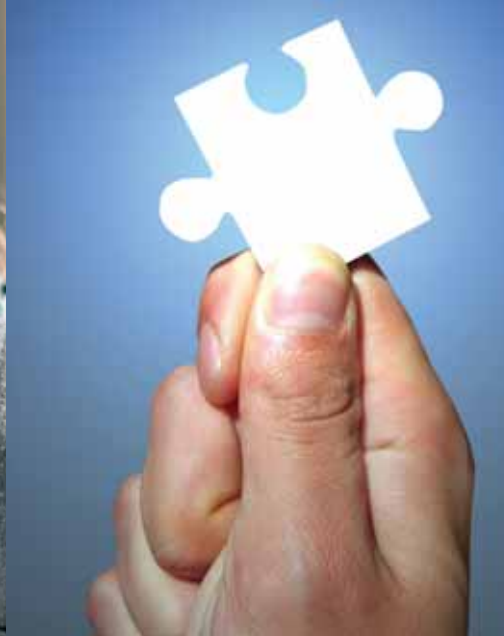


WEST MIDLANDS



PENSION FUND



WEST MIDLANDS PENSION FUND

# REPORT & ACCOUNTS 2008

# CONTENTS

## Administration

|                                      |    |
|--------------------------------------|----|
| Outgoing Chairman's Statement        | 3  |
| Incoming Chairman's Statement        | 4  |
| Chief Executive's Statement          | 5  |
| Executive Summary                    | 6  |
| Superannuation Committee             | 8  |
| Member Training Report               | 10 |
| Supporting Our Employers             | 12 |
| Supporting Our Members               | 18 |
| Ongoing Customer Satisfaction Survey | 21 |
| Service Performance Plan             | 23 |
| Director of Pensions' Statement      | 27 |
| Chief Investment Officer's Statement | 28 |

## Statutory

|   |    |
|---|----|
| Actuarial Valuation                         | 29 |
| Statement of the Consulting Actuary         | 31 |
| Ten-Year Summary Net Assets<br>for the Fund | 33 |
| Responsibility for the Accounts             | 34 |
| Independent Auditors' Report                | 35 |
| Fund Account                                | 37 |
| Notes to the Accounts                       | 39 |
| Annual Governance Statement                 | 49 |

## Investments

|   |    |
|---|----|
| Investment Report   | 56 |
| Corporate Social Responsibility<br>and Corporate Governance | 62 |

## Background

|                                     |    |
|-------------------------------------|----|
| Background to Scheme Administration | 64 |
| Pensions in the Press               | 68 |
| Local Government Employers          | 70 |
| Glossary of Terms                   | 71 |
| Governance Compliance Statement     | 74 |
| The Fund on the Web                 | 80 |

# OUTGOING CHAIRMAN'S STATEMENT



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

The 2007/2008 year has proved to be a busy period for the Fund with membership rising to over 235,000 members.

On average, the membership levels between district councils have increased by +0.62% compared to the previous year. In addition to the 85,844 members who are employed by the seven city and district councils, a further 22,001 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.

Fund investments certainly are an issue that appears more and more within the press, although not necessarily the investments of this particular fund, but in these times of uncertainty, members should be secure in their knowledge that the nature of the Local Government Pension Scheme (LGPS) is one with a statutory guarantee that means the value of investments has no direct bearing on the value of the pensions paid.

Notwithstanding the above, as part of its approach to risk management, the Fund has a well diversified investment strategy, holding many other asset classes in addition to equities. Although equity markets have recently experienced significant losses, these events

are not unique and share prices are expected to recover over the long-term. We don't envisage any long-term effects other than possibly encouraging certain City institutions to act more responsibly, which should only be of benefit to the pensions industry.

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 LGPS has served to confirm its importance as a major element of the strategy to recruit and retain staff. The revised LGPS which came into force on 1 April 2008, has meant that many members have approached the Fund during the latter half of 2007 with a view to obtaining an updated position on their pension entitlement. The Fund is working hard to ensure that information is available to all members as and when it becomes available.

**Councillor Bert Turner**

Chair of the Superannuation Committee (2007/2008)  
September 2008

# INCOMING CHAIRMAN'S STATEMENT



The new LGPS regulations introduced from 1 April 2008 form part of the statutory framework of the LGPS in England and Wales. Although the structure of the LGPS remains as a defined benefit scheme, 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.

This presented an enormous communication issue for the Fund, which seems to have been met. A revised Fund website at [wmpfonline.com](http://wmpfonline.com) now hosts updated material indicating how benefits will be calculated post-1 April. In addition, members have had new Scheme booklets made available, and also a new LGPS DVD, which sets out the differences between the old and the new Scheme. Utilising the Fund's web presence has ensured this is available to all staff, regardless of their physical location. I would personally like to thank employers (whom I know have worked extremely hard during the recent months) for ensuring the transition went as smoothly as possible.

I look forward to the next 12 months in what will, no doubt, be a challenging but exciting time as the Fund moves ever forward.

*Michael Heap*

**Councillor Mike Heap**

Chair of the Superannuation Committee (2008/2009)  
September 2008

# CHIEF EXECUTIVE'S STATEMENT



Local Government Pension Scheme (LGPS) regulations were laid before Parliament on 4 April 2007 and came into force on 1 April 2008.

The new-Scheme regulations set out the Government's policy to retain a final-salary, defined benefits scheme, with improved accrual rates, better death-in-service and revised ill-health provisions. The changes to contribution rates ensure that the employees make a fairer contribution towards the Scheme's viability and affordability. It now provides a fairer and more equitable package for all parties involved – members, employers and taxpayers.

To my mind, the Fund's commitment to customer service has never been in doubt; a credible list of external verification pays testimony to the commitment of Fund staff to providing the very best in customer care. 2007/2008, it would seem, is no different, with the Fund successfully obtaining reaccreditation of both Investor in Excellence and Customer Service Excellence (previously Charter Mark).

As the Fund moves into a new era with the revised LGPS operating in a new 1/60th format, communication will play an ever-increasing role in Fund activity and will be of paramount importance. You have my assurance that as the LGPS progresses, we will do so with the requirements of our employers and members at the forefront of our plans. We will aim to communicate any significant changes using the most effective method possible, to ensure that information is made available in a timely and

understandable format. We will do this as a direct consequence of what you have told us; the results of our customer satisfaction surveys, both employers and employees, tell us that communication and information is key to understanding the changes to the Scheme.

Although it is known that further amendments – in particular in relation to cost-sharing – are due to be made to the LGPS in the near future, there are still some issues for which we await clarification from the previous amendments. With such a massive overhaul of the LGPS being carried out, this was expected as, historically, there have always been a period of amendment regulations issued by the appropriate government departments as required.

Details of these and the further consultative documents issued on the LGPS provision will be made available on the DCLG website at the following address [www.xoq83.dial.pipex.com](http://www.xoq83.dial.pipex.com)

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 Brian Bailey, Director of Pensions, on 01902 554610 or via [PensionFundEnquires@wolverhampton.gov.uk](mailto:PensionFundEnquires@wolverhampton.gov.uk)

**Richard Carr**  
Chief Executive – Wolverhampton City Council

Administration

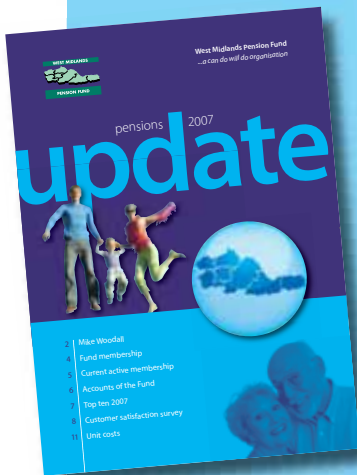
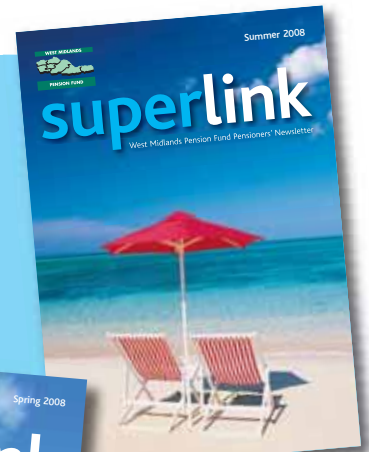
Statutory

Investments

Background



We distributed four editions of Superlink to our pensioners during the year.



We sent benefits statements and Pensions Update 2007 to all active and deferred members.

## EXECUTIVE SUMMARY

We issued Pensions Update 2007 to all pensioner members.



We issued The Reliable Source to all active members to bring them up to date with changes to the LGPS.

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

We were reaccredited with Investors in people and Investors in Excellence.

Held employer roadshows at major sites.



We continued to conduct customer satisfaction surveys with active, deferred and pensioner members.

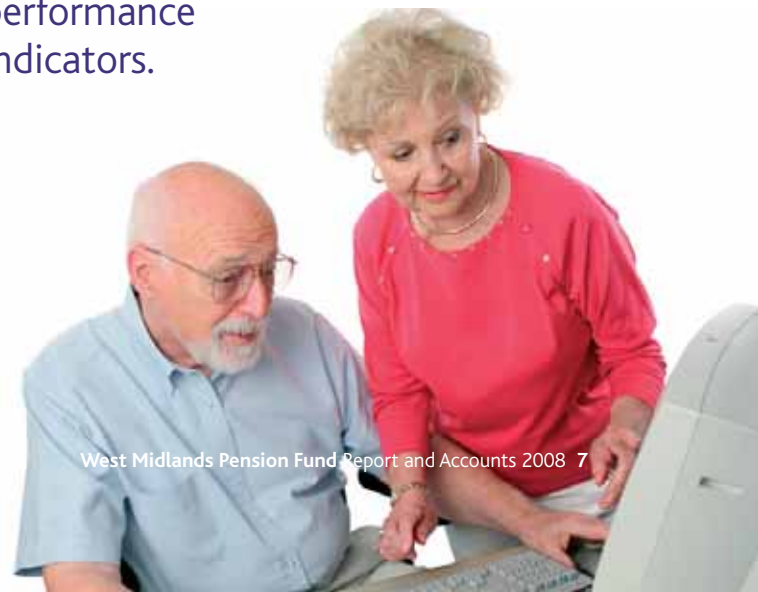
We held employer seminars to provide updates on the new LGPS regulations.

## 2008 PERFORMANCE HIGHLIGHTS



We issued four editions of our technical newsletter to employers.

We updated our website during the year to reflect our key performance indicators.



# SUPERANNUATION COMMITTEE

## MANAGEMENT – MUNICIPAL YEAR 2007/2008

### Councillor T H Turner\*

Chair - Wolverhampton City Council

### Councillor F Docherty\*

Vice Chair - Wolverhampton City Council

### Councillor T Singh

Wolverhampton City Council

### Councillor L Clark\*

Birmingham City Council

### Councillor Mrs H Johnson\*

Coventry City Council

### Councillor Mrs A Millward\*

Dudley Metropolitan Borough Council

### Councillor V Silvester\*

Sandwell Metropolitan Borough Council

### Councillor A W Martin\*

Solihull Metropolitan Borough Council

### Councillor Zahid Ali\*

Walsall Metropolitan Borough Council

### Councillor P Bateman MBE

Wolverhampton City Council

### Councillor L Pugh\*

Wolverhampton City Council

### Councillor P A Bilson\*

Wolverhampton City Council

### Councillor S Evans

Wolverhampton City Council

### Councillor P Singh

Wolverhampton City Council

### Councillor Mrs J M C Stevenson

Wolverhampton City Council

### Councillor Bowen

Wolverhampton City Council

### Councillor R Hart

Wolverhampton City Council

### Councillor J L G Davis

Wolverhampton City Council

### Observer Members 2007/2008

**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

### 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 (part)  
ING Real Estate Investment Management  
(UK) Ltd (part)

**Pension Scheme Registry (OPRA)** 10079176

### HMRC References

SCON number: S2700178F  
ECON number: E3900002R  
PSTR number: 00329946RE  
PSTR Sub number: 49/16109

### Actuary

Mercer Human Resource Consulting Ltd

### Custodian of Assets

HSBC Global Investment Services

### Banker

National Westminster Bank plc

### Auditor

Local Government Auditor/PricewaterhouseCoopers

### 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 2007/2008 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

# 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:

| Area                      | Superannuation Committee Reports | Presentation | Sub-Committee |              |                           |         |
|---------------------------|----------------------------------|--------------|---------------|--------------|---------------------------|---------|
|                           |                                  |              | Reports       | Presentation | Conferences/ Seminars     | Visits  |
| Investment governance     | ✓                                |              |               | Occasionally | LAPFF December Conference | Partial |
| Investments:              |                                  |              |               |              |                           |         |
| i) Strategies             | ✓                                | Occasionally | ✓             | Occasionally |                           | ✓       |
| ii) Asset use             | ✓                                |              |               | ✓            |                           | ✓       |
| iii) Corporate governance | ✓                                |              |               |              | ✓                         |         |
| iv) Economies             | ✓                                | Quarterly    |               | ✓            |                           | ✓       |
| Pensions administration   | ✓                                | Occasionally |               |              | JCP meetings              |         |
| Role of members           | ✓<br>(Annual/Website)            |              |               |              |                           |         |

Details of the relevant linked and awareness-raising training reports and presentations provided to the Superannuation Committee during 2007 were as follows:

| Details  | Superannuation Committee Date  |
|--|--|
| Information on New-Look LGPS and LGPS Developments/ Implementation | March 2007<br>June 2007<br>September 2007<br>December 2007   |
| Governance Activity Report on LAPFF Meeting                        | March 2007<br>June 2007<br>September 2007<br>December 2007<br>(including LAPFF Annual Report 2007) |
| Investment Strategy (Gartmore-lead) and Economic Updates           | March 2007<br>June 2007<br>September 2007<br>December 2007   |
| Government Compliance Statement Guidance                           | December 2007  |
| Business Plan Progress Report                                      | March 2007   |
| The Importance of Manager Selection in Private Equity              | December 2007  |

Details of presentations made to the Sub-Committee during 2007 were as follows:

| Committee Date | Presented by  | Subject of Presentation                         |
|----------------|---|---|
| January 2007   | Barclays Global Investors<br>Shroder Investment Management  | European Equities<br>Pacific Basin Equities     |
| April 2007     | Nomura Asset Management<br>Artemis Investment Management  | Japanese Equities<br>UK Equities                |
| July 2007      | F&C Property Asset Management<br>ING Real Estate Investment Management<br>Standard Life Investments | } Final Selection of New<br>Property Manager    |
| October 2007   | Member's Study Tour Week  | Complementary Assets and<br>Investment Strategy |

Details of presentations made to the JCP during 2007 were as follows:

| Committee Date | Presented by                                       | Subject of Presentation |
|----------------|--|-------------------------|
| January 2007   | Mike Woodall<br>Chief Pensions Officer             | LGPS – Update           |
| July 2007      | Mark Crutchley<br>Principal Communications Officer | Benefits Statements     |

LAPFF conferences and training attended in 2007 by Investment Sub-Committee members were:

- LAPFF Annual Conference – Investor and Stakeholder Engagement 28 - 30 November 2007.
- The Chair attended the formal LAPFF business meetings during the year.
- The Shadow Chair attended the May 2007 NAPF Local Government Conference.
- The members' website has been updated throughout 2007.

## SUPPORTING OUR EMPLOYERS



Wolverhampton

**7,879**

**-1.28%**

compared to previous year



Walsall

**8,019**

**+3.20%**

compared to previous year



Birmingham

**37,648**

**+3.62%**

compared to previous year



Solihull

**4,411**

**-7.53%**

compared to previous year



Coventry

**9,162**

**+1.72%**

compared to previous year

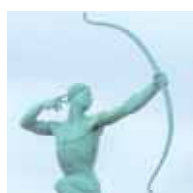


Sandwell

**8,749**

**+1.95%**

compared to previous year



Dudley

**9,976**

**+2.63%**

compared to previous year

On average, the membership levels between district councils had increased by +0.62% compared to the previous year.

