered employee contributions based on pay and service.
- Had benefits of 1/60th of final pay for each completed year of service.

These benefits would have been, in the main, for white middle-class male full-time employees who had enjoyed a job for life. Over the last 100 years since this legislation was enacted, what is now known as the local government pension scheme has evolved which now sees:

- Automatic admission to the scheme for all but casual employees.
- A pension based on an 80th of pensionable pay for each year of service.
- An ability to receive up to 25pc of the value of the pension fund as a tax-free cash lump-sum.
- An index-linked final salary scheme.



There have been many improvements to the scheme over the years, including spouses' pensions, children's pensions, death in service grants, etc.

During the intervening century, the profile of the workforce of local government has changed dramatically from being a white male full-time employee environment to one where females are now the majority of scheme members, and a significant proportion of them working part-time.

It is rare now for an individual to join local government on leaving school and remain in full-time employment until retirement age arrives, obtaining the occasional promotion as someone retires or dies. Many individuals earn their pay through multiple part-time employments with the same authority, but in different departments.

Today, many people dip in and out of local government employment, either as a result of family commitments or leave to work in the private sector when the economic climate is good, rejoining local government when times get hard.

In 2001 the government commenced a stock-take of the LGPS in England and Wales, which led to a number of changes to the scheme from April 2004, with more significant changes operative from April 2005.

The April 2005 changes included a proposal to increase the minimum age of retirement from 50 to 55 (although this change is not being made for existing scheme members until April 2010) and the normal retirement age was increased to age 65. There were a number of alternative transitional protections proposed for those who currently can retire once they achieve age 60.

The current regulations give some form of protection to existing scheme members who will achieve age 60 by March 31, 2020, although these are still subject to debate and rejection by the relevant trade unions.

In October 2004 the, then, office of the deputy prime minister issued a Green Paper entitled *Facing the Future - Principles and Propositions for an Affordable and Sustainable Local Government Pension Scheme in England and Wales*. The Green Paper stated that the government was committed to introducing new pension arrangements for local government in England and Wales which could be introduced from April 1, 2008.

In the Green Paper, ministers expressed their commitment to retaining a defined benefit final salary arrangement, which continued to be relevant to the local government workforce, provided it remained both affordable and sustainable.

Readers of this article will be aware there has been a great deal of press coverage over the last few years about the impact of employers' pension contributions on increases to council tax rates which have, in the main, been greater than inflation.

Some council leaders and a number of county treasurers have not been slow in blaming such increases to varying degrees on increases in their employer's pension contributions. This issue has not been lost on council tax payers who, in the main, in their own employments no longer enjoy the luxury of index-linked final salary pension arrangements.

An extensive consultation process has been conducted on all aspects of the current LGPS, including employer/employee contribution rates, accrual rates, definition of pensionable pay, etc.

The department for communities and local government, which was given LGPS responsibilities on the demise of the ODPM, have always prefaced consideration of any regulatory changes by the comment that amendments were intended to simplify the situation.

As part of this simplification, there is currently a proposal to change the ill-health retirement aspects of the scheme. Currently, there is only one ill-health situation when an individual can receive their benefits. This is where an individual is precluded by infirmity of body or mind from carrying out the duties of their post or of a comparable post until, at the earliest, their normal retirement age (65).

In order to simplify these arrangements it is now proposed to have two levels of early retirement within the scheme regulations.

If the member's employment is terminated because of permanent ill-health, but it is likely the individual could obtain gainful employment before age 65, they will receive accrued membership, plus 25pc of prospective membership between leaving and age 65. If a member's employment is terminated because of permanent ill-health, where the member has no reasonable prospect of obtaining gainful employment before age 65, the pension payable will be based on accrued membership, plus 100pc of prospective membership between leaving and age 65.

Additionally, it is intended to introduce a third tier of ill-health retirement, administered through regulations contained in the premature retirement compensation scheme, where an individual is unable to work currently but is expected to be able to return to some form of employment in the foreseeable future.

Ill-health retirements, or perhaps the lack of their approval, form the greatest area of appeals against decisions under the current scheme. I shudder to think of the volume of appeals we will be seeing in the future once this new simplified arrangement is in plate.

I know I am at an age where cynicism is easier than optimism, but is it coincidental that the regulations under which the LGPS now operates appear to have been overly complicated since the DCLG have no role in determining appeals against their interpretation?

These changes were intended to reduce the cost of ill-health early retirements to employers and make their administration simpler.

In the words of Terry Wogan: "Is it me?"

Currently there are only two rates at which employees' pension contributions are made: 6pc of pensionable pay for all existing and new members, but with a 5pc protection in place for the fairly small number of former manual employees whose earnings profile is comparatively flat throughout the whole of their working life.

In order to simplify the situation, the DCLG intends to introduce seven tiered employee contribution rates, based on notional annual full-time pay and additional transitional arrangements over four years, for protected manual employees.

Even though I have the greatest regard for the effectiveness of local government employers, I find it hard to believe their payroll systems can be modified in the time available in order to make them reflect the new requirements of the LGPS by April 2008. That ignores the question of where the £50m will come, which is the estimated national anecdotal cost of making the necessary payroll changes.

Until fairly recently, survivor benefits have only been payable to individuals who were legally married to members of the LGPS. This was quite rightly changed recently to include same sex partners who had entered into a civil partnership. It is now intended to introduce survivor pensions for what are now described as "nominated co-habiting partners".

They are, however, to be treated very differently from those who fall into the two earlier categories. Surviving nominated co-habiting partners must be able to show they were living together as if they were husband and wife, were either financially dependant on their partner or financially interdependant, and had been living together in such a relationship for at least two years.

It appears to me that pensions officers will be required to pry into very personal areas at a time when the individual concerned is at their most vulnerable and emotional.

Interestingly enough, however, if either the scheme member or their nominated co-habiting partner wishes to revoke the nomination, this must be given in writing to the secretary of state. I am bemused at this requirement since it appears to me that the secretary of state has no other day-to-day involvement in administering the LGPS.

It is worth noting that this new-look scheme, designed to fit the needs of the 21st century provides:

- Has tiered employee contributions based on pay.
- Has benefits of 1/60th of final pay for each completed year of service.

For those of you for whom these words appear familiar may wish to refer back to the contents of the Poor Law Officers Superannuation Act of 1896. The DCLG are imploring pensions officers to approach the new regulations with a "can do" attitude.

