

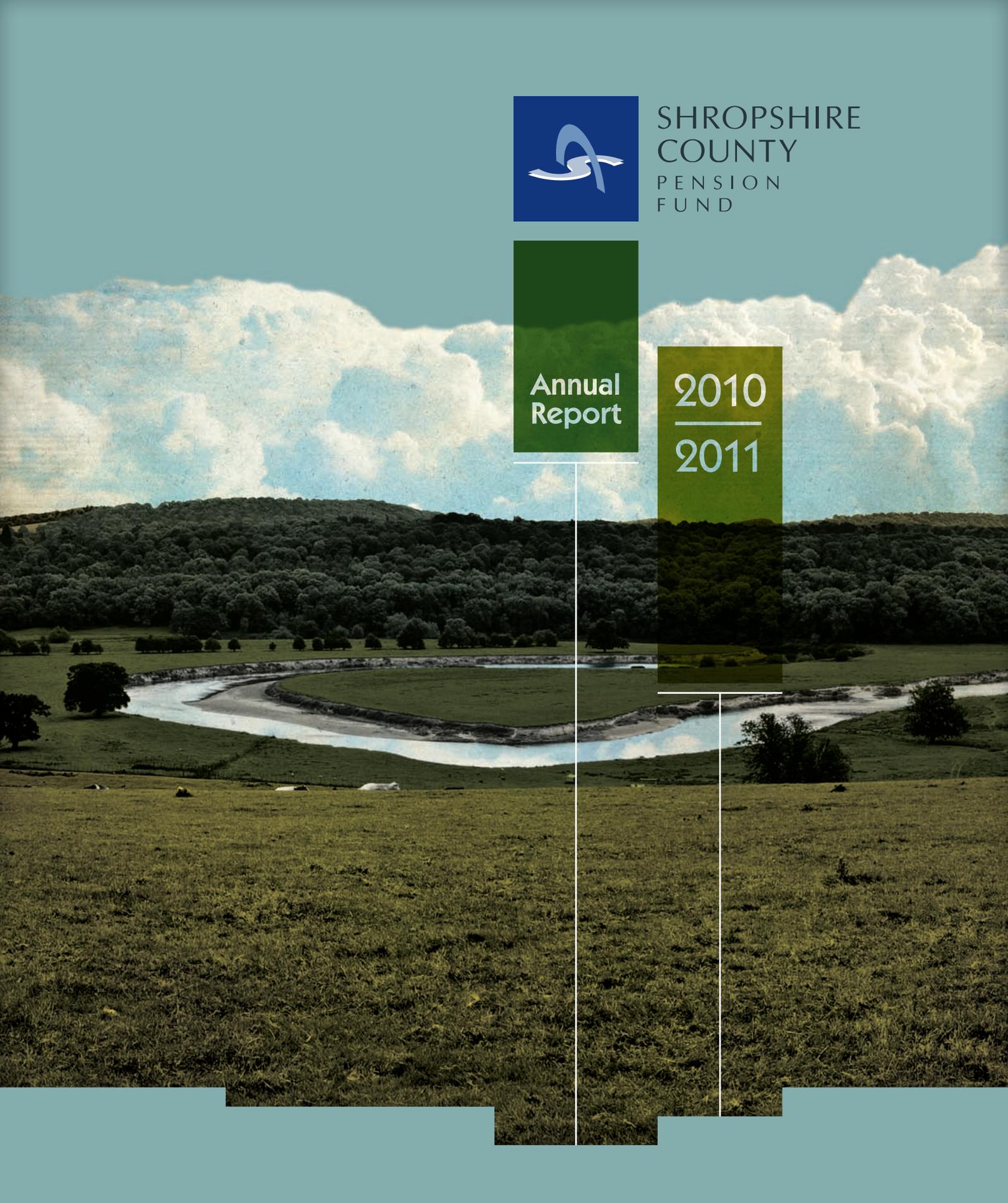


SHROPSHIRE
COUNTY
PENSION
FUND

Annual
Report

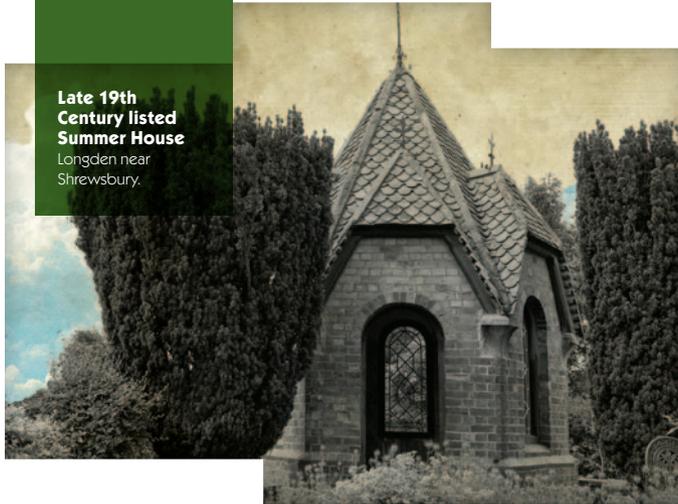
2010

2011



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Late 19th
Century listed
Summer House
Longden near
Shrewsbury.



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Welcome to the 18th annual report & accounts of the Shropshire County Pension Fund

During the year the Shropshire Fund increased in value by over £87 million to be valued at £1.039 billion at the end of the year. The Fund increased in value by 8.2% over the year outperforming its benchmark by 1.2%.

The Shropshire Fund benefited from strong investment returns in a number of markets including Private Equity where the Fund's investments increased in value by 15% in the year. In the last year all asset classes with the exception of Japanese equities delivered positive returns.

The Pensions Committee determine the strategic asset allocation for the Fund. This outlines the proportion of assets that the Fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the Fund. During the year Aon Hewitt replaced Russell Investment Group as the Fund's investment consultant. The Committee is currently reviewing the existing strategic asset allocation with Aon Hewitt the results of which will be available later on in the year.

The Pensions Committee undertakes thorough monitoring of the Fund's investment managers and is prepared to make changes in response to