In addition to the **85,844** members who are employed by the seven city and district councils, a further **22,001** 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

The Fund has a total active membership of **107,845**. Since 31 March 2007, the number of contributing employees in membership has increased by **2,333**.

### 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 a Pension

Pensions and other benefits amounting to over **£240** million each year are paid to retired members.

## FUND MEMBERSHIP

YEAR ENDING 31 MARCH 2008

Active

Deferred

Pensioner

31 March 2008

Total Membership

**235,351**

107,845

66,321

61,185

0 20,000 40,000 60,000 80,000 100,000 120,000

31 March 2007

Total Membership

**226,547**

105,512

61,732

59,303

0 20,000 40,000 60,000 80,000 100,000 120,000

31 March 2006

Total Membership

**219,176**

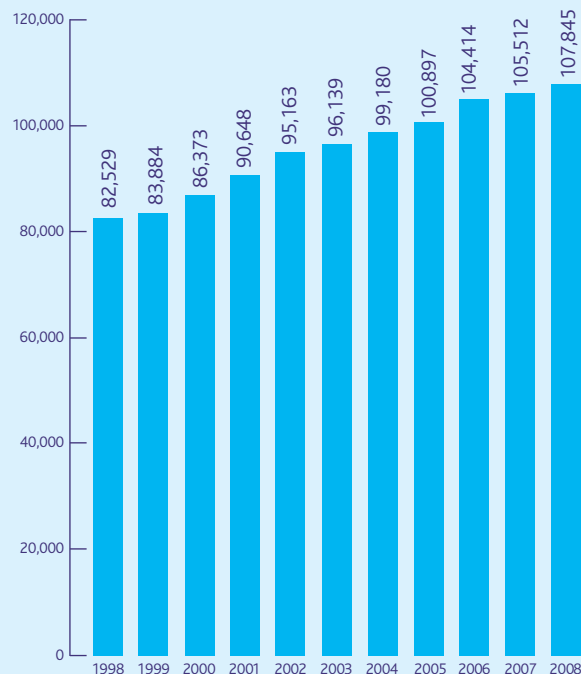
104,414

57,434

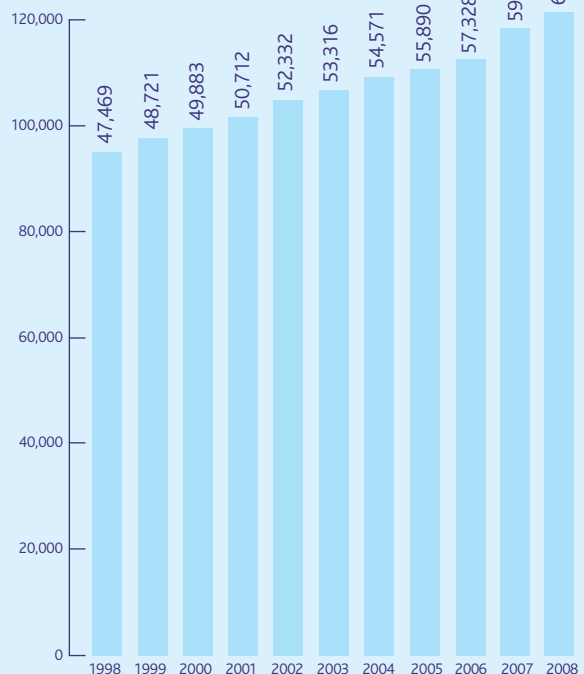
57,328

0 20,000 40,000 60,000 80,000 100,000 120,000

Number of Active Members  
as at 31 March



Number of Pensioner Members  
as at 31 March



## PARTICIPATING EMPLOYERS OF THE FUND AT 31 MARCH 2008

### Scheduled Bodies

#### 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  
Bourneville 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 College  
Walsall College  
Wolverhampton College

#### Schools

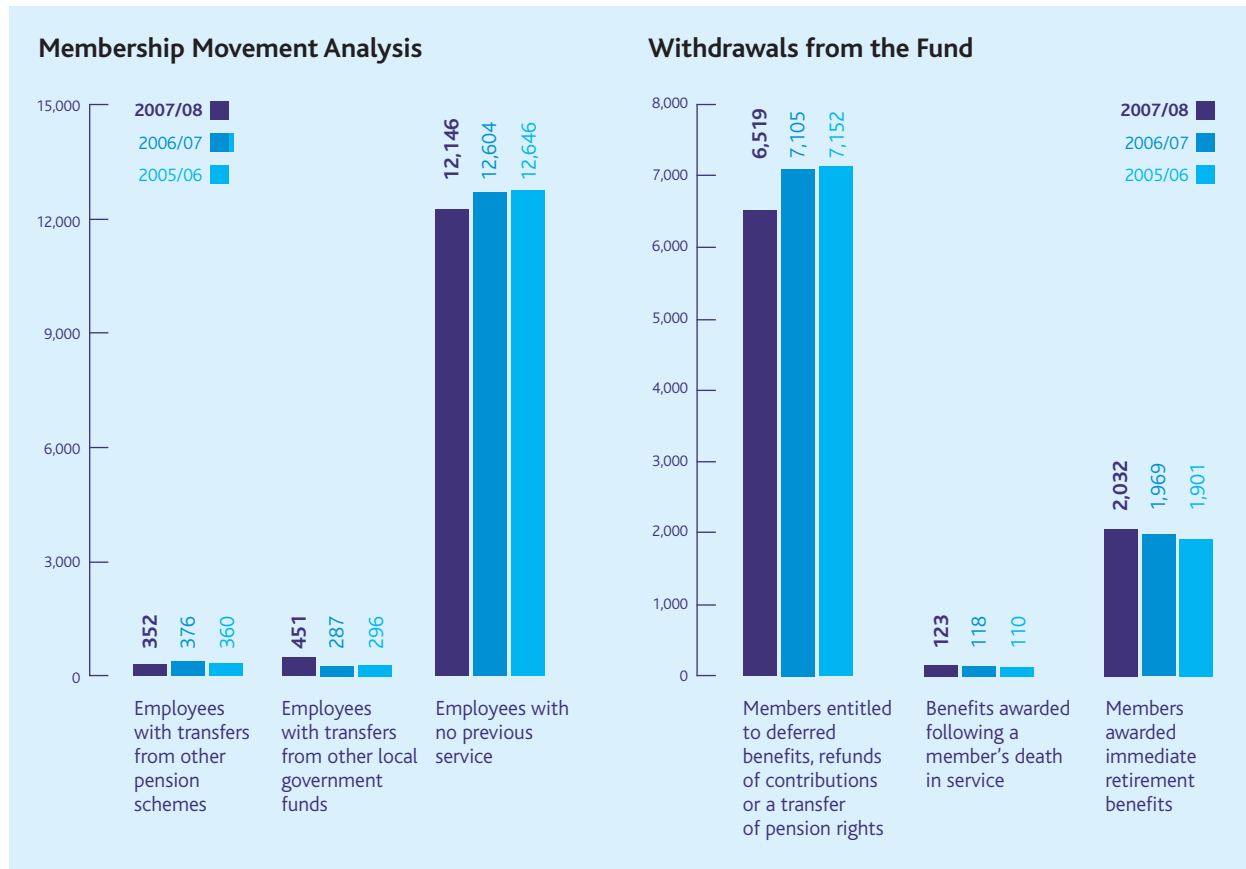
Deanery Church of England V.A Primary School  
King Edward VI Aston School  
King Edward VI Camp Hill School for Boys  
King Edward VI Camp Hill School for Girls  
King Edward VI Fire Ways School  
King Edward VI Handsworth School

#### Other Bodies

Balsall Parish Council  
Bickenhill Parish Council  
Castle Bromwich Parish Council  
Chelmsley Wood Parish Council  
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 Limited  
Wolverhampton Homes



*Sandwell Academy*



## Admitted Bodies

### With Active Members

Adoption Support  
 Age Concern Birmingham  
 Age Concern Wolverhampton  
 Aston University  
 BID  
 Beechdale Community Housing Association Limited  
 Birmingham and Solihull Connexions Services  
 Birmingham School of Speech Training and Dramatic Art Limited  
 Black Business in Birmingham  
 Black Country Connexions  
 Black Country Consortium Limited  
 Black Country Museum Trust Limited (The)  
 Bloomsbury Local Management Organisation  
 BME United Limited  
 Brownhills Community Association Limited  
 Burrows Street Tenant Management Organisations Limited  
 Bushbury Hill Estate Managements Board Limited

Chucky Tenant Management Organisation Limited  
 Coventry and Solihull Waste Disposal Company Limited  
 Coventry Law Centre  
 Coventry Sports Trust Limited  
 CSW Partnership Limited  
 CV One Limited  
 Delves East Estate Management Limited  
 Dovecotes TMO  
 Druids Heath Tenant Management Organisation  
 Edith Cadbury Nursery School  
 Family Care Trust  
 Forest Community Association  
 Heart of England Care  
 Heath Town Estate Management Board  
 Home Start – Northfield  
 Home Start – Stockland Green/Erdington  
 Home Start – Walsall  
 Leamore Residents Association Limited  
 Leisure and Community Partnership Limited  
 Lieutenancy Services (West Midlands) Limited  
 Life Education Centres – West Midlands

Light House Media Centre  
 Manor Farm Community Association  
 Marketing Birmingham Limited  
 Midland Heart Limited  
 Milbury Community Services Limited  
 Millennium Point Trust  
 MLA West Midlands  
 Murray Hall Community Trust  
 New Park Village Tenant Management Co-operative Limited  
 Newman College  
 Northern Housing Consortium Limited  
 Optima Community Association  
 Palfrey Community Association  
 Pendrells Trust (The)  
 Pool Hayes Community Association  
 Riverside Housing  
 Sandbank Tenant Management Organisation Limited  
 Sandwell Community Caring Trust  
 Sandwell Regeneration Co.  
 Sickle Cell and Thalassaemia Support Project  
 Solihull Care Limited  
 South Warwickshire Tourism Limited  
 Springfield/Horseshoe Housing Management Co-operative Limited  
 St Columba Day Care Centre  
 Steps to Work (Walsall) Limited  
 Sunderland ARC Limited  
 Technology Innovation Centre  
 The Chris Laws Day Care Centre for Older People  
 The Museum of British Road Transport (Coventry) Limited



*Belgrade Theatre Trust Limited*

The Sandwell Leisure Trust  
 University of Warwick  
 Walsall Housing Group  
 Walsall Regeneration Company  
 Watmos Community Homes  
 West Bromwich Afro-Caribbean Resource Centre  
 West Midlands E-Learning Company  
 West Midlands Local Government Association  
 West Midlands Transport Information Services Limited  
 Whitefriars Housing Group  
 Wildside Activity Centre  
 Wolverhampton Childcare Agency  
 Wolverhampton Community Safety Partnership  
 Wolverhampton Grammar School  
 Wolverhampton Network Consortium  
 Wolverhampton Voluntary Sector Council

#### **Without Active Members**

All Saints Haque Centre  
 Aquarius Action Projects  
 Asian Welfare Centre  
 Asian Women's Adhikar Association (AWAAZ)  
 Belgrade Theatre Trust Limited  
 Bilston and Ettingshall SureStart  
 Birmingham and Solihull Learning Exchange  
 Birmingham Heartlands Development Corporation  
 Black Country Museum Development Trust (The)  
 Cannon Hill Trust (now Midlands Arts Council)  
 Cerebral Palsy Midlands  
 Community Justice National Training Organisation  
 Coventry Voluntary Service Council  
 Druids Heath TMO  
 Dudley Zoo Development Trust  
 East Birmingham Family Service Unit  
 Job Change Limited  
 Metropolitan Authorities Recruitment Agency (METRA)  
 Moseley and District Churches Housing Association Limited  
 National Urban Forestry Unit  
 Relate  
 Sandwell Mental Health NHS & Social Care Trust  
 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 Limited  
 Wednesbury 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 Limited (Shrewsbury)  
 Accord Operations Limited (Shropshire)  
 Accord Operations Limited (Telford and Wrekin)  
 Amey Highways Limited  
 APCOA Parking (UK) Limited  
 Central Parking System  
 Cleanaway Limited  
 Enterprise plc  
 Galliford (UK) Limited  
 Haden Building Management Ltd  
 Integral UK Limited  
 Leisure Living Limited  
 Methodist Homes for the Aged  
 Mitie Cleaning (Midlands) Limited – Birmingham City Council  
 Mitie Cleaning (Midlands) Limited – Wednesfield – 31/3/2008  
 Mitie PFI Limited  
 Morrison Facilities Services Limited  
 Nationwide Windows (UK) Limited  
 Pell Frischmann  
 Redcliffe Catering Limited (Aston School)  
 Redcliffe Catering Limited (Bordesley Green Girls School)  
 Redcliffe Catering Limited (Camp Hill School)

Research Machines plc  
 Select Windows (Homes Improvements) Limited  
 Serco Limited  
 Service Birmingham Limited  
 Strand Limited  
 Superclean Services – 31/5/2008  
 Target Excel plc (Walsall MBC)  
 Temple Security Limited  
 Veolia Environmental Services Cleanaway (UK) Limited  
 Vertex Data Science Limited

### Without Active Members

Accord Operations (Birmingham)  
 AWG Facilities Services Limited  
 Birmingham Accord Limited  
 JDM Accord Limited (Shrewsbury & Atcham)  
 JDM Accord Limited (Shropshire)  
 JDM Accord Limited (Tamworth)  
 JDM Accord Limited (Telford & Wrekin)  
 Kite Food Services Limited  
 Revenue Management Services  
 Service team Limited  
 Target Excel plc (Magistrates Courts)  
 Target Excel plc (Solihull MBC)



Severn Trent Water Authority

### 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 Magistrates Courts Committee

## SUPPORTING OUR MEMBERS

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](http://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.

### 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.



### 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.

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 give you the standard of service you want.

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

## 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 commitments to our members:

To match or exceed the agreed investment performance criteria.

To continually monitor overall arrangements.

## 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

The ongoing customer satisfaction survey which the Fund has now adopted, ensures that we have a greater awareness of how the service we provide to you, our member, is viewed.

This ongoing assessment allows us to react and provide a more considered approach to any specific problems that are reported to us. We now 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.

If you have any comments that you wish to make to us aware of, please do so using any of the methods available (our full contact details are shown on the reverse of this booklet). You may wish to note that our website also contains an online feedback form:

[wmpfonline.com](http://wmpfonline.com)

Of the completed questionnaires received so far:

# 19%

of the membership stated that they have contacted us by telephone.

Sometimes our helpdesk lines can get very busy at peak periods. We currently take, on average, around 250 calls a day. This can rise to over 500 at significant times when we issue large mailings, such as annual benefit statements or on pension 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:

# 90%

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 if ringing via the helpdesk facility. However, of the number of callers to the service, 80% of members told us that the person they initially spoke to was able to answer their enquiry.

To maintain adequate management and accounting procedures and 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.



When speaking to members of staff:

95%

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

Of those that have contacted us by written correspondence:

85%

indicated that written communication "was about right in length and contained all the information required".

Data provided is based on a sample of customer surveys completed between January and March 2008, copies of which are held on file at the Fund's offices.

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

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. When asked for the overall view of the way in which the Fund has dealt with the member, 51% of respondents rated our service as "good", with 25% rating the service "excellent".



10% 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 value for money.