Why am I reminded of the following quotations?

"To be is to do" - Jean-Paul Sartre
"To do is to be" - Plato
"Do be do be do" - Frank Sinatra

Mike Woodall is chief pensions officer at West Midlands Pension Fund

New LGPS may cost more than old system

The new-look Local Government Pension Scheme - set to be introduced next April - will cost more than the existing scheme, actuaries say.

They claim the abolition of the so-called rule of 85 last year - which allowed local authority workers to retire from 60 on an unreduced pension if 'the sum of their age and years of service equalled 85 - saved a substantial amount of money for the scheme.

Transitional protections for existing scheme members limited the amount of money employers saved. And proposals to look at extending this protection mean savings may be reduced further.

But actuaries say benefit improvements - such as improved accrual rates and a new ill-health benefits package - will add significant costs to the new-look scheme.

One actuary. who preferred not to be named, said workers over the age of 50 had won a particularly good deal as they would get both rule of 85 protection and the benefit improvements.

The new-look scheme also fails to pass much of the cost burden of the scheme on to employees.

In a regulatory impact assessment, published at the beginning of April and seen by *PP*, the Government Actuary's Department estimated that average future service costs for the new-look scheme - the benchmark for LGPS costings - would be 14.3pc for existing members and I I.9pc for new entrants, against an average of 6.3pc for employees.

This represents a ratio of around 69:31 for existing scheme members and 65:35 for new entrants to the scheme.

A government Green Paper published in October 2004 which set out the aims for the new-look scheme - revealed the ratio between employer (11.5pc) and employee (6.0pc) contributions was 66:34 based on the 2001 triennial valuation of the LGPS.

Revamp of LGPS 'seriously at risk'

Implementation of a revamped local government pension scheme by April 1 next year is "seriously at risk" despite assurances given by the department of communities and local government, Xafinity Paymaster warns.

The pensions administration and payroll services provider - which has widespread experience of implementing other public sector schemes such as the police and civil service arrangements - said it was an "unrealistic expectation" that payroll and human resource issues with the scheme would be fully resolved prior to its launch in April 2008.

Xafinity Paymaster statutory and public service director Robert Branagh said: "The DCLG has not fully comprehended the issues around the implementation of the new LGPS.

"While local authorities feel they may still be able to implement the new scheme despite delays, the problems with the payroll and human resources systems are still yet to be resolved.

"The DCLG is putting the success of the new scheme at risk."

Branagh also warned that delays in clarification and final drafting of new scheme regulations made it difficult for local authorities and their administrators to guarantee all systems, procedures and people would be ready for April.

Despite this the DCLG said that had received assurances from "all consulted LGPS administration providers" that the regulations would be "implementable" .

It added: "These bodies were advised in November 2006 of proposed regulations which would possibly impact upon payroll and admin systems effectively allowing 18 months for alterations to be made."

The department has also sent a letter of intent to scheme managers in a bid to reassure them that errors and omissions would be rectified.

Open letter to DCLG on new rules

The department for communities and local government, on April 27 wrote to all local government pension managers in respect of what they describe as "unhelpful press coverage" and "scaremongering" in last week's edition of *Professional Pensions. (Glaring errors in new LGPS rules, PP, April 26*).

While their letter admits the DCLG is acutely aware of the need to amend errors and to rectify omissions in their recently enacted local government pension scheme regulations, they say there is "absolutely no prospect or intention to delay implementation beyond April 2008.

At our recent meeting the software providers did not disagree with the implementation deadline".

This letter, therefore, acts as an invitation to those software suppliers who currently serve the local government pension scheme market to confirm to *Professional Pensions* they are confident their computerised pensions administration software can be amended in time to be fully operational with all LGPS administering authorities in time for implementation of the new-look LGPS on April 1, 2008.

A similar challenge is issued to payroll software providers who will be required to amend several thousand individual payroll systems at an estimated cost of £50m in order to reflect tiered employee contribution rates with the added complication in respect of former manual employees who currently enjoy a protected contribution rate of 5pc of pensionable pay.

If software providers do this, the DCLG have my assurance that they will hear nothing more from me (at least until April 2008).

Mike Woodall
Chief pensions officer
West Midlands Pension Fund

GAD powers questioned as LGPS 'passports' withdrawn

The new-look Local Government Pension Scheme - set to be introduced next April - will cost more than the existing scheme, actuaries say.

They claim the abolition of the so-called rule of 85 last year - which allowed local authority workers to retire from 60 on an unreduced pension if 'the sum of their age and years of service equalled 85 - saved a substantial amount of money for the scheme.

Transitional protections for existing scheme members limited the amount of money employers saved.

And proposals to look at extending this protection mean savings may be reduced further.

But actuaries say benefit improvements - such as improved accrual rates and a new ill-health benefits package - will add significant costs to the new-look scheme.

One actuary. who preferred not to be named, said workers over the age of 50 had won a particularly good deal as they would get both rule of 85 protection and the benefit improvements.

The new-look scheme also fails to pass much of the cost burden of the scheme on to employees.

In a regulatory impact assessment, published at the beginning of April and seen by *PP*, the Government Actuary's Department estimated that average future service costs for the new-look scheme - the benchmark for LGPS costings - would be 14.3pc for existing members and I I.9pc for new entrants, against an average of 6.3pc for employees.

This represents a ratio of around 69:31 for existing scheme members and 65:35 for new entrants to the scheme.

A government Green Paper published in October 2004 which set out the aims for the new-look scheme - revealed the ratio between employer (11.5pc) and employee (6.0pc) contributions was 66:34 based on the 2001 triennial valuation of the LGPS.

Local variations crucial for success of new LGPS

Local variations are essential to implement the new-look Local Government Pension Scheme, employers claim.

Local Government Employers - the body which represents and assists local government employers on pay and pensions issues - says it is currently working on three main issues with the new-look scheme. These are eligibility, ill-health benefits and contribution bandings.

And it said new rules on contribution banding - which mean employees who earned more than set levels would have to pay a higher percentage contribution into the scheme - was a key problem.

The body said it was having problems over determining the full-time equivalent salaries - noting many workers had bonuses and allowances that made such a calculation "very difficult" to determine.

LGE head of pensions Terry Edwards told the annual meeting of the CLASS group - a partnership between software provider Heywood and local authorities - that local councils would have to be given some level of discretion in interpreting the rules.

And this would lead to differences in the implementation around the country.