investment underperformance or new investment opportunities. In April 2011 Global Infrastructure Partners were appointed to manage a 3% allocation in Infrastructure. It is expected that this appointment will provide further diversification of returns and will help maintain the high standards expected from Shropshire's investment managers.

The Fund undergoes an independent actuarial valuation every 3 years. The latest actuarial valuation was conducted at the end of March 2010, the Fund had a funding level (*the relationship between estimated future pension payments and the funds held to pay for these pensions*) of 81%. The Fund had a funding level above the average of council pension funds and one of the lowest employers' contribution rates of all council funds.

As a local government pension scheme the Fund is able to take a long term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way. Whilst there is a lot written in the press about gold plated public sector pensions the reality is very different. The average pension paid from the Shropshire Fund last year was £4,400.

During the last year the Administration Team have been working with scheme employers to provide guidance on how changes to the scheme affect their own policies and procedures. Scheme literature has been updated; newsletters issued and annual benefit statements sent to all our active and deferred members. The team have also prepared and submitted data for the 2010 triennial valuation.

In September 2010 Laura Rowley, Director of Resources and Scheme Administrator left the Authority. James Walton was appointed as Interim Scheme Administrator until a permanent replacement was made. Rachel Musson has now been formally appointed as Corporate Head of Finance and Commerce and Scheme Administrator from 1st July 2011.