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 previous Report and Accounts, we have 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 Fund 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. While 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 Fund at a unit cost approximately 60% below the average for all authorities administering the LGPS.



| STOCK      | BID   | OFFER | LAST  | VOL  |
|------------|-------|-------|-------|------|
| AMCOR      | 5.82  | 5.83  | 5.83  | 611  |
| AMP        | 8.96  | 8.97  | 8.96  | 311  |
| ANZ BANK   | 7.10  | 7.11  | 7.10  | 1511 |
| BHP BLT    | 18.23 | 18.23 | 18.22 | 311  |
| COLES MYER | 11.41 | 11.43 | 11.42 | 711  |
| CWLTH BANK | -     | -     | 7.91  | 211  |
| FOSTERS    | 28.31 | 28.36 | 28.33 | 211  |
| NAT BANK   | 4.46  | 4.47  | 4.47  | 611  |
| NEWS CORP  | 30.97 | 31.00 | 30.99 | 411  |
| RIO TINTO  | 12.44 | 12.45 | 12.45 | 511  |
| T. GEORGE  | 35.08 | 35.12 | 35.12 | 211  |
| ELSTRA     | 21.37 | 21.40 | 21.40 | 711  |
| S. TRUST   | 4.88  | 4.89  | 4.89  | 1611 |
| SFARMER    | 3.48  | 3.49  | 3.49  | 411  |
| STFIELD    | 28.13 | 28.17 | 28.13 | 511  |
| TFLD AM    | 14.06 | 14.07 | 14.07 | 711  |
| TPAC       | 1.89  | 1.90  | 1.89  | 511  |
| SIDE       | 16.52 | 16.53 | 16.53 | 211  |
| NORTHS     | 13.74 | 13.76 | 13.75 | 111  |
|            | 11.08 | 11.09 | 11.09 | 511  |

## New Director of Pensions - Brian Bailey

Although this document is a summary of the Fund's position as at 31 March 2008, given the impending implementation of the new LGPS regulations as at 1 April 2008, it is hard not to comment on the position as we see it at the time of writing. So, with this in mind, I would like to comment on the new role, as Director of Pensions, that I have taken on from 1 April 2008.

The Chief Pensions Officer, Mike Woodall, retired from the Fund in September 2008. As part of the succession planning for the Fund management team, I moved from my previous role of Director for Resources and Support to a remit which involved creating a separate business unit for the Fund's investment and administration functions. This reflected the Fund's commitment to ensuring there is sufficient senior management capacity to address the complexity of pension arrangements.

\* Latest figures available are sourced from the SF3 returns provided by the Department for Communities and Local Government (DCLG).

## Performance Targets (Administration)

| Activity  | Benchmark  | Target<br>2007/2008   | Achievement<br>2007/2008 | Target<br>2008/2009   |
|---|--|---|--------------------------|---|
| 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. Customer Service Excellence (CSE)/Investors in Excellence). | 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 10 pence.<br><br>Introduction of annual newsletter to active members. | Fully achieved.          | 4 copies per year of pensioners' newsletter with unit costs of around 11 pence.<br><br>Assess need for annual newsletter to active members. |



## Performance Targets (Administration)

| Activity  | Benchmark  | Target<br>2007/2008  | Achievement<br>2007/2008 | Target<br>2008/2009  |
|---|--|--|--------------------------|--|
| To provide Scheme members with information on a cost-effective basis in respect of their pension provision. | Cost per copy of annual benefit statements.<br>Cost per copy of abridged Report and Accounts.<br>Availability of user-friendly Scheme literature produced on a cost-effective basis. | Main Scheme booklets to be produced at less than 50 pence per copy.  | Fully achieved.          | Main Scheme booklets to be produced at less than 50 pence per copy.  |
|   |  | Short Guide to be produced for under 17 pence per copy.  | Fully achieved.          | Short Guide to the New-Look LGPS to be produced for under 18 pence per copy.                                       |
|   |  | Annual benefits statements to be produced at less than 14 pence per copy.  | Fully achieved.          | Annual benefits statements to be produced at less than 15 pence per copy.  |
|   |  | Abridged Report and Accounts to be produced at less than 15 pence per copy.  | Fully achieved.          | Abridged Report and Accounts to be produced at less than 18 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.<br>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 – 3 copies per year.  | Achieved.                | Circulation of employers' newsletter – 3 copies per year.  |
|   |  | Annual meeting with employers.   | Achieved.                | Annual meeting with employers.   |
|   |  | Implement revised employers' contribution rates as a result of outcome of valuation with effect from 1 April 2007. | Fully achieved.          | Implement revised employers' contribution rates as a result of outcome of valuation with effect from 1 April 2007. |

## Performance Targets (Investments)

| Activity   | Benchmark   | Target<br>2007/2008   | Achievement<br>2007/2008   | Target<br>2008/2009  |
|--|---|---|--|--|
| 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 over five years, but ten year return 4.9% reflecting poor returns in 2000 by all funds. | 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.<br><br>Fund to seek out ESC investments that meet fundamental investment criteria. |
| Investment management procedures follows best practice.  | Analysis of quarterly compliance reports to Superannuation Committee.                                   | To have no major compliance problems.   | Fully achieved.  | To have no major compliance problems.  |

# DIRECTOR OF PENSIONS' STATEMENT



I will take the Fund forward with a cohesive approach to Fund management and administration. While the Fund's commitment to communication is paramount in its daily functions, the complexity of overriding regulations and the LGPS regulations themselves requires a strategic approach; one which will safeguard not only Fund assets, but will ensure that, administratively, we are able to rise to the challenges that the new LGPS presents.

Priority will continue to be given to communicating with Scheme members, and further development of communication channels will ensure members are fully briefed on pension developments within the LGPS and other public and private schemes.

The provision of a comprehensive benefit information programme will be the cornerstone of this approach and will ensure that items such as *Pensions Update*, an abridged version of this the Fund's Report and Accounts, can be distributed to members in an effective manner. The Fund will also continue to circulate *The Reliable Source*, which ensures 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, will continue to be produced and circulated to all pensioners four times a year ensuring that they too are aware of developments within the LGPS.

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.

Recent events have focused members' attention on Fund investments and more will be done to ensure that members are aware of the nature and scope of Fund investment activity.

A handwritten signature in blue ink that reads "B Bailey". The signature is written in a cursive, flowing style.

**Brian Bailey**  
Director of Pensions

# CHIEF INVESTMENT OFFICER'S STATEMENT



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 the 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 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 recognises the wider environmental issues and has 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.

Following a consultative period, during which time employers were asked to comment directly on the proposed documents, the Fund has now produced a range of documents which detail aspects of the Fund's investment strategy. The documents were produced with the assistance of the Fund's actuary as part of the information to be made available following the 2007 valuation.

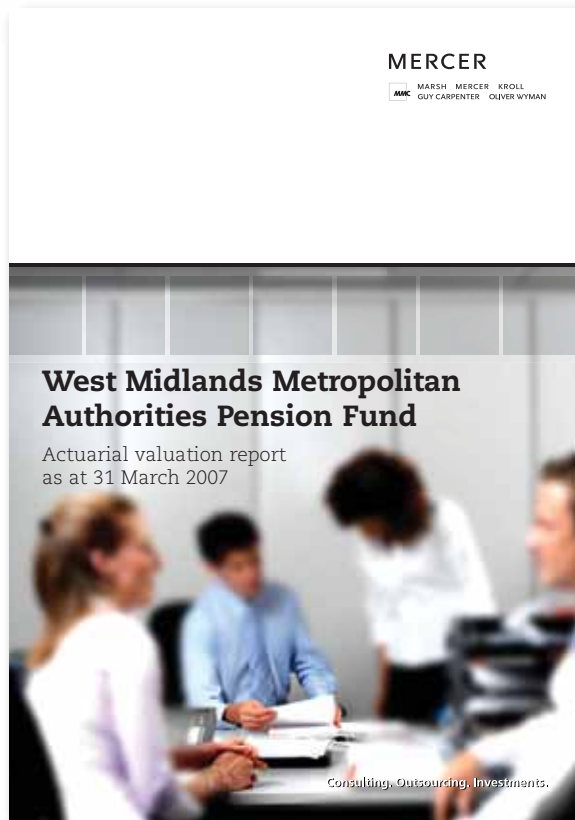
The documents available are:

- **Statement of Investment Principles**
- **Funding Strategy Statement**
- **Socially Responsible Investment Statement**
- **Investment Strategy Statement**
- **Governance Compliance Statement**

A handwritten signature in blue ink that reads "JA Saunders". The signature is written in a cursive, flowing style.

**Judy Saunders**  
Chief Investment Officer

# ACTUARIAL VALUATION



## What is an Actuarial Valuation?

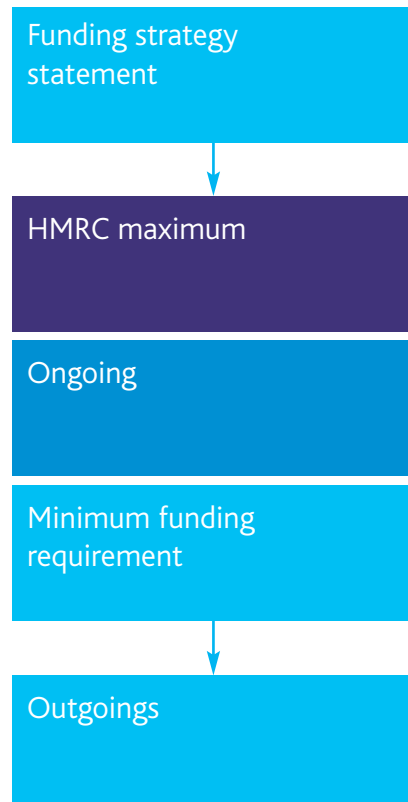
It is a professional assessment undertaken by the actuary to determine whether the Fund's assets are likely to be sufficient to meet the accrued benefits. The LGPS regulations require that the Fund obtains an actuarial valuation of assets and liabilities every three years. The last valuation was in 2007. Therefore, revised contribution rates applied from 1 April 2008, with the next valuation being carried out as at 31 March 2010, with contribution rates applicable from 1 April 2011.

## Funding Strategy Statement (FSS)

The LGPS regulations require the Fund to have in place an FSS. After extensive consultation with employers, 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 2008, revised rates of contribution are effective, based on the results of the 2007 actuarial valuation.



## Summary of Membership 31 March 2004

# 200,809

Active **98,992**

Deferred **47,596**

Pensioner **54,221**



## Summary of Membership 31 March 2007

# 224,400

Active **105,352**

Deferred **60,574**

Pensioner **58,474**



# STATEMENT OF THE CONSULTING ACTUARY



An actuarial valuation of the West Midlands Metropolitan Authorities Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The results of the valuation are contained in our report dated 31 March 2008. The valuation allowed for the new look LGPS benefit structure which was introduced from 1 April 2008.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82% of the funding target at the valuation date. The valuation also showed that a common rate of contribution of 12.2% 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.

Adopting the same method and assumptions as used for assessing the funding target, the deficit would be eliminated by an average additional contribution rate of 4.3% of pensionable pay for 25 years. This would imply an average employer contribution rate of 16.5% of pensionable pay in total. In practice, each individual employer's position is assessed separately and the contributions required

are set out in our report dated 31 March 2008.

In addition to the contribution rates shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by those employers for whom an allowance was not built into their contribution rate. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions for the duration of the employer's deficit recovery period.

**CR Hull**

Fellow of the Institute of Actuaries  
Mercer Limited  
September 2008

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

|   | For past service liabilities | For future service liabilities |
|---|------------------------------|--------------------------------|
| Rate of return on investments:  |                              |                                |
| • pre-retirement  | 6.4% per annum               | 6.5% per annum                 |
| • post-retirement   | 5.4% per annum               | 6.5% per annum                 |
| Rate of pay increases:  | 4.85% per annum              | 4.5% per annum                 |
| Rate of increases in pensions in payment (in excess of guaranteed minimum pension): | 3.1% per annum               | 2.75% per annum                |

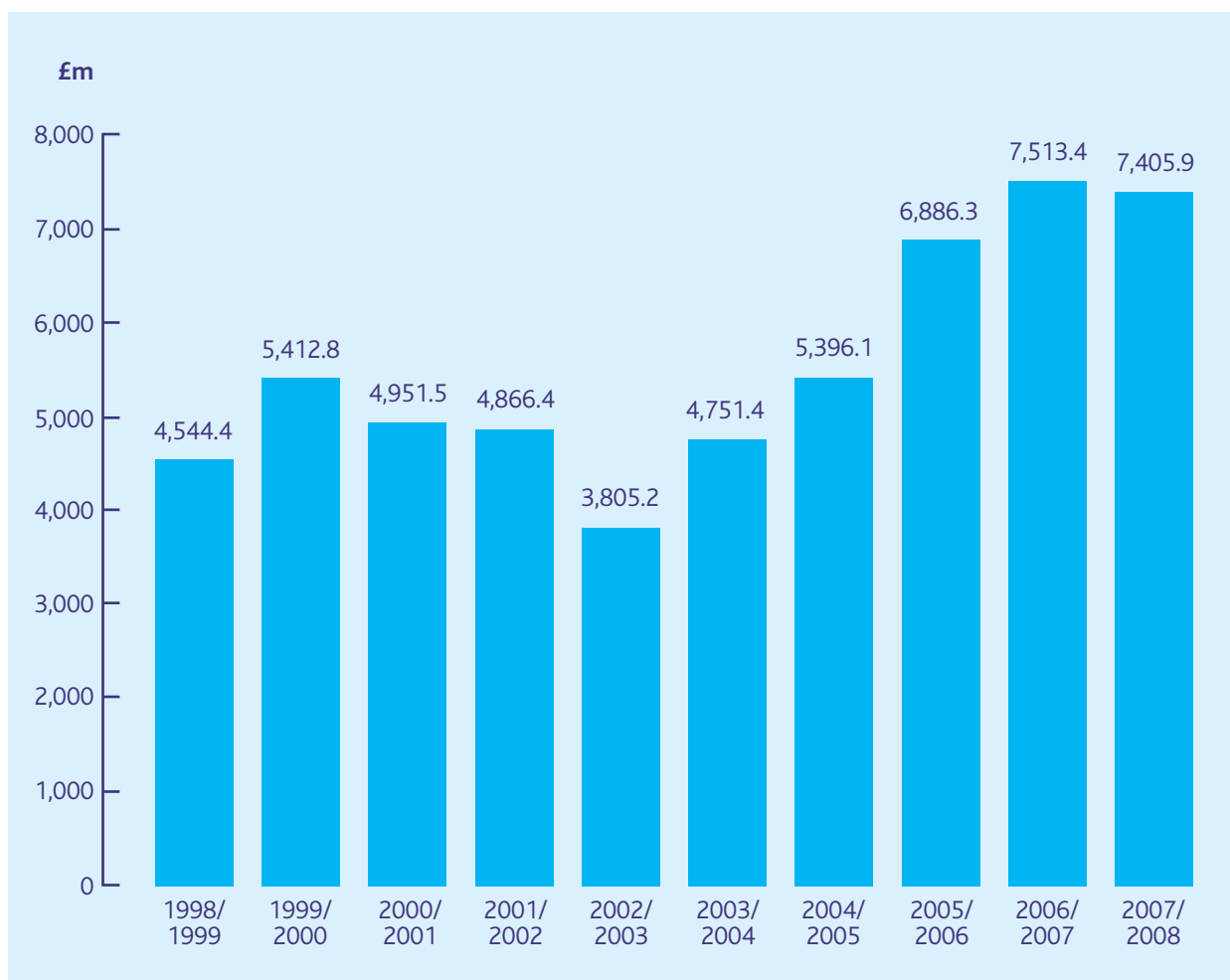
The assets were assessed at market value and the value at 31 March 2007 (excluding AVCs) was £7,513 million. Full details of the assumptions adopted for the valuation are set out in the actuarial valuation report. The valuation results as summarised above are based on the financial position and market levels at the valuation date, 31 March 2007. As such the results do not make allowance for the significant market falls which have occurred during the financial year to 31 March 2008 and following.