Edwards said: "Local variations will be inevitable." He also warned new ill-health retirement rules - which introduce a three-tier system of benefits - were badly worded and would need to be amended to be able to work properly.

And he said there was confusion over who would be eligible to join the new-look scheme - especially when employees held multiple jobs or were working on a contract basis. Edwards said payroll systems would need to be adjusted to reflect the changes.

But Edwards stressed the LGE would provide schemes with guidance on determining pay bands and on new ill-health rules and would hold seminars and training events for administering authorities in autumn and for employing authorities at the start of next year.

DCLG acts over rejig fears

Whitehall officials have been forced to reassure scheme managers over the implementation of a revamped Local Government Pension Scheme following concerns raised in *Professional Pensions*.

Last week, *PP* revealed "glaring errors and omissions" had been discovered in benefit regulations crucial to implementing the new-look scheme from April 1 next year and manager concerns that other regulations had not been finalised.

The department for communities and local government has now issued a note to pension managers in a bid to reassure managers that any errors and omissions would be rectified as soon as they were brought to its attention. It said it would issue a departmental letter of intent this week to clarify the changes.

The DCLG also confirmed that final administration regulations would be laid this month and draft transitional amendments would be circulated within days.

But it warned there was absolutely no prospect or intention to delay implementation beyond April 2008.

Despite this, nearly half the scheme managers contacted by *PP* said next April's launch date was "unfeasible" and it should be put back until either October 2008 or April 2009.

More than 70pc said the implementation of the regulations for the new-look scheme would pose "substantial" difficulties for local authorities. And over 80pc said the benefit regulations were unworkable in their current form.

One manager commented: "I think the 2008 timetable has always been more optimistic than realistic."

• In an open letter to the DCLG (opposite) West Midlands Pensions Fund chief pensions officer Mike Woodall has challenged local government scheme administration and payroll software providers to confirm they can meet the deadline for implementing the scheme.

LGE
Local Government Employers

http://www.lge.gov.uk/pensions/content/index.html

The LGE represents employers' interests to central government and other bodies on local government pensions policy.

They provide the secretariat service for the Local Government Pensions Committee (LGPC), a committee of councillors constituted by the Local Government Association (LGA), the Welsh Local Government Association (WLGA) and the Convention of Scottish Local Authorities (COSLA).

They also provide advice and information to employers on the LGPS and related compensation matters, maintaining a central suite of guides, booklets, leaflets and web materials for those employers and their staff. A full programme of pensions training for councillors, pensions practitioners, personnel officers and other employing authority staff with an interest in the LGPS is also available.

The Local Government Pensions Committee (LGPC)

The LGPC provides pensions advice on the LGPS and related matters. It issues circulars to local authorities detailing the latest advice and information. Non-local authority organisations or individuals may subscribe to the pensions circular service. The LGPC's main function is to represent the employer interests of the 99 local authority pension funds in the UK, and, in particular, to liaise on behalf of local government with the Local Government Pensions Division of The Department for Communities and Local Government (DCLG) and with the Scottish Public Pensions Agency (SPPA).

The terms of reference are:

- To represent local authorities to Government and other interests on local government pension matters.
- To contribute to policy development on pension matters, with the objective of widening accessibility and take-up of occupational pensions in local government.
- To facilitate an advice and information network for pensions specialists.
- To co-ordinate employer interests between the local government, teachers, police and fire pension schemes.

The LGPC also runs training course and conferences for pension practitioners, elected members and employing authorities.

LGE Circulars Produced in 2006/2007

202 - Withdrawal of GAD passports
201 - Part-timer pension claims
200 - The '85 year rule'
199 - Amendments to the current LGPS in England and Wales
198 - The new-look LGPS in England and Wales
197 - LGPS trustees' conference; trustee training 'Fundamentals VI 2007'
196 - Annual update
195 - Practitioner and employer training events: 'Understanding' workshops; 'Insight' residential training courses
194 - Outline response to consultation on draft new look LGPS regulations for England and Wales
193 - Changes to the LGPS in England and Wales
192 - Communicating the changes to the LGPS in Scotland
191 - Practitioner and Employer Training Events
190 - LGPS Trustees' Conference update

Local Government Pensions Committee (LGPC), Layden House, 76-86 Turnmill Street London EC1M 5LG.
Tel: 020 7296 6745 Fax: 020 7296 6739 lg-employers.gov.uk/pensions/index.html

Local Authority Pension Fund Forum (LAPFF)

What is LAPFF?

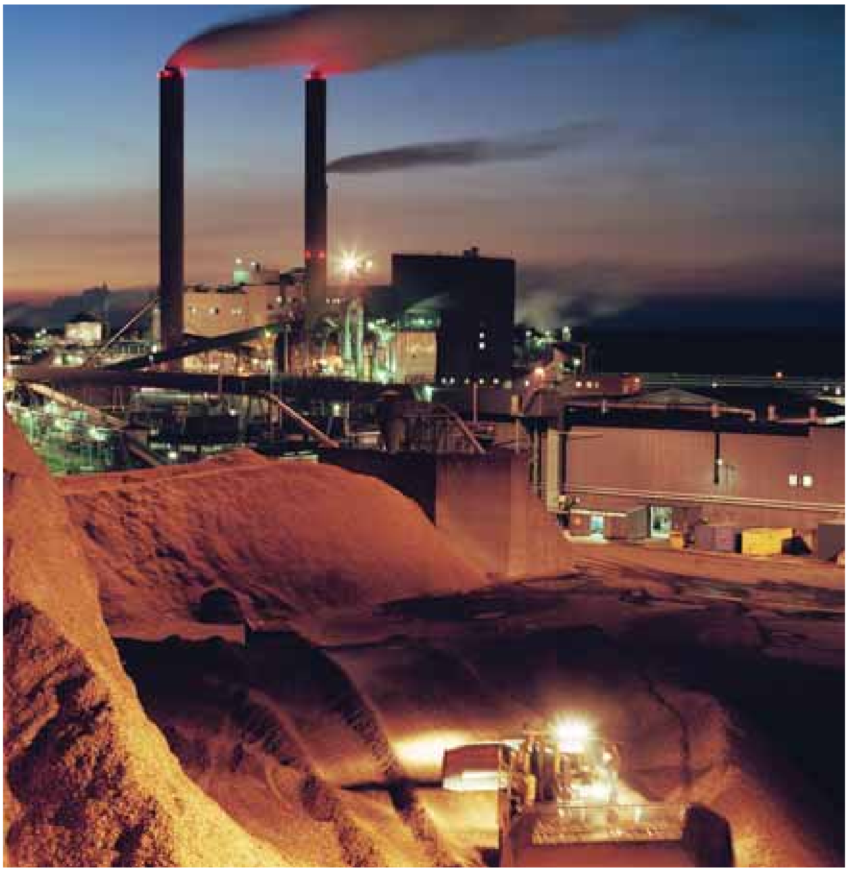
The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 43 public sector pension funds (with assets of around £75 billion) based in the UK.