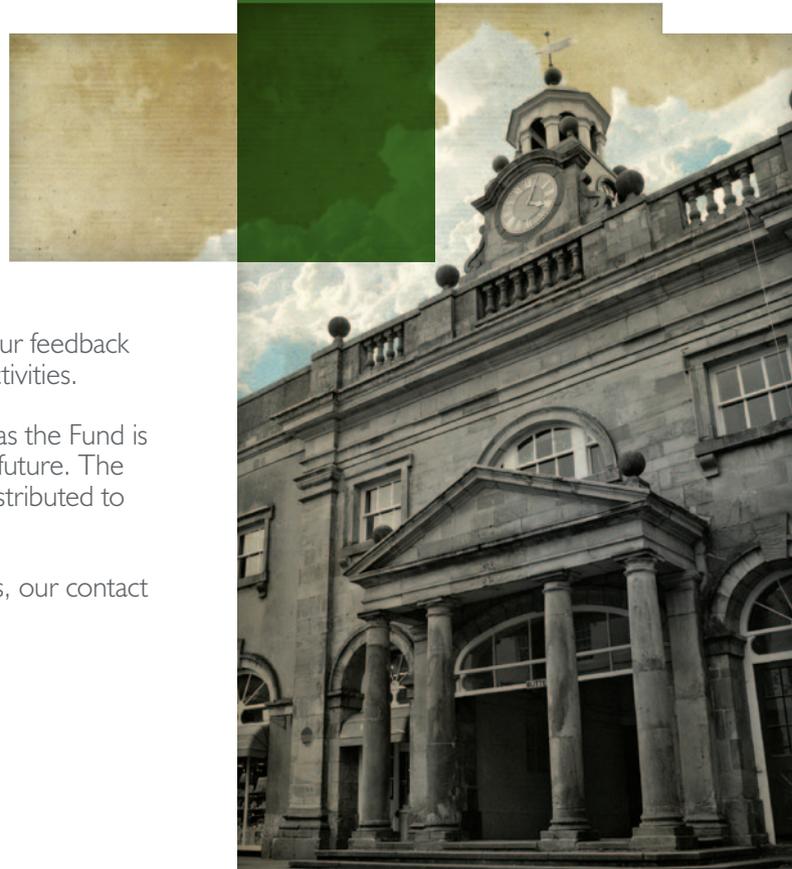
These and other developments are covered in more detail on the following pages. We hope you find the report interesting and informative. As always we welcome your feedback on the report and indeed, on any aspect of the Scheme's activities.

Only a small number of Annual Reports have been printed as the Fund is committed to working towards Shropshire's environmental future. The report is however available on our website and has been distributed to relevant interested parties in electronic format.

If you wish to make a comment or if you have any questions, our contact details are given on the back page of the report.

Ludlow's Butter Cross

Built in 1744, Ludlow's Butter Cross which stands at the top of Broad Street - was the town's buttermarket.



Malcolm Pate
Chair of Pensions
Committee
Shropshire Council



James Walton
Financial Advice
Manager & Interim
Scheme Administrator
Shropshire Council



Rachel Musson
Corporate Head of
Finance & Commerce
& Scheme
Administrator
Shropshire Council

2010 - 2011 Members, Managers & Advisors

Members of the Committee:



Malcolm Pate
(Chairman)
Shropshire Council



Dave Wright
(Vice Chairman)
Telford & Wrekin
Council



Anne Chebsey
Shropshire Council



Andrew B Davies
Shropshire Council



Thomas Biggins
Shropshire Council



Malcolm Smith
Telford & Wrekin
Council



Charles Tranter
Employee
Representative



Ron Pugh
Pensioner
Representative



Patricia Wilson
Employee
Representative

Independent Advisors

Aon Hewitt Limited
Roger Bartley

Custodian

Northern Trust Company

Banker

Natwest Bank

Legal Advisor

Shropshire Council

Auditor

Audit Commission



**Telford college
of Arts and
Technology**
Wellington, Shropshire.

Fund Managers

Aberdeen Fund Managers Ltd
Baillie Gifford & Co
Blackrock Alternative Advisors
F & C Management Ltd
Goldman Sachs Asset Management
HarbourVest Partners (UK) Ltd
Legal & General
Majedie Asset Management
Man Investments
Martin Currie Investment Management Ltd
MFS Investment Management
PIMCO Europe Ltd
Strategic Fixed Income

Actuary

Mercer Ltd

AVC Providers

Prudential Assurance Company Ltd
Equitable Life Assurance Society

Cash Equitisation

Russell Investment Group

Corporate Governance

Pensions Investment Research Consultants Ltd (PIRC)