The next triennial actuarial valuation of the Fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.





## TEN YEAR SUMMARY NET ASSETS FOR THE FUND



# RESPONSIBILITY FOR THE ACCOUNTS

## EXTRACT FROM WOLVERHAMPTON CITY COUNCIL'S STATEMENT OF ACCOUNTS FOR THE YEAR ENDING 31 MARCH 2008

### Officer Approval of the Accounts

Wolverhampton City Council is required to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer. In addition, the City Council is required to make arrangements to secure economic, efficient and effective use of resources and safeguard its assets and to make arrangements to approve the Statement of Accounts.

The Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'). She is required to present fairly the financial position of the City Council at the accounting date and its income and expenditure for the year ended 31 March 2008.

In preparing the Statement of Accounts, the Chief Financial Officer has selected suitable accounting policies and then applied them consistently; made judgements and estimates that were reasonable and prudent and complied with the Code of Practice in all material respects.

The Chief Financial Officer has also kept proper accounting records which were up-to-date and taken reasonable steps for the prevention and detection of fraud and other irregularities.

The above responsibilities have been complied with and the Statement of Accounts herewith presents fairly the financial position of the Council as at 31 March 2008 and its income and expenditure for the year ended the same date.



**Pat Main MBA CPFA**  
**Chief Financial Officer**

Date: 22 September 2008

### Member Approval of the Accounts

Responsibility for member approval of Wolverhampton City Council's Statement of Accounts lies with the Audit Committee.

The Council's Statement of Accounts for 2007/08 has been presented by the City Council's responsible Finance Officer, the Chief Financial Officer, on 30 June 2008 and was formally approved at this meeting.



**Councillor Hazel Keirle**  
**Chair, Audit Committee**

Date: 22 September 2008

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF WOLVERHAMPTON CITY COUNCIL

We have audited the financial statements of Wolverhampton City Council and its Group for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, the Pension Fund Statements, the Group Accounts and the related notes. The financial statements have been prepared under the accounting policies set out within them.

### Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for, and only for, Wolverhampton City Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cashflows for the year.

We review whether the Governance Statement reflects compliance with '*Delivering Good Governance in Local Government: A Framework*' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword to the Statement of Accounts and the Introduction to the Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes

an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

### Opinion

In our opinion, the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Wolverhampton City Council and its Group as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.



#### **PricewaterhouseCoopers LLP**

Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

Date: 25 September 2008

The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# FUND ACCOUNT

## FOR THE YEAR ENDED 31 MARCH 2008

|  | Notes | 2006/07<br>£000  | 2007/08<br>£000  |
|--|-------|------------------|------------------|
| <b>Contributions and Benefits</b>                    |       |                  |                  |
| Contributions receivable                             | 7     | 341,400          | <b>364,884</b>   |
| Transfers in   | 8     | 26,045           | <b>20,740</b>    |
| <b>Total contributions and benefits income</b>       |       | <b>367,445</b>   | <b>385,624</b>   |
| <b>Benefits payable</b>                              |       |                  |                  |
| Benefits payable                                     | 9     | 263,765          | <b>281,452</b>   |
| <b>Payments to leavers</b>                           |       |                  |                  |
| Payments to leavers                                  | 10    | 22,087           | <b>16,327</b>    |
| <b>Other payments</b>                                |       |                  |                  |
| Other payments                                       |       | 490              | <b>630</b>       |
| Administration expenses                              | 11    | 3,769            | <b>3,903</b>     |
| <b>Total contributions and benefits expenditure</b>  |       | <b>290,111</b>   | <b>302,312</b>   |
| <b>Net additions from dealings with members</b>      |       | <b>77,334</b>    | <b>83,312</b>    |
| <b>Returns on Investments</b>                        |       |                  |                  |
| Investment income                                    | 12    | 166,197          | <b>173,185</b>   |
| Change in market value of investments                |       | 390,674          | <b>(356,022)</b> |
| Investment management expenses                       | 11    | (7,177)          | <b>(7,876)</b>   |
| <b>Net return on investments</b>                     |       | <b>549,694</b>   | <b>(190,713)</b> |
| <b>Net increase in the Fund during the year</b>      |       | <b>627,028</b>   | <b>(107,402)</b> |
| Net assets of the Fund at the beginning of the year  |       | 6,886,339        | <b>7,513,367</b> |
| <b>Net assets of the Fund at the end of the year</b> |       | <b>7,513,367</b> | <b>7,405,965</b> |

# NET ASSETS STATEMENT

## AS AT 31 MARCH 2008

|  | Notes    | 2007             | 2008             |
|--|----------|------------------|------------------|
|  | 13/14/16 | £000             | £000             |
| <b>Investment Assets (at Market Value)</b>                       |          |                  |                  |
| Fixed interest securities  |          | 288,881          | <b>280,017</b>   |
| UK equities  |          | 2,415,123        | <b>1,984,938</b> |
| Overseas equities  |          | 2,135,333        | <b>1,909,235</b> |
| Index-linked securities  |          | 285,858          | <b>0</b>         |
| Derivatives - Forward foreign currency contracts                 |          | 0                | <b>745</b>       |
| Pooled investment vehicles                                       |          | 1,703,298        | <b>2,514,633</b> |
| Property   |          | 567,236          | <b>455,237</b>   |
| Foreign currency holdings  |          | 17,306           | <b>36,476</b>    |
| Cash deposits  |          | 65,190           | <b>187,170</b>   |
| Other investments  |          | (502)            | <b>1,284</b>     |
| Outstanding dividend entitlement and recoverable withholding tax |          | 17,047           | <b>21,905</b>    |
| <b>Investment assets</b>   |          | <b>7,494,770</b> | <b>7,391,640</b> |
| <b>Investment Liabilities</b>                                    | 15       |                  |                  |
| Derivatives - FFCC   |          | 0                | <b>(6,186)</b>   |
| <b>Total investments</b>   |          | <b>7,494,770</b> | <b>7,385,454</b> |
| <b>Current assets</b>  | 17       | 29,377           | <b>34,548</b>    |
| <b>Current liabilities</b>                                       | 18       | (10,780)         | <b>(14,037)</b>  |
| <b>Net assets of the Fund at the end of the year</b>             |          | <b>7,513,367</b> | <b>7,405,965</b> |

# 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 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 accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the actuarial certificate/statement.

The Fund's Statement of Investment Principles (SIP) can be found in the Annual Report and on the Fund's website: [www.wmpfonline.com](http://www.wmpfonline.com)

## 2. Basis of Preparation

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' (as revised in May 2007) and follow the 2005 Code of Practice on Local

Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy. Compliance with the revised 'Financial Reports of Pension Schemes' represents early adoption as they apply to accounting periods commencing on or after 6 April 2007. These guidelines change the basis on which investment assets are valued to that of a bid-price rather than a mid-price basis. The difference in valuation overall is considered immaterial (£7.1m or 0.09% of total net assets) and comparative figures have, therefore, not been restated.

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 these bodies.

## 3. 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 8).

#### (ii) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in notes 1 and 5 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 amounts received and paid during the year for members who had either joined or left the Scheme as at 31 March 2008, calculated in accordance with the Local Government Pension Scheme regulations (see notes 8 and 10). They are not accounted for on an accruals basis.

#### (iv) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2008 relating to the financial year 2007/2008.

**(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 2008.

**(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 bid-market price ruling on 31 March 2008 where a quotation was available on a recognised stock exchange or unlisted securities market.

**(ii) Unquoted Securities**

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor report has not been received from the fund manager, the security is valued at cost.

**(iii) Foreign Currency Hedging**

Forward foreign currency contracts outstanding at the year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

**(iv) Pooled Investment Vehicles**

Pooled investment vehicles are stated at the bid-point

of the latest prices quoted or the latest single market prices.

**(v) 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 2008. 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 2008 was, therefore, a desktop valuation.

**(vi) 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 2008.

Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

**(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.

**4. Membership**

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

|                   | 31 March |                |
|-------------------|----------|----------------|
|                   | 2007     | 2008           |
| Active members    | 105,512  | <b>107,845</b> |
| Pensioner members | 59,303   | <b>61,185</b>  |
| Deferred members  | 61,732   | <b>66,321</b>  |

A detailed list of member bodies is available at note 21.



## 5. Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2007 by the Fund's actuary, CR Hull of Mercer Human Resource Consulting Limited. In accordance with the Local Government Pensions Scheme regulations, the actuary has determined employer's 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. 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 results of the valuation as at 31 March 2007, and the main actuarial assumptions used are set out overleaf.

|  | <b>31 March<br/>2007 Valuation</b> |
|--|------------------------------------|
| Funding target as % of existing and prospective liabilities                          | <b>100%</b>                        |
| Common rate of employers' contributions (calculated using the projected unit method) | <b>12.2%</b>                       |
| Employers' contributions rates as funding target                                     |                                    |
| - District councils  | <b>14.7% to 16.4%</b>              |
| - Other bodies   | <b>7.5% to 25%</b>                 |
| Market value of the Fund   | <b>£7,513m</b>                     |
| Actuarial value of liabilities   | <b>£9,194m</b>                     |
| Deficit in relation to past service  | <b>£1,681m</b>                     |
| Funding level in relation to past service liabilities                                | <b>82%</b>                         |

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

|                                   | <b>2007 Funding Target</b>  | <b>2007 Normal Cost</b> |
|-----------------------------------|-----------------------------|-------------------------|
| Investment return pre-retirement  | 6.4% p.a.                   | 6.5% p.a.               |
| Investment return post-retirement | 5.4% p.a.                   | 6.5% p.a.               |
| Salary increases                  | 4.85% p.a.                  | 4.5% p.a.               |
| Pension increases in payment      | 3.1% p.a.                   | 2.75% p.a.              |
| Non-retired members' mortality    | PA92 MC YoB tables + 1 year |                         |
| Retired members' mortality        | PA92 MC YoB tables + 1 year |                         |

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:

|         | <b>Employers' Rate<br/>%</b> | <b>Fixed Amount<br/>£m</b> |
|---------|------------------------------|----------------------------|
| 2008/09 | 11.1 plus                    | £6.8                       |
| 2009/10 | 11.5 plus                    | £6.8                       |
| 2010/11 | 11.9 plus                    | £6.8                       |

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.

## 6. 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, Luxembourg, 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.

## 7. Contributions Receivable

Contributions receivable are analysed below:

|                                     | 2006/07<br>£000 | 2007/08<br>£000 |
|-------------------------------------|-----------------|-----------------|
| <b>From Employers</b>               |                 |                 |
| Basic contributions                 | 232,187         | <b>254,103</b>  |
| Augmented membership                | 2,601           | <b>446</b>      |
| Additional cost of early retirement | 8,075           | <b>6,418</b>    |
|                                     | <b>242,863</b>  | <b>260,967</b>  |
| <b>From Employees</b>               |                 |                 |
| Basic contributions                 | 97,204          | <b>102,478</b>  |
| Additional contributions            | 1,333           | <b>1,439</b>    |
|                                     | <b>98,537</b>   | <b>103,917</b>  |
| <b>Total contributions</b>          | <b>341,400</b>  | <b>364,884</b>  |

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<br>£000 | 2007/08<br>£000 |
|-------------------------|-----------------|-----------------|
| Administering authority | 28,201          | <b>30,633</b>   |
| Scheme employers        | 284,952         | <b>310,200</b>  |
| Admitted employers      | 28,247          | <b>24,051</b>   |
|                         | <b>341,400</b>  | <b>364,884</b>  |

## 8. Transfers In

|  | 2006/07<br>£000 | 2007/08<br>£000 |
|--|-----------------|-----------------|
| Individual transfers in from other schemes | 26,045          | <b>20,740</b>   |

## 9. Benefits Payable

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

|  | 2006/07<br>£000 | 2007/08<br>£000 |
|--|-----------------|-----------------|
| <b>Pensions</b>                        |                 |                 |
| Retirement pensions                    | 207,130         | <b>219,002</b>  |
| Widows' pensions                       | 20,130          | <b>21,111</b>   |
| Children's' pensions                   | 715             | <b>796</b>      |
| Widowers' pension                      | 1,425           | <b>1,619</b>    |
| Ex-spouse                              | 5               | <b>10</b>       |
| Equivalent pension benefits            | 62              | <b>54</b>       |
|  | <b>229,467</b>  | <b>242,592</b>  |
| <b>Lump-Sum Benefits</b>               |                 |                 |
| Retiring allowances                    | 44,519          | <b>49,718</b>   |
| Death grants                           | 5,997           | <b>5,426</b>    |
|  | <b>50,516</b>   | <b>55,144</b>   |
| <b>Benefits Recharged to Employers</b> |                 |                 |
| Compensatory added years               | (10,724)        | <b>(10,706)</b> |
| Pensions increases                     | (5,493)         | <b>(5,577)</b>  |
| Supplementary pensions                 | (1)             | <b>(1)</b>      |
|  | <b>(16,218)</b> | <b>(16,284)</b> |
| <b>Total benefits payable</b>          | <b>263,765</b>  | <b>281,452</b>  |

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

|                         | 2006/07<br>£000 | 2007/08<br>£000 |
|-------------------------|-----------------|-----------------|
| Administering authority | 22,730          | 24,462          |
| Scheme employers        | 225,299         | 241,704         |
| Admitted employers      | 15,736          | 15,286          |
|                         | 263,765         | 281,452         |

#### 10. Payments To and On Account of Leavers

|   | 2006/07<br>£000 | 2007/08<br>£000 |
|---|-----------------|-----------------|
| Individual transfers out to other schemes | 21,903          | 16,196          |
| Group transfers out to other schemes      | 0               | 0               |
| Refunds of contributions                  | 180             | 82              |
| State scheme premiums                     | 4               | 49              |
|   | 22,087          | 16,327          |

#### 11. 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<br>£000 | 2007/08<br>£000 |
|-----------------------------------|-----------------|-----------------|
| <b>Administration</b>             |                 |                 |
| Pensions administration           | 3,556           | 3,586           |
| Actuarial fees                    | 157             | 256             |
| Audit fees                        | 48              | 50              |
| Legal and other professional fees | 8               | 11              |
|                                   | 3,769           | 3,903           |

|                                    | 2006/07<br>£000 | 2007/08<br>£000 |
|------------------------------------|-----------------|-----------------|
| <b>Investments</b>                 |                 |                 |
| External management of investments | 4,309           | 5,480           |
| In-house management of investments | 1,953           | 1,809           |
| Performance measurement service    | 22              | 19              |
| Property and legal fees            | 124             | (25)            |
| Safe custody expenses              | 769             | 593             |
|                                    | 7,177           | 7,876           |

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council, and the costs shown in the preceding table 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.

#### 12. Investment Income

Investment income is analysed below:

|                                     | 2006/07<br>£000 | 2007/08<br>£000 |
|-------------------------------------|-----------------|-----------------|
| <b>Dividends and Interest</b>       |                 |                 |
| <b>Fixed Interest Securities</b>    |                 |                 |
| UK public sector – quoted           | 1,471           | 0               |
| UK private sector – quoted          | 12,489          | 17,169          |
| <b>Equities</b>                     |                 |                 |
| UK                                  | 76,513          | 77,406          |
| Overseas                            | 29,562          | 35,680          |
| <b>Index-Linked Securities</b>      |                 |                 |
| UK public sector                    | 5,063           | 3,760           |
| Overseas public sector              | 0               | 0               |
| <b>Pooled Investment Vehicles</b>   |                 |                 |
| UK                                  | 475             | 1,170           |
| Overseas equities                   | 5,939           | 1,618           |
| Interest on cash deposits           | 9,463           | 12,837          |
| Stocklending                        | 619             | 702             |
| UK tax, irrecoverable               | (15)            | (186)           |
| Overseas taxation                   | (2,218)         | (2,677)         |
| <b>Total dividends and interest</b> | 139,361         | 147,479         |
| Property management income          | 28,358          | 27,513          |
| Property management expenses        | (1,522)         | (1,807)         |
|                                     | 26,836          | 25,706          |
| <b>Total investment income</b>      | 166,197         | 173,185         |

#### 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 2008 was £1,338m, backed by collateral valued at £1,405m to maintain the agreed margin level.