The West Midlands Pension Fund is a founding member of LAPFF. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility (CSR) and high standards of corporate governance (CG) amongst the companies in which they invest.

What Does the LAPFF Do?

LAPFF acts in the interest of local authority pension funds.

In particular, it aims to secure improvements in the way companies are run – i.e. improvements in the CG of the companies in which member funds invest. The Forum is also concerned to promote CSR on environmental issues and issues relating to overseas employment standards.



How Does it Work?

- The Forum researches companies with a view to finding best practice in CG. Poor performance on environmental issues, overseas employment standards and poor CG, generally within the boardroom, will always be vigorously challenged.
  For example, the Forum monitors directors' remuneration packages and companies' reporting of their compliance with DEFRA standards on greenhouse gas emissions
- The LAPFF alerts its members to boardroom issues causing concern, and where it appears that companies are not complying with accepted standards of best practice. The main emphasis is to encourage member funds to engage with companies, and to lobby – via the press and media – generally with a view to securing their objectives. Members are also encouraged to exercise their voting rights on such issues whenever appropriate to do so.

- The LAPFF also seeks opportunities to collaborate with other institutional investors in campaigning on these various issues, both nationally and internationally. For example, the Forum agreed to support an initiative, launched by several key US state treasurers, to organise an institutional investor summit on climate change.
- The Forum has produced a guide to assist funds in monitoring the effectiveness of their fund managers in dealing with CG issues and issues relating to CSR.

How Often Does it Meet?

The Forum normally meets four times each year, usually in London, and holds its AGM at the end of November/early December – latterly at Bournemouth. Most decisions are taken by consensus, in the event of a vote, each fund has one vote, irrespective of size.

Which Funds Belong to the LAPFF?

The LAPFF draws its membership from all parts of the UK, and from funds of all sizes and under differing political control. Membership has increased by 60% over the last three years and now stands at 43 funds.

LAPFF Membership as at 1 September 2007

- Aberdeen City Council
- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire County Council
- Devon County Council
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Pension Fund
- London Borough of Brent
- London Borough of Camden
- London Borough of Croydon
- London Borough of Hackney
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- Lincolnshire County Council
- London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Shropshire County Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Passenger Transport Authority
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

The view from the Forum – examples of LAPFF's work in the last year

Forum Members Have Their Say at BP's AGM

Opposition to BP's remuneration report was over four times greater than last year as LAPFF members join forces with other investors.
At BP's 2007 AGM, more than 17% of BP's shareholders voted against its remuneration report, whereas the average vote against the remuneration reports of FTSE 350 companies during 2006 was only 4%. Moreover, BP itself saw only 4% of votes cast against its remuneration report in 2006.
We believe that this dramatic signal of discontent from shareholders will put BP within the top 10% of FTSE 350 companies in terms of opposition levels against remuneration reports during 2007. If abstentions are included then more than one in five shareholders failed to back BP's remuneration policy.

BP Chairman Peter Sutherland at 2006 AGM

The Forum has been actively engaging with BP for many months over the company's response to recent safety failures, including the Texas City Refinery blast in March 2005 and the Prudhoe Bay oil spill in July 2006. The company has been criticised for its management of safety issues in reports by former US Secretary of State James Baker and, more recently, the Chemical Safety and Hazard Investigation Board (CSB).

We recommended that our members vote against the company's remuneration report on the grounds that BP's long-term incentive scheme should contain safety-related and other extra-financial performance elements. Indeed, we believe that extra-financial performance metrics should apply to all executive directors.

BP must demonstrate that it is responding to shareholder concerns after this reaction.
As our chairman Cllr Darrell Pulk said: "BP has achieved the dubious honour of top decile performance in terms of shareholder opposition to its pay practices. This is a clear message from the company's owners that changes need to be made. The board should not underestimate this signal. But this vote is also an opportunity for a fresh start. BP should show real leadership by responding to concerns both about the general structure of its remuneration arrangements, and the linkage to effective management of safety issues."

The LAPFF will continue to press for reforms to BP's remuneration practices in the wake of the AGM vote, and is seeking further meetings with the company, including the chair of its remuneration committee, DeAnne Julius.

Moreover, in recognition of the fact that these issues apply to every company in the sector, the Forum will closely monitor the situation at other oil and gas companies and engage with them as appropriate.

Climate Change – We Include the 'Transport Sector' in Our Engagement

The objective of our climate change work is to engage with companies concerning the likely impacts of climate change on industry sectors and companies with long-term research and development programmes and consequent risk to shareholder value. This work is based on the research that we have previously commissioned from our specialist consultants, Enviros. It will be supported by additional engagement on greenhouse gas emissions and waste disclosures as set out in annual reports.

Following agreement on the oil and gas sector as the initial sector for engagement, the January 2006 business meeting agreed to engage with three further sectors, namely food and beverages, mining and chemicals, and then in November 2006, the Executive requested a prioritisation of the 'transport' sector also.

Transport has become a highly visible part of the climate change debate and is a substantial contributor to the UK's greenhouse gas emissions – estimates suggest that it accounts for between 24-28% of UK emissions. It is also at the forefront of the debate because emissions have continued to grow

- in the UK emissions were 47% higher in 2002 than in 1990 – while overall UK emissions declined during this period due to a decrease in manufacturing. On a global level, transport emissions are expected to more than double in the period to 2050.

Aviation accounts for a relatively small proportion of UK transport emissions, figures vary from 3 - 5%. However, the aviation industry has seen the largest increase in emissions since 1990 – emissions increased by 85% over 1990 levels over the period. UK forecasts suggest that the UK's combined domestic and international aviation emissions could account for up to a quarter of our total contribution to global warming by 2030. Aviation has also come under greater scrutiny lately due to media reports that aviation may have an additional global warming impact due to the effect of other gases, for example water vapour, which are released at altitude. A further reason to prioritise transport is that it is increasingly evident that it is becoming a key focus of regulation in attempts to address climate change.