Currency Hedging

Northern Trust Company

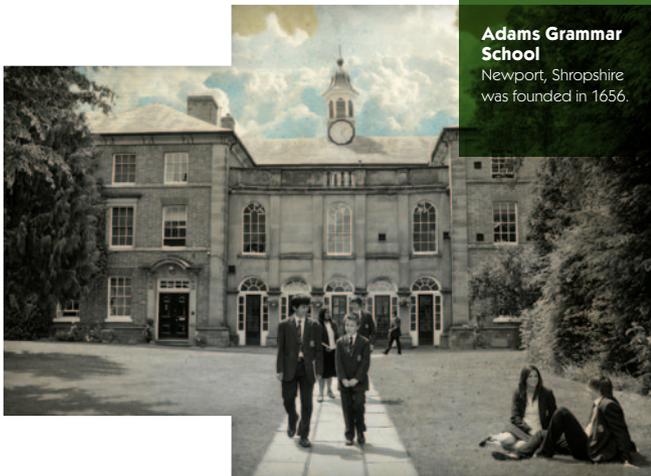
Responsible Engagement Advisor

F & C Management Ltd

Performance Measurement

Northern Trust Company

Participating employers



Adams Grammar School

Newport, Shropshire
was founded in 1656.

Scheme Employers have the right to join the scheme and their employees are automatically admitted to the Fund unless they indicate in writing that they do not wish to participate. Employees of Parish and Town Councils and other Admission Bodies must be nominated by their employer before they are admitted to the scheme.

Scheme Employers

Abraham Darby Academy
Abraham Darby School*
Adams Grammar School
Blessed Robert Johnson College
Bridgnorth District Council**
Charlton School
Corbet School
Ercall Wood School
Greenacres Primary School
Ludlow College
Madeley Court Academy School
Moorfield Primary School
New College Wellington
North Shropshire District Council**
North West Shropshire Education Action Zone*
Oswestry Borough Council**
Priorslee Primary Academy
Shrewsbury & Atcham Borough Council**
Shrewsbury College of Arts and Technology
Shropshire Magistrates Court Committee*
Shrewsbury Sixth Form College
Shropshire & Wrekin Fire Authority
Shropshire County Council**
Shropshire Council
Shropshire Probation Committee*
South Shropshire District Council**
Telford College of Arts and Technology
Telford & Wrekin Education Action Zone*
Telford & Wrekin Council
Walford and North Shropshire College
West Mercia Supplies

Admission Bodies

Accord Housing Association
Age Concern, Shropshire, Telford and Wrekin
Care Quality Commission
Connexions*
Coverage Care Ltd
Crime Reduction Initiatives (CRI)
Drayton in Hales Burial Joint Committee*
Fastrack Maintenance*
Harper Adams University College
The Hive (Belmont Arts Centre)
Initial Catering Services
Interserve Project Services Ltd
Ironbridge Gorge Museum Trust
Landau Consultants*
Mencap
Meres and Mosses Housing Association
Relate Shropshire
Sevenside Housing Association
Severn Gorge Countryside Trust
Shrewsbury, Telford & Wrekin Learning Hub*
Shropshire Disability Consortium*
Shropshire Association of Local Councils
South Shropshire Housing Association
South Shropshire Leisure Limited
Telford & Wrekin Services Limited
Telford Development Corporation*
Telford Trust
Transforming Telford***
Womens Royal Voluntary Service
Wrekin Housing Trust
Veolia Environmental Services (UK) Plc

Designated Bodies

Albrighton Parish Council
Alveley Parish Council
Bayston Hill Parish Council
Bridgnorth Town Council
Broseley Town Council
Church Stretton Town Council
Conover Parish Council
Craven Arms Parish Council
Dawley Hamlets Parish Council
Gorge Parish Council
Great Dawley Parish Council
Hadley & Leegomery Parish Council
Hollinswood and Randlay Parish Council
Ketley Parish Council
Lawley and Overdale Parish Council
Lilleshall and Donnington Parish Council
Ludlow Town Council
Madeley Parish Council
Market Drayton Town Council
Much Wenlock Town Council
Newport Town Council
Oakengates Town Council
Oswestry Town Council
Shrewsbury Town Council
Stirchley and Brookside Parish Council
St Georges and Priorslee Parish Council
Wellington Town Council
Wem Town Council
Whitchurch Town Council
Wrockwardine Parish Council



* Employers with pensioner liability but no current employees.