### 13. Investment Assets

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

|                                      | 31 March     |              |
|--------------------------------------|--------------|--------------|
|                                      | 2007<br>£000 | 2008<br>£000 |
| <b>Fixed Interest Securities</b>     |              |              |
| UK public sector – quoted            | 0            | 0            |
| UK companies – quoted                | 89,430       | 96,986       |
| UK companies – segregated (external) | 199,451      | 183,031      |
|                                      | 288,881      | 280,017      |
| <b>UK Equities</b>                   |              |              |
| Quoted                               | 2,216,398    | 1,865,601    |
| Quoted – segregated (external)       | 198,725      | 119,337      |
|                                      | 2,415,123    | 1,984,938    |
| <b>Overseas Equities</b>             |              |              |
| Quoted                               | 1,603,917    | 1,402,664    |
| Quoted – segregated (external)       | 531,416      | 506,571      |
|                                      | 2,135,333    | 1,909,235    |
| <b>Index-Linked Securities</b>       |              |              |
| UK public sector – quoted            | 280,565      | 0            |
| UK companies – quoted                | 5,293        | 0            |
|                                      | 285,858      | 0            |
| <b>Derivatives</b>                   |              |              |
| Forward foreign currency contracts   | 0            | 745          |
| <b>Pooled Investment Vehicles</b>    |              |              |
| UK quoted fixed interest             | 336,219      | 361,255      |
| UK quoted index-linked               | 0            | 388,604      |
| UK quoted equities                   | 93,563       | 189,953      |
| Overseas equities                    | 331,188      | 554,326      |
| UK unquoted equities                 | 85,490       | 100,010      |
| Overseas unquoted equities           | 269,957      | 381,174      |
| UK property                          | 0            | 45,506       |
| Foreign property                     | 0            | 27,949       |

### Unit Trusts

|                    |           |           |
|--------------------|-----------|-----------|
| UK quoted equities | 430,729   | 294,833   |
| Overseas equities  | 150,646   | 164,177   |
| Overseas property  | 5,506     | 6,846     |
|                    | 1,703,298 | 2,514,633 |

### Property

|               |         |         |
|---------------|---------|---------|
| UK freehold   | 496,011 | 401,442 |
| UK leasehold* | 71,225  | 53,795  |
|               | 567,236 | 455,237 |

### Foreign Currency Holdings

|                       |        |        |
|-----------------------|--------|--------|
| United States dollars | 3,880  | 8,315  |
| Euro                  | 6,034  | 4,981  |
| Canadian dollars      | 653    | 1,759  |
| Danish kroner         | 113    | 458    |
| Hong Kong dollars     | 862    | 2,179  |
| Swedish kroner        | 146    | 233    |
| Swiss francs          | 918    | 4,103  |
| Japanese yen          | 2,135  | 940    |
| Norwegian kroner      | 185    | 555    |
| Malaysian dollars     | 30     | 4,801  |
| Singapore dollars     | 866    | 4,562  |
| Australian dollars    | 1,472  | 3,576  |
| New Zealand dollars   | 12     | 14     |
|                       | 17,306 | 36,476 |

### Cash Deposits

|    |        |         |
|----|--------|---------|
| UK | 65,190 | 187,170 |
|----|--------|---------|

### Other Investments

|                 |       |       |
|-----------------|-------|-------|
| Broker balances | (502) | 1,284 |
|-----------------|-------|-------|

|  |        |        |
|--|--------|--------|
| Outstanding dividend entitlement and recoverable withholding tax | 17,047 | 21,905 |
|--|--------|--------|

|                                |           |           |
|--------------------------------|-----------|-----------|
| <b>Total investment assets</b> | 7,494,770 | 7,390,895 |
|--------------------------------|-----------|-----------|

\*All leasehold properties are held on long leases

### 13. Investment Assets (continued)

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

|   | 31 March         |              |                  |              |
|---|------------------|--------------|------------------|--------------|
|   | 2007             |              | 2008             |              |
|   | £000             | %            | £000             | %            |
| In-house  | 4,958,440        | 66.3         | <b>4,259,302</b> | <b>57.8</b>  |
| Managers: UK quoted   | 628,772          | 8.4          | <b>413,727</b>   | <b>5.6</b>   |
| Managers: US quoted   | 129,538          | 1.7          | <b>120,072</b>   | <b>1.6</b>   |
| Managers: European quoted   | 243,782          | 3.3          | <b>261,856</b>   | <b>3.6</b>   |
| Managers: Japanese quoted   | 39,832           | 0.5          | <b>100,141</b>   | <b>1.4</b>   |
| Managers: Pacific Basin   | 27,686           | 0.4          | <b>30,138</b>    | <b>0.4</b>   |
| Managers: Emerging markets  | 248,029          | 3.3          | <b>249,017</b>   | <b>3.4</b>   |
| Managers: Global equities   | 434,798          | 5.8          | <b>440,871</b>   | <b>6.0</b>   |
| Managers: Fixed interest  | 535,670          | 7.2          | <b>932,890</b>   | <b>12.7</b>  |
| Managers: Indirect property   | 0                | 0.0          | <b>73,454</b>    | <b>1.0</b>   |
| Managers: Emerging market debt  | 61,170           | 0.8          | <b>133,018</b>   | <b>1.8</b>   |
| Managers: Commodities   | 62,490           | 0.8          | <b>165,697</b>   | <b>2.2</b>   |
| Managers: Active currency   | 107,516          | 1.5          | <b>89,894</b>    | <b>1.2</b>   |
| Managers: Infrastructure funds  | 0                | 0.0          | <b>99,658</b>    | <b>1.3</b>   |
|   | <b>7,477,723</b> | <b>100.0</b> | <b>7,369,735</b> | <b>100.0</b> |
| <b>Outstanding dividend entitlement and recoverable withholding tax</b> | 17,047           |              | <b>21,905</b>    |              |
| <b>Total investment assets</b>  | <b>7,494,770</b> |              | <b>7,391,640</b> |              |

#### 14. Investment Assets – Market Value Movements Analysis

The change in the value of investments during 2007/08 is set out below:

|   | Value at<br>31 March<br>2007<br>£000 | Purchase &<br>Derivatives<br>£000 | Sales &<br>Derivatives<br>£000 | Change in<br>Market<br>Value<br>£000 | Value at<br>31 March<br>2008<br>£000 |
|---|--------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|--------------------------------------|
| Fixed interest securities   | 288,881                              | 12,037                            | (1,691)                        | (19,210)                             | <b>280,017</b>                       |
| UK equities   | 2,415,123                            | 52,841                            | (234,184)                      | (248,842)                            | <b>1,984,938</b>                     |
| Overseas equities   | 2,135,333                            | 60,723                            | (293,431)                      | 6,610                                | <b>1,909,235</b>                     |
| Derivatives   | 0                                    | 5,001,429                         | (4,922,548)                    | (78,136)                             | <b>745</b>                           |
| Index-linked securities   | 285,858                              | 74,083                            | (330,423)                      | (29,518)                             | <b>0</b>                             |
| Pooled investment vehicles  | 1,703,298                            | 1,092,055                         | (388,301)                      | 107,581                              | <b>2,514,633</b>                     |
| Property  | 567,236                              | 7,416                             | (25,023)                       | (94,392)                             | <b>455,237</b>                       |
|   | <b>7,395,729</b>                     | <b>6,300,584</b>                  | <b>(6,195,601)</b>             | <b>(355,907)</b>                     | <b>7,144,805</b>                     |
| Broker balances   | (502)                                |                                   |                                |                                      | <b>1,284</b>                         |
| Outstanding dividend entitlement<br>and recoverable withholding tax | 17,047                               |                                   |                                |                                      | <b>21,905</b>                        |
| Foreign currency  | 17,306                               |                                   |                                |                                      | <b>36,476</b>                        |
| Cash deposits   | 65,190                               |                                   |                                |                                      | <b>187,170</b>                       |
| <b>Total investments</b>  | <b>7,494,770</b>                     |                                   |                                |                                      | <b>7,390,640</b>                     |

Purchases also include transfers in of investments, takeover of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, takeover 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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £1,071,368 (2006-2007: £1,489,386). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

|                   | 31 March<br>2007<br>£000 | 2008<br>£000     |
|-------------------|--------------------------|------------------|
| <b>Equities</b>   |                          |                  |
| - UK quoted       | 753,378                  | <b>346,977</b>   |
| - Overseas quoted | 736,008                  | <b>724,391</b>   |
|                   | <b>1,489,396</b>         | <b>1,071,368</b> |

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.

## 15. Investment Liabilities – Market Value Movements Analysis

|                        | Value at<br>1 April<br>2007<br>£000 | Purchase &<br>Derivatives<br>£000 | Sales &<br>Derivatives<br>£000 | Change in<br>Market<br>Value<br>£000 | Value at<br>31 March<br>2008<br>£000 |
|------------------------|-------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|--------------------------------------|
| Derivatives unrealised | 0                                   | 0                                 | 0                              | (6,186)                              | <b>(6,186)</b>                       |

## 16. Foreign Currency Hedging

Some investments denominated in overseas currencies are hedged into sterling in accordance with the passive currency overlay program. 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.

### Forward Foreign Currency Contracts

|     | Currency<br>Bought<br>000 |     | Currency<br>Sold<br>000 | 2008<br>Assets<br>£000 | 2007<br>Asset<br>£000 | 2008<br>Liability<br>£000 | 2007<br>Liability<br>£000 |
|-----|---------------------------|-----|-------------------------|------------------------|-----------------------|---------------------------|---------------------------|
| EUR | 3,300,083                 | GBP | 2,452,097               | 0                      | 0                     | 0                         | 0                         |
| JPY | 132,365,620               | GBP | 619,769                 | 0                      | 0                     | 0                         | 0                         |
| USD | 3,855,298                 | GBP | 1,929,563               | 0                      | 0                     | 0                         | 0                         |
| GBP | 2,393,945                 | EUR | 3,300,083               | 0                      | 0                     | 5,612                     | 0                         |
| GBP | 602,422                   | JPY | 132,365,620             | 745                    | 0                     | 0                         | 0                         |
| GBP | 1,926,182                 | USD | 3,855,298               | 0                      | 0                     | 574                       | 0                         |
|     |                           |     |                         | <b>745</b>             | <b>0</b>              | <b>6,186</b>              | <b>0</b>                  |

## 17. Investment Commitments

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

|              | 31 March       |                |
|--------------|----------------|----------------|
|              | 2007<br>£000   | 2008<br>£000   |
| Non-equities | 323,721        | <b>510,613</b> |
| Property     | 10,250         | -              |
|              | <b>333,971</b> | <b>510,613</b> |

## 18. Current Assets

|                                | 31 March      |               |
|--------------------------------|---------------|---------------|
|                                | 2007<br>£000  | 2008<br>£000  |
| <b>Debtors and Prepayments</b> |               |               |
| Contributions Receivable       |               |               |
| - Employers                    | 18,502        | <b>21,547</b> |
| - Employees                    | 8,222         | <b>8,760</b>  |
| Wolverhampton City Council     | 714           | <b>865</b>    |
| Other debtors                  | 1,356         | <b>3,637</b>  |
|                                | <b>28,794</b> | <b>34,809</b> |
| Cash                           | 583           | <b>(261)</b>  |
|                                | <b>29,377</b> | <b>34,548</b> |

## 19. Current Liabilities

|  | 31 March        |                 |
|--|-----------------|-----------------|
|  | 2007            | 2008            |
|  | £000            | £000            |
| <b>Creditors and Receipts in Advance</b> |                 |                 |
| Pensions and lump-sum benefits           | (4,059)         | <b>(4,644)</b>  |
| Other creditors                          | (6,721)         | <b>(9,392)</b>  |
|  | <b>(10,780)</b> | <b>(14,036)</b> |

## 20. Additional Voluntary Contributions

The Fund Scheme provides for additional voluntary contributions (AVC) for Scheme members. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

|                                  | 31 March      |               |
|----------------------------------|---------------|---------------|
|                                  | 2007          | 2008          |
|                                  | £000          | £000          |
| Equitable Life Assurance Society | 5,149         | <b>4,679</b>  |
| Prudential                       | 13,615        | <b>16,758</b> |
|                                  | <b>18,764</b> | <b>21,437</b> |

## 21. Post-Year Transactions

There were no major events following the end of the financial year, which would affect the validity of the figures shown in the accounts statement.



# ANNUAL GOVERNANCE STATEMENT

## 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 putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at [www.wolverhampton.gov.uk](http://www.wolverhampton.gov.uk)

Copies can also be obtained from the Monitoring Officer or Chief Financial Officer. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

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

## 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 governance framework has been in place at Wolverhampton City Council for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

## 3. The Governance Framework

The Council's new governance arrangements have been reviewed against the latest CIPFA/SOLACE guidance and, whilst considering that the arrangements are satisfactory, a number of actions have been identified which will lead to a strengthening of arrangements. The key elements of the systems and processes that comprise the Council's governance arrangements include the following:

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



The Council's core policy priorities are expressed in the Corporate Plan 2005-2008 'Corporate Plan – Delivering for our city and communities'. This document, which is currently under review and due to be reissued in the forthcoming year, 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 recently appointed a strategic partner with a view to entering into a formal arrangement to assist in future delivery of services.

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

- **Community Plan 2002 - 2012**
- **Strategic Plan 2007-2010**
- **Corporate Plan 2005 - 2008 and 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**

The Council engages extensively with the local community on its plans and proposals and produced a community involvement framework and guidance document in January 2007. This document provides a step-by-step guide for staff when involving the public and a pledge about the standards that can be expected from the council when involving the public. The Council 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. At the operational level, the Council has an established format for preparing service and workforce plans which contain balanced scorecards. The service plans and detailed work programmes contain objectives, targets and relevant performance measures which are linked to the Council's strategic plan and wider corporate priorities and are reviewed and monitored on a regular basis.

The Council's Cabinet (Performance Management) Panel and the Council's Corporate Management Team (CMT) receive regular reports on a high level scorecard designed to capture progress against core corporate priorities. CMT also receives monthly programme management updates in relation to progress with the delivery of the highest risk corporate projects. These include: Building Schools for the Future (BSF), Local Improvement Finance Trust (LIFT), the Social Care Transformation Programme and the Programme for Customer Service and Efficiency.

In relation to ensuring that the delivery of services and projects represent the best use of resources and value for money, the Council has adopted a twin track approach. Support and transactional services are subject to the Partnership for Customer Service and Efficiency. Detailed benefits cards will be tracked to ensure that efficiencies are delivered. Front-line services are subject to value for money reviews in which the Council is assisted by external consultants.

The Council has an organisational framework for decision making based on a Cabinet structure with scrutiny groups and panels with an overarching scrutiny board. In addition, there are various regulatory committees, including an audit committee which has specific responsibility for overseeing the Council's corporate governance and risk management arrangements.

The Council has adopted a Constitution which sets out how the Council operates, the roles and responsibilities of the various executive, scrutiny and officer functions, 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, particularly with regard to changes in the senior management structure of the organisation. Other sections of the Constitution have been revised as required during the year and submitted to members for approval.