There is no single FTSE defined 'transport' sector, but the LAPFF Executive has agreed that 'transport' companies should include those dealing with private coaches, road haulage, rail and aviation. These companies are primarily in the newly created 'travel & leisure' sector. There are seven FTSE 350 transport companies in this sector, and there are four related FTSE 350 companies in the industrial transportation sector. It is proposed to amalgamate these companies with those analysed by Enviros which included relevant companies in the automobiles and parts and aerospace and defence sectors, to provide an initial list of eleven companies for engagement.

LAPFF Alerts – We Review Our Procedures

LAPFF alerts are issued where a company significantly fails to meet the Forum's standards of corporate governance (CG) and corporate social responsibility (CSR) best practice. The Forum's approach is set out in its policy statement 'Strategies for Shareholder Engagement', adopted in July 2004.

Analysis is provided by PIRC, as the Forum's research and engagement partner, drawing on their extensive company database, and highlighting the particular resolutions on the relevant company meeting agenda.
A recommendation on voting for, against or abstaining is made on the particular resolution and the alert is then emailed to the LAPFF membership for consideration.

The alerts focus on a range of best practice areas including:

- board composition;
- voting rights;
- compliance and internal control statements;
- greenhouse gas emission reporting;
- remuneration; and
- audit issues.

In seeking to improve our service to our members, we have reviewed the operation of our alerts system, based on data collected in the period running from 1 July 2005 to 30 June 2006, and our analysis has revealed the following:

- 23 alerts have been sent out over the year, alerting Forum members to concerns over practices at 101 companies, 35 of which are from the FTSE 100;
- The number of companies per alert is usually two on average. In the 'busy season', i.e. April and May, the number of companies per alert peaks at 10 –16;
- The vast majority of companies had remuneration issues, followed by board issues and audit issues. A small number of FTSE 100 companies were identified that did not report their greenhouse gas emissions.

LAPFF alerts were originally designed to highlight the most egregious cases in terms of CG and CSR performance.
For remuneration, it was assumed that we would be focusing on approximately 15% of the FTSE 350. These have so far been identified on the basis of a small number of key indicators, such as 'excessiveness' and 'whether targets were challenging'.
The number of companies included in LAPFF alerts as a result is slightly above target.

More recently however, PIRC has introduced a new weighted rating matrix, which gives greater weight to those issues that are considered to have a potentially greater impact on share value. We now propose to incorporate this new approach into our procedure, as it takes a greater number of issues into account and therefore allows for a more balanced assessment.

The case-by-case approach to exceptional concerns, which has been applied during the year, has worked well. We therefore propose to continue with this approach.
In addition we believe it will be helpful to ascertain LAPFF members' views on the effectiveness of our alerts procedures. We will, therefore, be surveying our membership to establish exactly in what ways our members are currently using the LAPFF alerts, and seeking their views on areas for improvement.

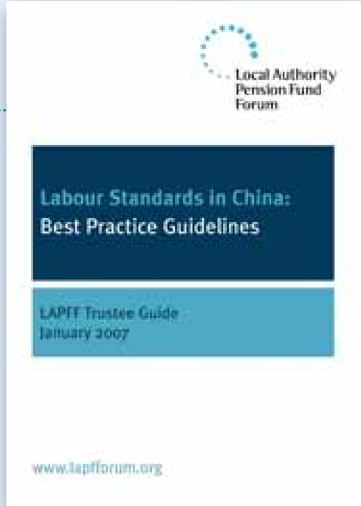
Company Workforce Practices

The Forum issued the initial LAPFF Trustee Guide on Company Workforce Practices in April 2005 with the aim of helping trustees in assessing the quality and effectiveness of investee companies' reporting of employment policies and practice. The proposed engagement approach is currently based on the following three-pronged objective:

- Require a minimum standard of reporting on employment practices applicable to all publicly quoted companies above a certain size;
- Identify material industry-specific employment risks and opportunities;
- Seek directors' views on the materiality of employment issues in the preparation and publishing of the Operating and Financial Review or similar reports.

LAPFF has over the last year actively engaged with four companies in the hotels/leisure sector and one in the food producer sector and the outcomes were assessed against these three objectives. We will now be revising the LAPFF Trustee Guide to take account of the lessons learnt from our engagement activity.

Labour Standards in China – LAPFF Trustee Guide



The Forum has a longstanding interest in overseas employment standards and between 1999 and 2003 it ran a successful campaign to persuade UK companies, particularly in the retail sector, to adopt and implement codes of conduct in relation to their overseas supply chains. The Forum's second benchmark study in 2003 demonstrated that the FTSE 100 retailers covered by its survey were making genuine efforts, predominately amongst their direct suppliers, to translate their codes into business practice.

Following from that study the Forum decided that investment by UK companies in the rapidly expanding economy of the People's Republic of China provided an obvious progression of its work on labour standards. An Interim Report was published in November 2005 which presented the results of a survey commissioned from PIRC on a range of knowledge-based industries – banks, pharmaceuticals and chemicals – that investigated how they are addressing and managing the risks related to operating in China, particularly with respect to labour standards.

This final report and trustee guide which recommends that any engagement programme be undertaken jointly with other investors is based on the interim report and outlines a process by which the Forum can now engage with companies in the chemicals, food producers, retail and oil & gas sectors.

Also in this context, at its October meeting, the Forum received a presentation 'Labour Standards in China: challenges and opportunities' from Hilary Murdoch, Senior Project Manager, Impactt Ltd (Ethical Supply Chain Consultants)

Pension Funds and Climate Change

New LAPFF briefing for trustees on current developments and policy

Climate change is a major risk for companies in the medium to long-term, but it also affords considerable opportunities for both companies and investors.

The Forum has recognised that in order for trustees to make informed investment decisions, or to opt for activism on climate change where this would enhance value, they will need to be aware of, and understand the relevance of the latest major developments in the area of climate change policy. The Forum has therefore produced a briefing on these issues for LAPFF members.

The purpose of the briefing is to provide trustees with information on the latest developments in the area of climate change policy. There is a growing consensus among government, scientists and business on the need to take action to address climate change, and businesses are increasingly facing both physical and regulatory risks due to climate change in the coming years. Policy initiatives currently in place and under development will present both business and investors with long-term risks and costs, but they

will also present opportunities. Informed trustees will be in a better position to assess these risks and opportunities and make decisions likely to enhance long-term value. The briefing to LAPFF members covers:

- The Kyoto Protocol and its mechanisms;
- Developments in emissions trading and the EU Emissions Trading Scheme, which is now underway;
- UK Government policy on climate change, including the implications of the recently released Energy Review; and
- Ongoing shareholder initiatives in the area of climate change.

As stated above, these developments will bring costs and opportunities to companies, and in turn may affect long-term value for investors. Accordingly, the briefing advises trustees to:

- Assess potential risks, costs and opportunities within their portfolio due to future climate change initiatives
- Consider engagement with companies in the areas of climate change disclosure, strategy, and actions taken to address risks, costs and opportunities.
- Consider investment in those companies that may stand to benefit from future climate change policy, including the Kyoto Protocol, emissions trading, and the UK Government climate strategy.
- Consider collaboration with other institutional investors on climate change initiatives.

At the October meeting of the Forum, it was agreed that more resources will be put into climate change facilitating more engagement with a greater number of companies, including overseas companies.

Compliance with the Myners' Report

The Myners' Report into Institutional Investment was first established in March 2001. The report set best practice principles for the management of pension funds which the Fund aims to meet and is reflected in its Statement of Investment Principles.

The principles comprise the following:

Effective Decision-Making Process in Operation

- Define who takes investment decisions.
- Ensure members have sufficient skills and support.
- Determine appropriate training.
- Establish an investment committee with suitable terms of reference.

The Superannuation Committee determines the strategic management of the Fund's assets whilst the Investment Sub-Committee has in-depth oversight of the management functions and implementation of the investment strategy. Members of these committees are supported by a significant in-house team of professional and support staff, and regularly receive educational presentations from a wide range of external investment advisers and technical experts.

Clear Objectives Are Set

- Set overall investment objective specific only to the Fund's liabilities and identify performance expectations.
- Peer group benchmark in use for comparison purposes only.
- Specify attitude to risk.

The Fund is required to undertake an actuarial valuation of its assets and liabilities every three years.
In addition, it is now a requirement to produce a funding strategy statement to demonstrate how those liabilities will be funded and how the associated risks will be managed. An appropriate investment strategy review report is also presented to committee by the Fund's investment advisers outlining the investment risk associated with the strategy. The Statement of Investment Principles clearly states the funding objectives.

Investment Management Focus on Asset Allocation

- Priority is given to strategic asset allocation decision-making.
- All asset classes permitted within the regulations are considered.
- Asset allocation is compatible with liabilities and diversification requirements.

A major review of the asset allocation benchmark based on the Fund's specific liability profile is undertaken every three years following the actuarial valuation. Tactical asset allocation reviews are then taken on a quarterly basis by the Superannuation Committee based on advice from the Fund's advisers. The Fund regularly gives consideration to a full range of investment opportunities and diversification including private equity and alternative investments.

Expert Advice to Committee Members

- Separate contracts in place for actuarial services and investment advice.
- Full range of expert advice available.

The Superannuation Committee and the Investment Sub-Committee regularly receive both actuarial and investment advice from a range of experts.

Explicit Investment Management Mandates

- Written mandate included in management contract containing core best practice.

Mandates are driven by the strategic objectives of the Fund. Officers regularly meet with external managers to discuss their management of the portfolio together with the background behind the investment performance.

External managers are paid fees (some with a performance-related element) that are regularly benchmarked.

Activism in Corporate Governance of Assets Held

- Adopt US principles on activism into mandates.
- Establish means to measure effectiveness.

The Fund's current corporate governance policy and approach is comparable with the US bulletin. The Fund uses its proxy voting rights at all UK company AGMs and EGMs and some overseas company meetings to encourage and support good corporate governance and best practice. This is published on the website along with the Fund's bespoke voting policy. The Fund works with other like-minded funds to actively promote good governance in the companies in which it invests.

Appropriate Investment Benchmarks Are Used

- Ensure index benchmarks selected are appropriate.
- Targets and risk controls reflect performance expectations.

These matters are carefully considered when managers are appointed or briefs changed and are linked to the Fund's strategic objectives and benchmark. They are reviewed on a regular basis.

Performance Measurement

- Formal structure for regular monitoring in operation.

Council officers regularly monitor the performance of both in-house and externally managed portfolios. The Investment Sub-Committee monitors the implementation of the investment strategy and meets regularly with managers to review their contribution to the strategy. An annual review report based upon the performance measurement data supplied by the WM Company that compares investment returns with the Fund's benchmark is considered annually by the Superannuation Committee.

Transparency

- SIP updated as specified.
- Decision-making is as open as practical.

The Fund's current Statement of Investment Principles (SIP) contains details relating to the Fund's investment decision-making structure and objectives; the asset allocation benchmark and expected investment returns as well as details of all the Fund's external investment managers. The SIP can be found on the website and a summarized version can be found in the annual report. The annual report is also found on the website together with other useful information such as its funding strategy statement, investment strategy review and minutes of the committee meetings.

Regular Reporting

- Publish changes to SIP and its availability.
- Inform scheme members of key monitoring data and compliance with principles.

The SIP is updated regularly and is published on the website. A summarized version is available in the annual report. Targeted summary information is sent to Fund members annually and further detailed information is available on request. Managers report regularly to the Fund and the Fund reports regularly to the members of the committee.

The Fund continues to develop its response to the Myners' Principles and is looking to work further with other funds on a proactive approach to engaging companies on improved governance, expand its risk management evaluation process, and expand the training opportunities for trustees.

Glossary of Terms

The following is provided for assistance only. It is not a definitive list of industry terms. It should not be relied upon for legal definitions, as prevailing legislation will be used to resolve disputes.

AOA
Asset outperformance assumptions.

Actuary
An actuary is a professionally qualified independent person who the administering authority asks to value the Fund, and make sure that there is enough money in it to guarantee the payment of your pension, and the pension of any eligible dependants you have.

Actuarial Assumptions
These are the figures and estimates that an actuary uses when they make an actuarial valuation. These may include how long people are expected to live, price rises, how much people are expected to earn, and the income from the pension scheme investments already held by a scheme.

Actuarial Valuation
This is when an actuary looks at the value of the pension scheme assets and compares them with the scheme's liabilities. They then work out how much the contributions from employers and members must be so that there will be enough money in the scheme when people are able to claim their pensions/ benefits.