The Council ensures compliance with established policies, procedures, laws and regulations including risk management. The Council also maintains and reviews regularly its code of conduct and whistleblowing policy. There is a comprehensive induction programme in place for both officers and members and further work will continue in developing training as appropriate to officers and members according to their specific roles and responsibilities. The Council has a strong internal audit function with a close working relationship and established protocols for working with external audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, procedures, laws and regulations within their remit.

The Council has 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. The strategy is subject to regular review and risk management arrangements are in place which enables the corporate directors, managers and other senior officers to identify, assess, manage and monitor risks within their own work areas which impact on the ability of the Council and its services to meet

objectives. Headline assessments of risk are also included in respective service plans by service managers.

The Corporate Risk Register identifies the principal risks to the achievement of the Council's objectives and assesses the nature and extent of those risks (through assessment of impact and likelihood). Following a review of the approach to risk during the year, the register has been further developed and now identifies risk owners and lead officers whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.

Risk management is an integral part of the member induction process and a guide has been produced for issue to all members in the forthcoming year. Specific training in risk management and corporate governance is also provided to members of the audit committee.

The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the best value duty. The Council plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process to ensure that, as far as possible, resources are aligned to priorities and best value is obtained from the resources that are available.

Arrangements are in place for all new members to receive an induction which consists of several elements including (but not limited to) an introduction to Wolverhampton as a city and the key developments within it, standards of ethics and behaviour expected of members and local government finance. For some panels, members also receive training in order to meet legislative requirements. Additional support is provided through tailored member guides, books CDs or one to one officer support.

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.

With regard to the Fund, day-to-day management 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 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.

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 1, regarding educational attainment, was extended to March 2008. The second phase LPSA is now included within our Local Area Agreement (LAA) which runs to March 2009 with an additional LAA due to run from April 2008 to 2011. 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. It does, however, have extensive experience of partnership working in complex service and project delivery environments. It has put in place formal Partnership Boards in relation to the Street Scene partnership and a Property Services/Asset Management partnership.

#### 4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of Internal Audit's annual

report, and also by comments made by the external auditors and other review agencies and inspectorates.

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 review of the senior management structure has been carried out during the year and, through a combination of interim and permanent appointments to senior positions, arrangements are in place to ensure that the Council continues to have strategic direction. This is acknowledged as being of particular importance as the Council enters into the initial phase of the transformation programme with the support of the strategic partner.

The Constitution also sets out the responsibilities of members and senior managers in relation to operation of the Fund and the Chief Financial Officer 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 to 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 special advisory groups and three cabinet panels reporting up to the main Cabinet. There are also six scrutiny panels who work with a scrutiny board.

Arrangements for the provision of internal audit are contained within the Council's Constitution. The Chief Financial Officer 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, shared with the Council's external auditor and approved by the audit committee. 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 whistleblowing and anti-money laundering have been introduced to further improve the existing arrangements.

In terms of external assessment, the Council recognises that, while being assessed as 'improving well' and receiving a three-star overall performance by the Audit Commission, there are areas where further improvement can be achieved, particularly in terms of the capacity of the Council, in delivering what it is trying to achieve. In this context, the Council is focusing on a wide-ranging transformation programme overseen with support from the recently

created post of Director of Transformation and a Transformation and Programme Management Office. The first three years will concentrate upon:

- embedding a shared services operation for finance, HR, ICT and Property Services which will deliver a high level of efficiency savings.
- establishing stronger programme and project management processes to support the delivery of Council and Council-partner priorities. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place as set out in Section 5.

### 5. Significant Governance 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 is an established methodology in place for managing risk within major organisational programmes and projects. However, it is acknowledged that further work remains to be done in 'embedding' the process at a strategic and operational level in order to achieve a consistent approach and acceptance of responsibility in managing risk across the organisation.

Partnership governance arrangements include responsibility for monitoring performance and managing risk. However, it has been identified that risk management does not always form part of a regular review process. Improvements in the way that risks associated with partnerships are jointly identified and assessed are required and arrangements are needed to ensure that risk ownership is being clearly assigned to a particular organisation and that risks are formally reviewed by the Council's Corporate Management Team. 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.

It is acknowledged that the Council's contingency plans associated with continuity of service in the event of a major service disruption or disaster require improvement, largely through documenting procedures and testing such plans. This is

compounded by the fact that succession plans for key members of staff have not been fully developed and several senior posts are currently being managed on an interim basis, in some instances by contract staff. The Council recognises the need to effectively manage the risks associated with the significant change agenda and the transformation programme. While transformation is anticipated to deliver significant improvements in service delivery together with providing financial savings, it is recognised that significant risks exist. Arrangements have, therefore, been put in place to ensure that an appropriate risk management system is in place with regard to the strategic partnership. Similar risk management principles are being applied to the delivery of the other major programmes such as Building Schools for the Future (BSF), Local Improvement Finance Trust (LIFT) and Social Care Programme (SCP).

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 and delivering on major programmes and projects while balancing the demands for Council services and the impact on local taxpayers. It is acknowledged that consideration of new methods of service delivery through, for example, partnerships and other initiatives such as Private Finance Initiative (PFI) brings new challenges and risks.

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, and 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, while significant progress has been made in this matter, further work remains in ensuring these risks continue to be effectively managed.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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:



**Councillor Neville Patten**  
Leader of the Council  
Date:

# INVESTMENT REPORT



During 2007, the West Midlands Pension Fund undertook a major review of its investment strategy. It had already embarked on a process of diversification as a result of the 2004 actuarial valuation. However, the 2007 review led to a substantial increase in its allocation to alternatives (referred to by the Fund as complementary assets) which has modestly increased the Fund's overall returns while reducing the risk by a similar amount. The Fund is now structured to generate between 7% and 8% p.a. from market returns over the long-term combined with an additional 1% to 2% p.a. from manager skill. These expected returns should enable the Fund to meet its liabilities over the long-term.

## Investment Policy

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 2007 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 2008 is summarised as follows:

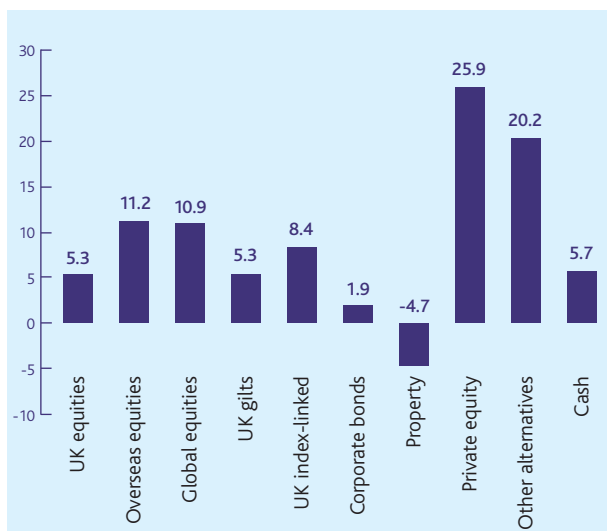
| 2007/2008 Benchmark          | %   | %    | %          |
|------------------------------|-----|------|------------|
| UK equities                  |     | 30   |            |
| Overseas regional equities   |     | 24   |            |
| North America                | 5.5 |      |            |
| Europe (excluding UK)        | 9.5 |      |            |
| Japan & Pacific Basin        | 6.0 |      |            |
| Emerging markets             | 3.0 |      |            |
| Global equities              |     | 6.0  |            |
| <b>Total quoted equities</b> |     |      | <b>60</b>  |
| UK gilts                     |     | 4.7  |            |
| UK index-linked gilts        |     | 4.7  |            |
| UK non-government bonds      |     | 4.6  |            |
| Cash                         |     | 1.0  |            |
| <b>Total fixed interest</b>  |     |      | <b>15</b>  |
| Private equity               |     | 7.0  |            |
| Property                     |     | 10.0 |            |
| Emerging market debt         |     | 2.0  |            |
| Active currency              |     | 2.0  |            |
| Commodities                  |     | 2.0  |            |
| Infrastructure               |     | 2.0  |            |
| <b>Total complementary</b>   |     |      | <b>25</b>  |
| <b>Total</b>                 |     |      | <b>100</b> |

During the year, some £256m of new money became available for investment – £173m from investment income together with £83m 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.

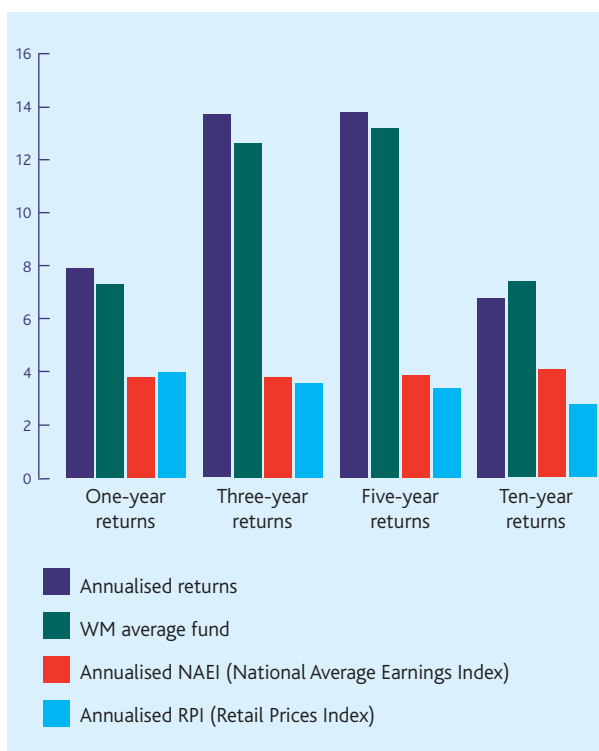


### Performance of Investment Markets

Generally, 2007 saw positive returns from most asset classes with property being the most notable exception. 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 2007, are set out in the following chart.



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 of 6.8% falling below that of the average fund return of 7.4%. However, the ten-year return is still well in excess of both RPI 2.8% and average earnings 4.1% over the same period as shown in the following chart. The Fund's 2007 return was 7.9% outperforming the average fund return of 7.3% which followed on from a return of 12.6% in 2006 compared with the average return of 10.7%. The Fund's return for the year ended 31 March 2008 was -1.5%, underperforming the WM average fund return of -0.7% but outperforming the average local authority return of -2.8%.



### Growth of Fund

At the beginning of the year, the Fund's market value was £7,494m. By the end of March 2008, the value of the Fund was £7,391m. Taking the ten-year period from 1 April 1998, the total growth in value has amounted to £4,045m from a starting value of £3,346m.

### Investment Management

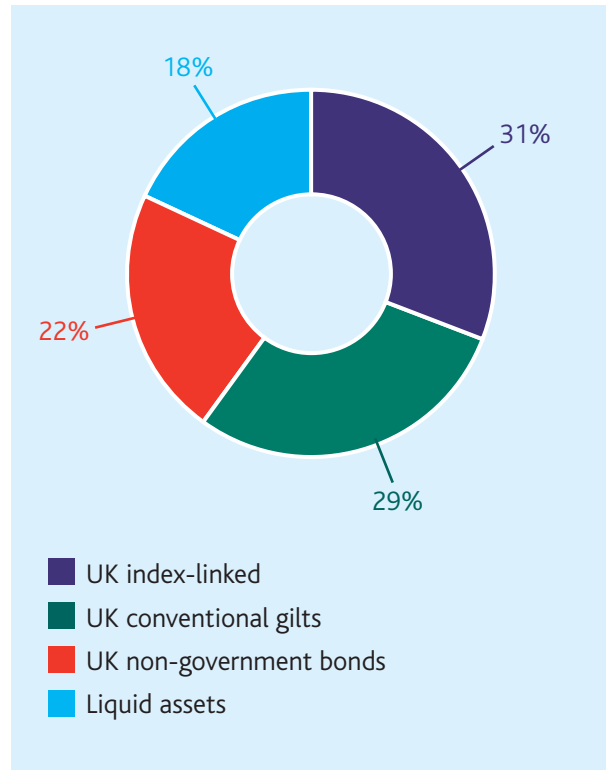
The tactical investment policy of the Fund is considered at each quarterly meeting of the Superannuation Committee. The approved policy is implemented by the Investments Division within Pension Services. The Division consists of a number of specialist teams which reflect the asset allocation and functions of the Fund. These teams cover compliance, quoted equities, complementary investments with fixed interest, treasury management and investment accounting.

The Division manages approximately 60% of total investments in-house, with the balance invested in external pooled vehicles or specialist segregated funds. The proportion of the Fund managed externally has grown in direct response to the Fund's increased allocation to complementary assets which require management by external specialists.

## Current Portfolios

### (i) Fixed Interest

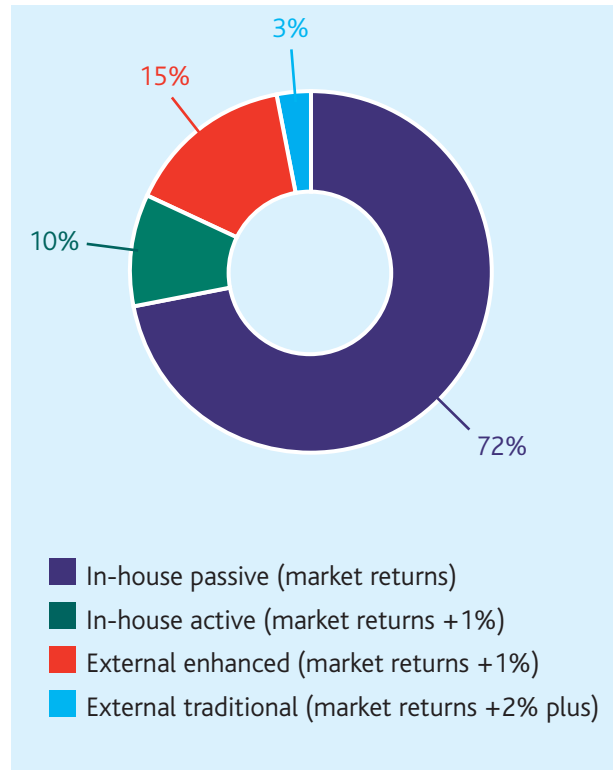
Asset distribution as at 31 March 2008



The market value of the fixed interest portfolio as at 31 March 2008 stood at £1,030m, which represented 14% of the total Fund with liquid assets representing a further 3% (£225m). The index-linked portfolio is passively managed externally whilst the UK gilts portfolio is also externally managed, part of it actively with the balance on a passive basis. The whole of the corporate bond portfolio is actively managed with a small portion in-house and the balance with an external specialist.

### (ii) UK Equities

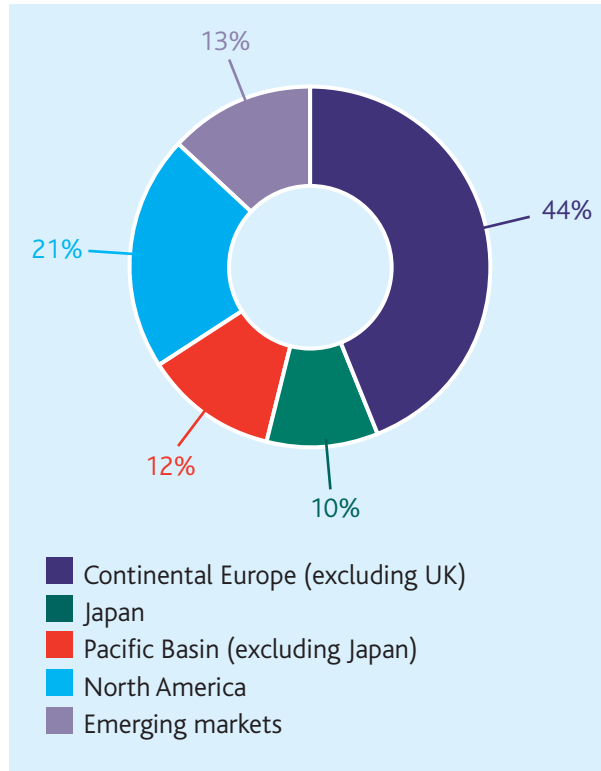
Asset distribution as at 31 March 2008



The market value of the UK equity portfolio as at 31 March 2008 was £2,280m representing 31% of the total Fund. 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 vehicles ranging from enhanced indexation to traditional active management and an in-house portfolio managed on a similar risk/return basis as the enhanced funds. This structure is illustrated in the pie chart.