Additional Voluntary Contribution (AVC)
This is an extra amount (contribution) a member can pay to their own pension scheme to increase the future pension benefits. Paying AVCs does not normally mean a member will get more from a cash option.

Administering Authority
An administering authority is either a county council or a London borough council, or a district council where local government re-organisation has happened in the past. Wolverhampton City Council is the administering authority responsible for paying pensions and for looking after the West Midlands Pension Fund.

Admission Bodies
Voluntary, charitable and similar bodies whose staff can become members of the Fund by virtue of an admission agreement made between the Fund and the relevant body.

Compensatory Added Years
The award of additional benefits on redundancy or early retirement, e.g. added years or detriment payments for loss of earnings. The payment of such benefits is not chargeable to the Fund.

Corporate Governance
This is the system by which companies are run, and the means by which they are responsive to their shareholders, employees and society. The Fund has a formal policy on corporate governance.

Department for Communities and Local Government (DCLG)
The Government department responsible for the LGPS.

Deferred Benefits
Members who leave their employment or opt out of the Scheme have their benefits deferred until retirement, or until they request a transfer to another recognised scheme.

Defined Benefit Scheme
A scheme where the scheme rules define the benefits independently of the contributions paid by the member/employer.

Final Pay
This is normally the pensionable pay a member earns in the last year before they retire, or one of the previous two years' pensionable pay if that is higher. If a member works part-time, the figure used to work out the pension benefits is the pensionable pay they would have received if they had worked full time. If they joined the Scheme after 16 March 1987 and before 1 June 1989, the maximum final pay that can be used to work out the tax-free lump sum when they retire is £100,000. If a member's pay has been reduced or restricted through circumstances beyond their control within the last 13 years and they have received a certificate from their employer confirming this, their final pay will be the best year's pensionable pay from the last five years or the best three-year average from the last 13 years.

Freestanding Additional Voluntary Contribution (FSAVC) Scheme
A member of an occupational pension scheme can pay extra amounts into a separate scheme, called a FSAVC scheme. These are run by external pension companies. The benefits they get from the scheme will be based only on these extra amounts. It is possible to contract out by joining a FSAVC scheme.

Funding Level
The relationship at a specific moment in time between a pension fund's assets andliabilities. Normally expressed as a %.

Funding Strategy Statement (FSS)
Required by the LGPS (Amendment) Regulations 2004. This sets out the long-term view on funding liabilities of the Fund. The statement goes through a process of consultation before it is adopted.

Future Service
Membership of a pension scheme from a specific moment in time onwards. Usually applies in respect of valuation calculations, the service/liabilities that a pension fund may have if membership continues.

HM Revenue and Customs Limits
These figures set the largest amount of benefit(s) and contributions allowed in an approved occupational pension scheme. There are different limits for class A, class B or class C members. As a guide, a member's benefits (this includes pension and a notional value for any lump-sum paid) are often limited to two thirds of the earnings they received in the year before they retired.

In-House AVC Scheme
Additional voluntary contribution (AVC) scheme offered by an occupational pension scheme to its current members.

Indexation (Index-Linking)
A way of measuring changes in prices or earnings, and adjusting pensions in line with these changes.

Internal Dispute Resolution Procedure (IDRP)
An occupational pension scheme must have a procedure to deal with member's concerns or complaints, this is called IDRP. If a member is not happy with what happens through this system, they can take their case to TPAS or the Pensions Ombudsman.

LGPC
The Local Government Pensions Committee on local government pensions; a national forum of the local authority associations, on behalf of local authority employers, at which changes to the LGPS are proposed or discussed.

LGPS
Local Government Pension Scheme; the operation of the Scheme and the scale of benefits is prescribed by statutory regulations, issued by the DGLC.

Limited Price Indexation (LPI)
Pensions paid by an occupational pension scheme, and protected rights paid by an appropriate personal pension scheme must increase by at least a certain rate each year. This rate is five per cent, or the increase in the RPI, whichever is less.
LPI does not affect additional voluntary contributions (AVC) or freestanding additional voluntary contributions (FSAVC) schemes.
It only applies to pension benefits earned after 5 April 1997.
Any benefits earned before this come under the guaranteed minimum pension (GMP).
A member who worked both before and after this date would have some of their benefits affected by GMP and some by LPI.

Maximum Approvable Benefit
In an approved scheme, this is the largest pension benefit a member can receive. This does not apply to personal pension and simplified defined contribution schemes.
The size of the maximum approvable benefit depends on whether the member is a class A, class B or class C member, as defined by HM Revenue and Customs legislation.

Myners
The Myners' Report into Institutional Investment was first established in March 2001. The report set best practice principles for the management of pension funds which the Fund aims to meet and is reflected in its Statement of Investment Principles.

NAPF
National Association of Pension Funds; an association recognised as the major commentator for

self-administered pension funds in both the public and private sectors. The fund is a registered member.

Non-Funded Pension Benefits
These are benefits (e.g. compensatory added years) not prescribed by the regulations, but paid at the discretion of former employers and not, therefore, chargeable to the Fund. The Fund makes the payments as part of the normal pension and recovers this element from the former employer, where appropriate.

Normal Retirement Age
A member's normal retirement age is 65. It is possible for members to retire from age 60 without any reduction to their benefits.

PIRC
Pensions Investments Research Consultants

Past Service
Membership of a pension scheme which has already been obtained by a member. Usually applied in respect of liabilities accrued by a pension fund.

Pensionable Pay
This is the member's normal salary plus any shift allowance, bonus, contractual overtime (overtime which they work as part of their terms of employment), statutory sick pay and statutory maternity pay. Pensionable pay does not include overtime a member chooses to work, travelling or subsistence allowance (a portion of wages paid in advance to cover immediate needs), pay instead of notice, pay instead of holidays, the value of a car or pay received instead of a car. If a member joined the Scheme after 31 May 1989, HM Revenue and Customs restricts the amount of pay that contributions can be paid on and upon which benefits can be worked out. At April 1999, this amount was £90,600.

Parliament reviews this figure each year, and it should increase in line with inflation as measured by the Retail price index.

Pension Scheme Statement of Recommended Practice (SORP)
The rules that say how the accounts of an occupational pension scheme must be worked out and and how certain items should be shown in the account of the pension fund.