**(iii) Overseas Equities**

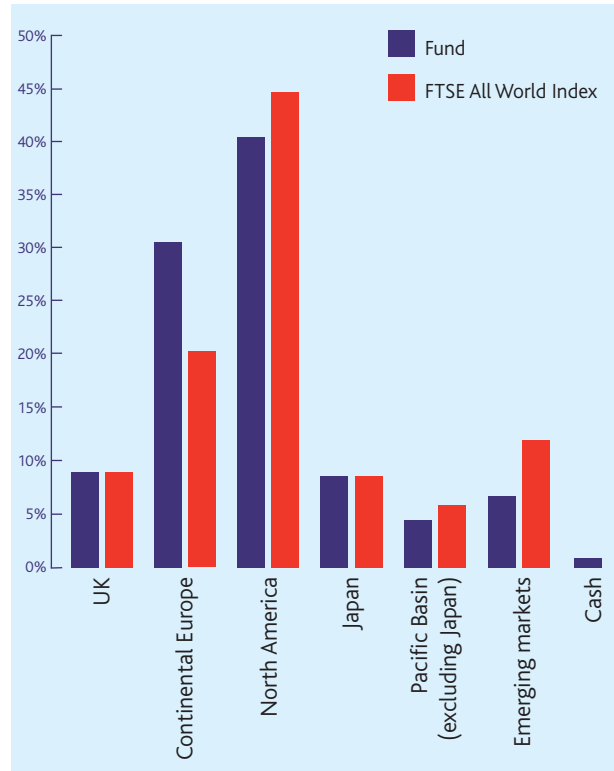
Asset distribution as at 31 March 2008



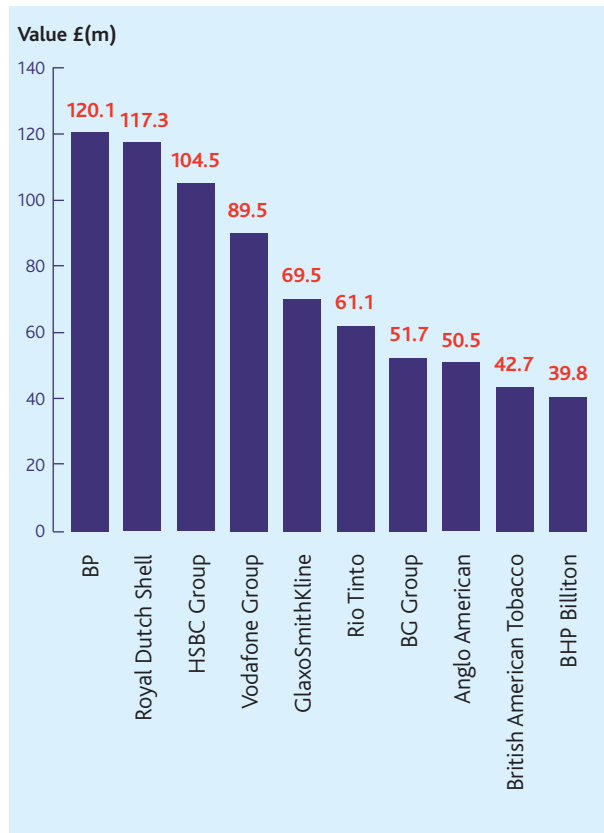
The market value of overseas equities stood at £1,926m which represented 26.1% of the total Fund at 31 March 2008. The majority of the overseas portfolios are managed in-house, with the balance being with specialist investment managers ranging from enhanced indexation to traditional active management. The whole of emerging markets are managed externally, five different funds offering regional and manager diversification.

**(iv) Global Equities**

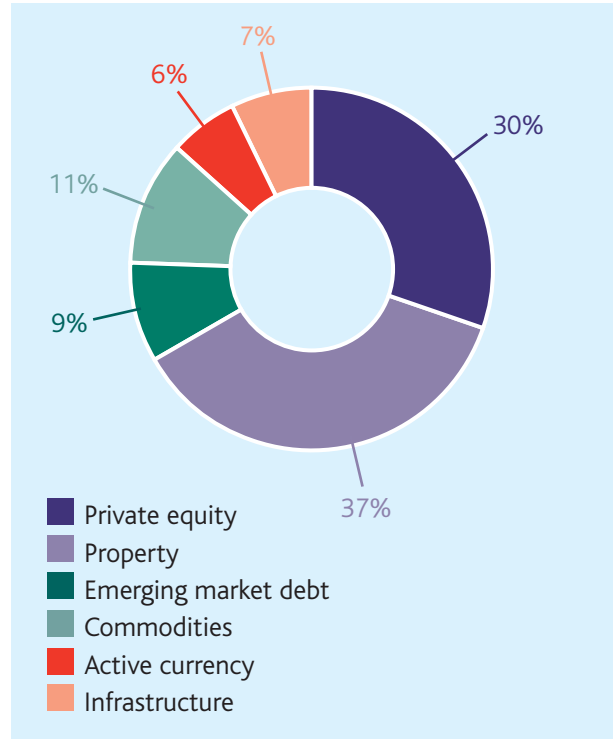
Asset distribution as at 31 March 2008



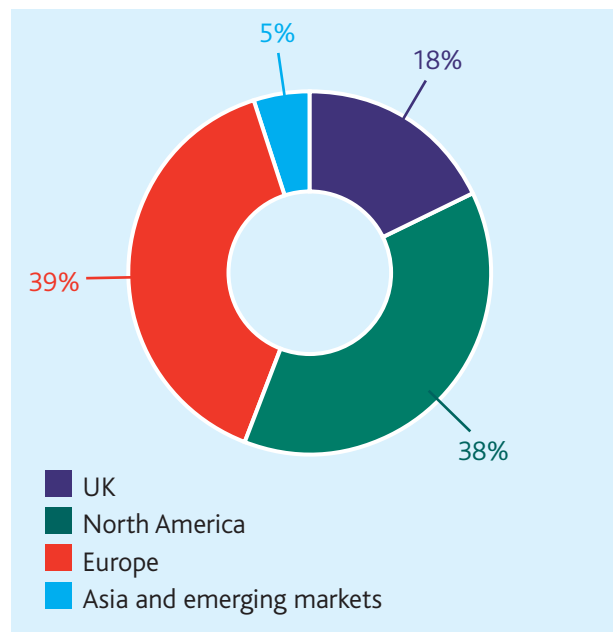
As at 31 March 2008, the global equity portfolio was valued at £441m and represented 6% of the total Fund. The global equity portfolios are managed externally by a number of managers each with very different styles and different country weightings. As can be seen from the above table, the combined portfolio is underweight in both emerging markets and North America whilst overweight in Europe when compared to the benchmark.

**(v) Ten Largest Equity Holdings****(vi) Complementary Assets**

(a) As at 31 March 2008, the market value of these investments stood at £1,468m representing 20% of the total Fund.

**(b) Private Equity**

Global distribution as at 31 March 2008



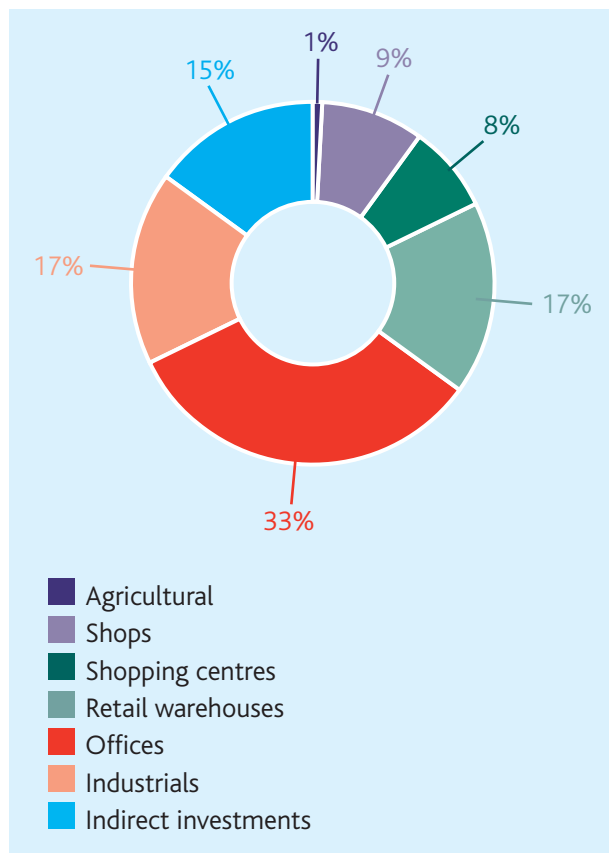
As at 31 March 2008, the private equity portfolio was valued at £444m representing 6% of the Fund. Investing in private equity investment requires a high level of resources, consequently, the most efficient way for the Fund to invest is through funds managed by external specialists. The selection and monitoring of existing and potential managers is carried out in-house.

### (c) Other Complementary Investments

As at 31 March 2008, the value of these assets stood at £489m which represented 6.6% of the total Fund. Other complementary investments are presently made up of four diverse and uncorrelated asset classes. The emerging market debt, active currency, commodities and infrastructure portfolios are structured on a similar basis to private equity and are managed by external specialist managers with the resources and skill required to invest in these complex areas.

### (d) Property

Sector distribution as at 31 March 2008



As at 31 March 2008, the value of the property portfolio stood at £536m which represented 7.3% of the Fund. The 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 proportion of its property assets in indirect vehicles, in order to gain exposure to overseas property markets or to access assets that can only be held in this form. This exposure was significantly increased during the year to 15% of the property portfolio, the overall effect has been one of diversification away from a heavy reliance on the performance of the UK commercial property sector.

Activity during this year was fairly limited with three sales taking place. The first sale was of a retail unit in Princes Street, Edinburgh in May 2007 on terms that were agreed in the latter part of the previous financial year. The second sale was of Birmingham Business Park in September 2007 for £7.325m. Both of these assets had poor prospects for rental growth and given the impact of the credit crunch were very well timed sales. The last sale was of an industrial holding in Seward Street, London in January 2008 to an adjoining owner, who will incorporate the holding into a large mixed-use scheme. By selling to a special purchaser, the Fund was able to attract a significant premium to valuation, to achieve a sale price of £7.5m.

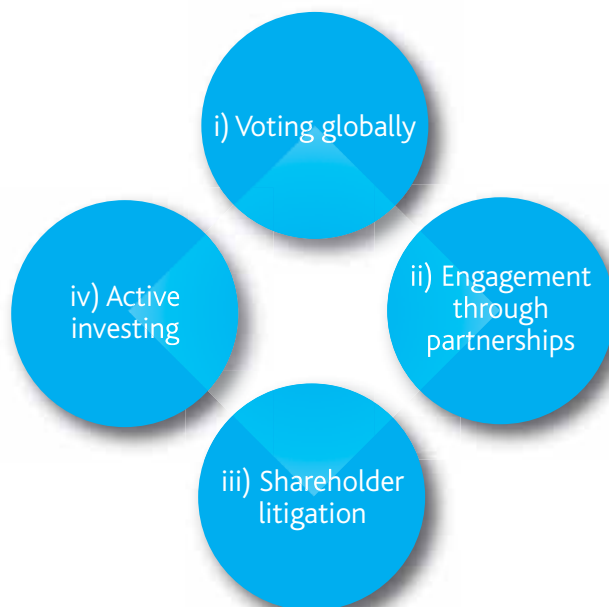
The direct UK property portfolio also underwent a significant transition during the year with the appointment of new advisors, ING Real Estate Investment Management, following a successful tendering exercise. ING replace Cushman & Wakefield in this role. The Fund makes all significant decisions regarding the property portfolio in-house but utilises the advice of ING Real Estate Investment Managers and the Fund's independent property adviser (John Fender Consultancy).

**Judy Saunders**  
Chief Investment Officer

# CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The Fund believes that corporate governance and responsible investing should be viewed as mainstream, as it should form an integral part of the investment process, contributing to the Fund meeting its objective of delivering consistent and strong returns over the long-term. Issues surrounding employment practices, human rights and the environment are inexorably linked to sustainability and if companies do not respond positively to these issues, then from a legislative, operational and reputational stand point they potentially put their financial returns at risk.

The Fund actively supports good governance, challenging companies that do not meet best practice, perceiving poor governance as a risk to its own long-term financial interests. The Fund's approach falls into four main elements which complement each other and are viewed as one strategy.



## 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 corporate governance 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, European and Japanese holdings. The Fund uses its role to express its concern over corporate governance 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 corporate governance. Where possible, the Fund operates a policy of non-abstention when voting at UK meetings and will oppose a resolution rather than abstain.

The vast majority of company resolutions were supported in the year ending March 2008, 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 693 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 nearly 20% of all resolutions. The Fund voted at a total of 464 company meetings in Europe, a total of 512 company meetings in the US and 161 company meetings in Japan.

The overall analysis of the Fund's voting at UK meetings for the 12 months ending March 2008 is as follows:

|  | No. of UK AGMs | % of total Fund oppose votes |
|--|----------------|------------------------------|
| AGMs in total  | 531            |                              |
| Voted in favour of all resolutions                   | 60             |                              |
| Voted against in respect of:                         |                |                              |
| Remuneration report/policy                           |                | 32%                          |
| Appointment of directors                             |                | 19%                          |
| Appointment of auditors                              |                | 20%                          |
| Share option schemes/LTIPs                           |                | 6%                           |
| Report and accounts (mainly on environmental policy) |                | 6%                           |
| Political donations                                  |                | 3%                           |
| Issue shares for cash/with pre-emption rights        |                | 1%                           |
| New articles and amendment to existing articles      |                | 1%                           |

#### Engagement Through Partnerships

In recent years, the Fund has developed a number of corporate social responsibility and corporate governance partnerships. In addition to that of the Local Authority Pension Fund Forum, which now consists of 48 members representing over £80bn 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 believes that participating in shareholder litigation can be an effective tool and it 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

From the Fund's perspective, the most exciting and rapidly developing area of responsible investing is actively seeking to make specific investments that look to take advantage of socially responsible investing issues, provided they meet the Fund's requirements on fundamental investment grounds. Examples can be found across all asset classes. The private equity portfolio has investments in the Virgin Green Fund and the Climate Change Capital Fund, whilst the property portfolio holds the Igloo Urban Regeneration Fund, which develops UK brownfield sites. The infrastructure portfolio has investments in the Impax New Energy and Pictet Clean Energy Funds, whilst the global equity portfolio holds the Sarasin Oekosar Fund which invests in companies that contribute positively to sustainability. As the Fund firmly believes that sustainable investing will, over the long-term, generate consistently strong and above average returns, it has committed to date 3% of its total assets in such investments.

# BACKGROUND TO THE 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 came into force on 1 April 2008 and form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards.

Each area 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 regulations 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 via the Fund's website.

### 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 2008, the total membership of the Fund (one of the largest funds in England and Wales) stood at 235,351 with the total value of the Fund's net assets amounting to £7,405 billion.

Of the 235,351 members, 107,845 are currently contributing to the Scheme (active members) with an average age of 44; 66,321 are no longer contributing, but have pension rights within the Fund (deferred members), with an average age of 46; 61,185 are now in receipt of a pension from the Fund (pensioner members).

Of the pensioner members, approximately 50,000 are current pensioners (average age 69) and 11,000

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 107,845 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 came into force on 1 April 2008 and now form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards.