Pensions Act 1995
Made ensuing the recommendations of the Pensions Law Review Committee (the Goode Committee), established after the events following the death of Robert Maxwell. Some 50 separate sets of regulations have been made under the act, not all of which are mandatory for the LGPS.

Pensions Ombudsman
The Pensions ombudsman is an independent person who settles disputes between pension scheme members and the pension schemes. Pensionschemes must follow the ombudsman's rulings, but they can challenge them in court.

RPI
Retail price index; used to assess the annual increase in pensions and to indicate inflation rates.

Resolution Bodies
Typically, parish councils and similar bodies who are required to pass a statutory resolution.

Scheme Employers
Local authorities and similar bodies whose staff are entitled automatically to be members of the Fund.

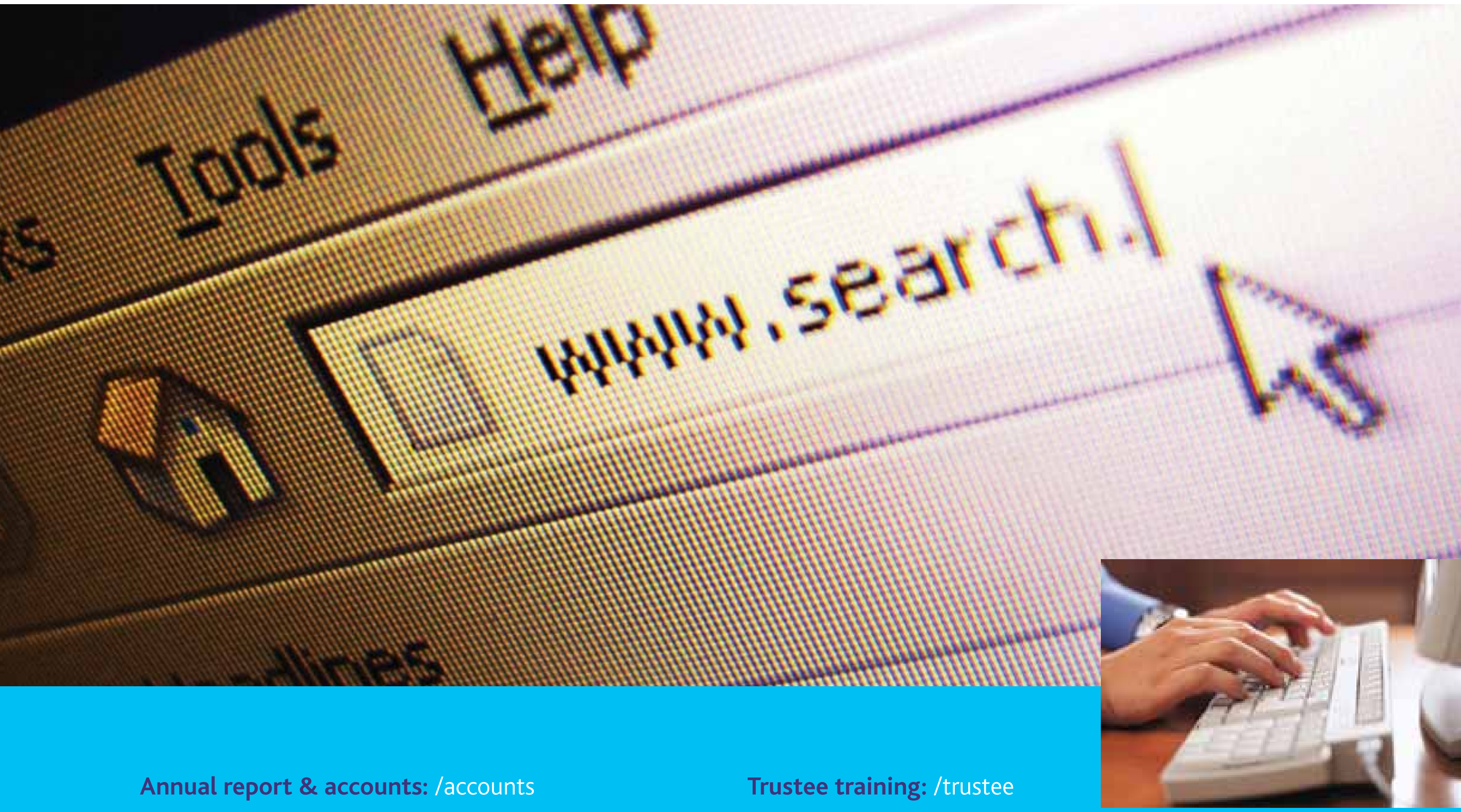
Stakeholder Pension
Aimed to be a low-cost and flexible pension plan.

Statement of Investment Principles (SIP)
A formal policy on how a pension fund will invest its assets.

Valuation
Under the LGPS regulations, the Fund must be valued by an actuary every three years.

The Fund on the Web

westmids-pensions.com



Annual report & accounts: /accounts
e.g. westmids-pensions.com/accounts

Business plan: /pdfs/bp.pdf

Consultation documents: /consult

Corporate governance: /corpgov

AVC/increasing benefits: /avcs

Annual benefits statement: /abs

Superlink: /superlink (pensioners' newsletter)

All about your Scheme: /aays
(main Scheme/Fund booklet)

Trustee training: /trustee

Roadshow: /roadshow

The Brief: /thebrief (technical employers' newsletter)

Valuation: /valuation

Internal dispute resolution procedure: /idrp

Employers' Manual: /manual

Key performance indicators: /kpis

Your Notes About the Fund

The Fund believes that this report & accounts complies with *"The Financial Reports of Pension Schemes (Revised May 2007)"* which has been issued by Pensions Research Action Group (PRAG).

PRAG is recognised by the Accounting Standards Board (ASB) as the appropriate body within the pensions industry for issuing statements of recommended practice governing the form and content of financial statements for pension schemes.

Contact Information

Write to us at:
West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

Telephone our Helpdesk on:
0845 230 1665

Fax us on:
0845 230 1565

Minicom/Typetalk:
01902 554607

Visit our website at:
westmids-pensions.com

Email us on:
PensionFundEnquiries@wolverhampton.gov.uk

Send us a text on:
Text WMPF + your message to 60066.
Standard short code network charges apply.

Lines are open during the following times:
8:30am to 5.00pm Monday-Thursday
8:30am to 4.30pm Friday

Calls may be monitored for training purposes