### 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 1,882 in 2007/2008. This follows an increase of 1,975 in 2006/2007.

**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.



## PENSIONS IN THE PRESS

### Local authority nightmare over ill-health delay

David Rowley

Local authority employees are facing severe delays in receiving ill-health pensions following the refusal of some doctors to process new claims.

The delays are caused by an impasse between doctors and the Department of Communities and Local Government (DCLG) over the wording of new local authority pension rules that came into force on April 1.

The rules compel doctors to determine if an employee's condition merits a full ill-health pension, a reduced pension or a limited term pension.

The Association of Local Authority Medical Advisors (ALAMA) says its members are being asked to make non-medical decisions on employees' likelihood of obtaining any future employment.

A recent letter from the DCLG attempted to assure doctors that this was not the case.

However, Andy Graham-Cumming, chairman at ALAMA, said: "The DCLG guidance attempts to construe a meaning in regulation 20 which is not consistent with the wording used. Thus, we are now being asked to follow guidance that conflicts with the regulations and to give opinions which are outside our range of professional competencies."

Mike Woodall, chief pensions officer for the West Midlands Pension Fund, said that ALAMA had advised the fund not to fill in any forms and added that statutory guidance on the issue was only being promised for July.

He added: "I have dealt with a number of irate members myself who think it is the wheels of bureaucracy turning extremely slowly, but that is not the case.

"It is a nightmare, because pension administrators are in the main quite sensitive to the needs of their customers."

John Hanratty, head of public sector pensions at Pinsent Masons, said he had seen a spike in local authority interest on legal guidance about the issue.

Pensions Week 16 June 2008

### Pension fund for 'hedging' measure

Simon Penfold

The West Midlands Pension Fund for more than 80,000 local government workers has hired a firm to provide currency 'hedging', it has been revealed.

But the fund has moved to reassure members it is not risking their money on the hedging bets. Even though it has cost pub firm Mitchells & Butlers hundreds of millions of pounds - and also lost French bank Societe Generale billions.

Instead the hedging finance group JP Morgan will provide to the West Midlands Metropolitan Authorities Pension Fund protection of its overseas investments from movements in currencies like the dollar and yen.

Hedging is used to protect an organisation or company that is investing in stocks and shares overseas. It is a complicated economic tool that involves placing alternative investments to balance out the risks of the main investment,

The West Midlands Pension Fund has assets worth £1.9 billion. It has 226,000 members, 84,000 of them working for the region's councils including Wolverhampton, Walsall, Sandwell, Dudley and Birmingham.

The Foreign Exchange and Rates division of JP Morgan's investment bank will provide the currency hedging for about £1.3 billion of the fund's overseas assets. This is intended to iron out the 'ups' and the 'downs' in international investments caused by changes in currency prices.

Kevin Dervey, who is senior investment accountant at the West Midlands Pension Fund, said: "It is designed to remove currency risk from the fund."

Express & Star 2008

# End of LGPS in current form by 2012

## Sara Utecht

The Local Government Pension Scheme will not exist in its current form by 2012, a survey by Mercer shows.

The consultant said 75pc of local government attendees at a series of seminars – held to look at LGPS cost-sharing arrangements due to be implemented from April 1 next year - felt it had to change. More than half of respondents thought the scheme would be converted to a career revalued earnings scheme and 7pc believed it would become a defined contribution scheme by 2012.

Delegates were also polled over the cost-sharing arrangements - with just over half believing they should apply to benefits and retirement age and 47pc saying they should only apply to employee contribution adjustments.

Mercer local government



Mike Woodall

**'Reform had aimed to make the scheme more sustainable, affordable and simpler - it has failed all these objectives.'**

consulting unit head Chris Hull said: "Implementing a fair and effective cost-sharing system is a difficult task for any pension scheme

"However, it's particularly difficult for a national scheme like LGPS in which thousands of different employers participate. West Midlands Pension Fund chief pensions officer Mike Woodall said reform had aimed to make the scheme "more sustainable, affordable and simpler".

He said: "It has failed all these objectives. It is more expensive than the old scheme and it certainly isn't any simpler.

Woodall added: "By 2012 we are either going to be looking at a DC scheme or we will have to look at the reduction of benefits."

A spokeswoman for DCLG said while discussions for improvements were ongoing, the department was confident the LGPS would continue for many years to come.

Professional Pensions 24 July 2008

## DLGC to 'address concerns' over ill-health rules

### Sara Utecht

The department for local government and communities has written to council schemes in a bid to clarify confusion over new ill-health rules.

The letter follows criticism from several bodies including the Association of Local Authority Medical Advisers.

The letter said: "We have agreed to compile an FAQ paper which addresses concerns that have been brought to the attention of the department.

"Members of the monitoring group have also been asked to submit their own list of questions for inclusion in this paper. We will, of course, endeavour to issue this paper as soon as possible."

The letter also attempted to clear up confusion over the wording in connection with the gainful employment test, which it acknowledged could be read as placing undue emphasis on 'ability' rather than 'incapacity'.

It said it was always the intention that independent medical examiners should only express an opinion on the extent

to which a permanent incapacity prevented or restricted an applicant from working again in gainful employment, not on whether an employee would or could not work again.

Despite this, West Midlands Pension Fund chief pensions officer Mike Woodall said the letter left a lot of questions unanswered.

He said: "We are still waiting for the FAQ paper and further letters of comfort from the department."

Professional Pensions 19 June 2008

# 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   |

## 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 and liabilities. 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.



**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 prices 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 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.

# GOVERNANCE COMPLIANCE STATEMENT

## Governance of the Fund

The Fund's governance arrangement has four elements:



**This statement is required under Regulation 73a of the Local Government Pension Scheme Regulations 1997.**

### Superannuation Committee

The management of the administration of benefits and 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 administers the Scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

The roles of the members and the committee are as follows:

- 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 arrangements for 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.

The key duties in discharging this role are:

1. To monitor compliance with legislation and best practice.
2. To determine admission policy and agreements.
3. To monitor pension administration arrangements.
4. To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short term position relative to the benchmark.
  - a) Benchmark (medium-term)
  - b) Tactical (quarterly)
5. To monitor policy.
6. To appoint committee advisors.
7. To determine detailed management budgets.

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.
- e) To determine, in consultation with the cabinet arrangements for the revision and delivery of services within the terms of the best value framework.

#### Investment Sub-Committee

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 committee meet at least four times a year and its key duties are:

- i) To monitor and review investment management functions.
- ii) To review strategic investment opportunities.
- iii) To monitor and review portfolio structures.
- iv) To monitor implementation of investment policy.
- v) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisors to the Fund.

- vi) To monitor investment activity and the performance of the Fund.

The Director of Pensions implements the committee policy and manages the day-to-day operational functions through the Chief Investment Officer and pensions administration staff. The committee and members are advised and supported by the Chief Executive, Director of Pensions and Chief Legal Officer from Wolverhampton City Council.

#### Trade Union Representations and Provision of Information to Interested Parties

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Panel which meets at least three times per year to consider the activities of the Fund and elect four representatives to the Superannuation Committee and two to the Investment Sub-Committee. Although these representatives do not have voting rights they are treated as equal members of the committees, for example they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision making process.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties. This is achieved through the Fund's communication strategy.

#### Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Superannuation Committee and Investment Advisory Sub-Committee to receive appropriate and timely advice. Against this background, its principal advisors are as follows:

- i) High level advice on general management from the Chief Executive of Wolverhampton City Council.
- ii) Legal and general administrative advice and management from the Chief Legal Officer of Wolverhampton City Council who is also the monitoring officer for Wolverhampton City Council.
- iii) Financial and technical advice from the Director of Pensions who is the lead senior support officer and has direct responsibility for the in-house management.

- iv) Chief Investment Officer is the senior full-time officer who provides technical advice to members and officers, as well as implementing the investment strategy through a team of professionally qualified staff and external managers.
- v) Senior pensions administration staff are responsible for pensions administration and communications.
- vi) Chief Finance Officer of Wolverhampton City Council is the Section 151 officer of Wolverhampton City Council and that responsibility applies to the Fund. The Chief Finance Officer is also the investment management monitoring officer as set out in the Fund's investment compliance manual.
- vii) A range of external specialist advisors as follows:

|                                  |   |
|----------------------------------|---|
| Gartmore asset                   | Investment policy, quarterly allocation, general investment matters.  |
| Mercer Human Resource Consulting | Actuarial matters.  |
| Mercer Investment Consulting     | Selection of investment managers, policy and investment matters relative to liabilities.  |
| ING UK Real Estate Management    | Commercial and industrial property matters, day-to-day management of properties and transactions involving the sale and purchase of UK property (excluding agricultural). |
| John Fender Consultancy          | Independent property advice.  |
| PIRC                             | Company governance issues.  |

Other specialist advisors are used as and when needed.

### Role of Council Members

Wolverhampton City Council is responsible for administering and discharging the functions as administering authority for the West Midlands Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc. the Council is also responsible for the investment of the Fund monies. Because the Fund covers the majority of local government employees in the West Midlands, as well as many admitted bodies, representatives from all seven district councils serve on the committee and the Investment Sub-Committee. There is also active representation on behalf of the employees and pensioners from trade union representatives.

Investments are a special area for members to consider as it is different to normal Council business. When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are to manage the Fund in accordance with the regulations and to do so prudently and impartially on behalf of all the beneficiaries. This sometimes means that they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisors is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibilities that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisors and be sure that it is relevant to the needs of the Fund and within their powers.

In practice, trustees typically discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with managers and advisors they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisors whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council officers and the advisers listed earlier.

In addition to the setting of policy and investment parameters for the Fund, there should be a formal meeting each year at which the investment returns are reviewed. There might well be other formal meetings of trustees to which managers make a brief report, or supplement their written material.

The following are extracts from leading court judgements made about the role of trustees. These extracts stress the independent fiduciary duty required of a trustee and the requirement to put the needs of the beneficiaries first at all times. These comments apply to all trustees, including members, involved in pensions work.

### The Duty of Trustees

The duty of the trustees is to exercise their powers in the best interests of the present and future beneficiaries of the trust. Holding the scales impartially between different classes of beneficiaries is paramount. They must of course obey the law, but subject to that, they must put the interests of their beneficiaries first.

When the purpose of the trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best financial interests. In the case of a power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment.

### Standard Required of a Trustee

The standard required of a trustee in exercising his powers of investment is that he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide.

That duty includes the duty to seek advice on matters which the trustees do not understand, such as the making of investments, and on receiving that advice to act with the same degree of prudence. This requirement is not discharged merely by showing that the trustee has acted in good faith and with sincerity. Honesty and sincerity are not the same as prudence and reasonableness. Accordingly, although a trustee who takes advice on investments is not bound to accept and act upon the advice, unless in addition to being sincere he/she is acting as an ordinary prudent person would act.

### View of Secretary of State

The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties and powers under the regulations governing the investment and management of funds. In that case, Lord Atkinson said:

*"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly businesslike manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of others."*

### Member Training

Member training is recognised as important, and a range of measures are in place to equip members to undertake their role. The outlined training scheme is pictured opposite.

The objective of the training scheme is to ensure, on a rolling basis, established and new members of the committee receive access to information, training and advice in order to fully discharge the role they have as trustees. The arrangements have regard to the requirements set out by the Pensions Regulator's code of practice on trustee knowledge and understanding. The objective is to ensure individual trustees of an occupational pension scheme have appropriate knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of the scheme and the investment of the assets of such schemes. The degrees of knowledge and understanding required is that appropriate for the purpose of the individual discharging their responsibilities and can be different for some members (for example, members of the Investment Advisory Sub-Committee will have a greater level of knowledge of investment matters).

| Area                      | Superannuation Committee Reports | Presentation | Sub-Committee |              |                           |         |
|---------------------------|----------------------------------|--------------|---------------|--------------|---------------------------|---------|
|                           |                                  |              | Reports       | Presentation | Conferences/Seminars      | Visits  |
| Investment governance     | ✓                                |              |               | Occasionally | LAPFF December Conference | Partial |
| Investments:              |                                  |              |               |              |                           |         |
| i) Strategies             | ✓                                | Occasionally | ✓             | Occasionally |                           | ✓       |
| ii) Asset use             | ✓                                |              |               | ✓            |                           | ✓       |
| iii) Corporate governance | ✓                                |              |               |              | ✓                         |         |
| iv) Economies             | ✓                                | Quarterly    |               | ✓            |                           | ✓       |
| Pensions administration   | ✓                                | Occasionally |               |              | JCP meetings              |         |
| Role of members           | ✓<br>(Annual/Website)            |              |               |              |                           |         |

### Notes

- Sub-Committee members attend LAPFF (Local Authority Pension Fund Forum) Conference, other training seminars and every two years a week's training through a study tour approach.
- Chair attends LAPFF meetings.
- Each Sub-Committee aims to have two presentations around reviewing managers and knowledge building about an investment area. Over a two year period all major markets and investment vehicles covered.
- JCP (Joint Consultative Panel) meets three times a year and will receive presentations on administration matters, particularly new areas of activity or legislation.
- There is a website for members to access as a data source for them.
- The roles and responsibilities of members are presented annually to all members.

The scope of the knowledge required is as follows:

#### 1. The Law Relating to Trusts

This includes an understanding of the special nature of a pension trust and the duties, obligations and powers of trustees to operate pension schemes in accordance with the law.

#### 2. The Law Relating to Pensions

This is set out in the LGPS Regulations although there are elements of occupational pensions legislation that are relevant. The key provisions of related legislation that affects pension schemes and impacts on the role and activities of trustees.

#### 3. Investment

This includes the different types of assets available for investment and their characteristics.

#### 4. Funding

This includes the principles relating to the funding of occupational schemes and the way in which funding is dependent upon the legislation and circumstances of the employing bodies and the value of the liabilities of the Scheme.

#### 5. Contributions

This includes the principles relating to the funding of occupational defined benefit schemes and the way in which contribution levels are dependent upon the funding of the Scheme.

#### 6. Strategic Asset Allocation

This includes the principles relating to the suitability of different asset classes to meet the liabilities of the Scheme.

#### 7. Funding: Defined Contribution Arrangements (for example, AVCs)

This includes the principles relating to the funding of arrangements and the risks borne by Scheme members.

#### 8. Investment Choices

This includes the principles relating to the choice of investments.

#### 9. Fund Management

This includes the principles of Fund management and how performance can be measured.

### Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all Council employees in the area (excluding teachers, police and fire officers) were members of the West Midlands Superannuation Fund with the former county council as administering body. The 1986 reorganisation led to Wolverhampton Council becoming the administering body for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for administering the Fund is delegated to the Superannuation Committee which has representatives from the district councils as the largest employers and four trade union representatives nominated from the Joint Consultative Panel of trade union representatives from the region. The changes in responsibility for the delivery of Council services has seen a growing number of private sector firms and voluntary organisations becoming members of the Fund in respect of the workforce that delivers public services.

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 (Funding Strategy Statement) and an SIP (Statement of Investment Principles), both after consultation with interested parties.
- Monitors all aspects of the Fund's activities and funding.

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

- Deduct contributions from employees' pay.
- Pay all contributions 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, early retirement funding strain.
- Notify the administering authority promptly of all changes to membership, or as may be 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 employers' contribution rates in order to secure the Fund's solvency having regard

# THE FUND ON THE WEB

[wmpfonline.com](http://wmpfonline.com)





West Midlands Pension Fund  
PO Box 3948  
Wolverhampton  
WV1 1XP

t: 0300 111 1665  
f: 0845 230 1565  
w: [wmpfonline.com](http://wmpfonline.com)  
e: [PensionFundEnquiries@wolverhampton.gov.uk](mailto:PensionFundEnquiries@wolverhampton.gov.uk)