** Employers merged on 1st April 2009 to form Shropshire Council

*** Employer became part of Telford and Wrekin Council on 1st April 2010



e work together with employers to ensure that we provide a quality pension administration service.

The LGPS is a statutory scheme, and operates on a “*defined benefit basis*”. The benefits are paid under the provisions of the LGPS Regulations 1997, the LGPS (*Transitional Provisions*) Regulations 1997, the LGPS Regulations 2008, and other applicable overriding legislation. The government issues the pension scheme regulations through the Department of Communities and Local Government. The Regulations have the force of law.

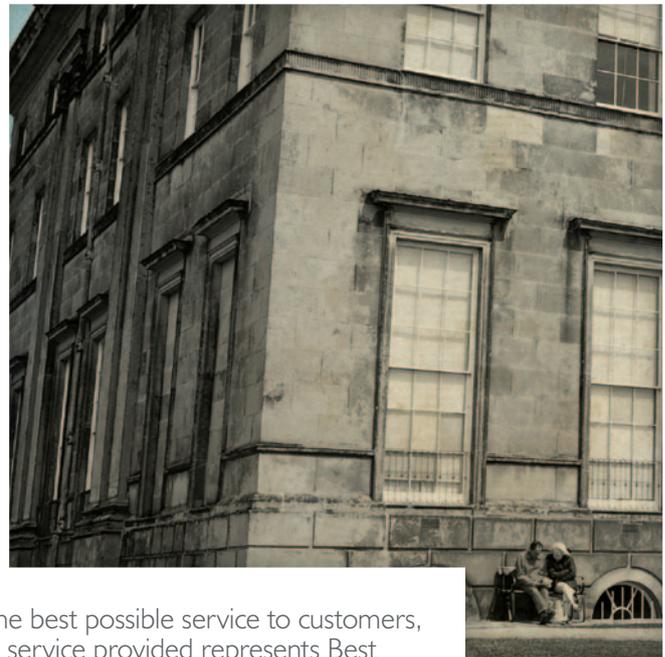
Under Regulation 34 of The Local Government Pension Scheme (*Administration*) Regulations 2008 all LGPS funds are required to publish an Annual Report.

Shropshire Council is required by law to administer the Scheme within the geographical area of Shropshire and the responsibilities for both administration and investments are met in-house.

As in previous years, the workload of the pension administration section has continued to expand, especially in the current economic climate when budget savings have to be made.

The main focus over the year has been to support a number of Fund employers through extensive staff redundancy programmes, and in particular to provide benefit estimates to agreed timescales as well as processing actual retirements on time.

Fund staff are committed to providing the best possible service to customers, and will continue to work to ensure the service provided represents Best Value to all its stakeholders. The cost of the pension’s administration service in Shropshire, when compared with all other local authority pension funds, shows it to be below national averages.





Attingham Park
Now a National Trust
Property, built for
the 1st Lord Berwick
in 1785.

Review of the year

Valuation

As you will be aware both employees and employers contribute to the LGPS: employees' contributions are fixed, while employers' contributions vary depending on how much is needed to ensure benefits under the Scheme are properly funded.

A valuation of the Shropshire Fund was undertaken in 2010 by the Scheme Actuary Mercer. The results were published in March 2011 and they have determined the overall funding level and set the employer contribution rates for the 3 financial years from 2011/12.

The Actuary took into account the changes in the way pensions will increase i.e CPI not RPI and the short term public sector pay freeze and have advised the Administering Authority (*Shropshire Council*) to collect contributions in a different way to previous years. The rates will be paid as a percentage of payroll in respect of future service benefits and as a lump sum £'s amount in respect of past service deficit. This avoids potential underpayment of contributions linked to pay should employer's payrolls reduce.

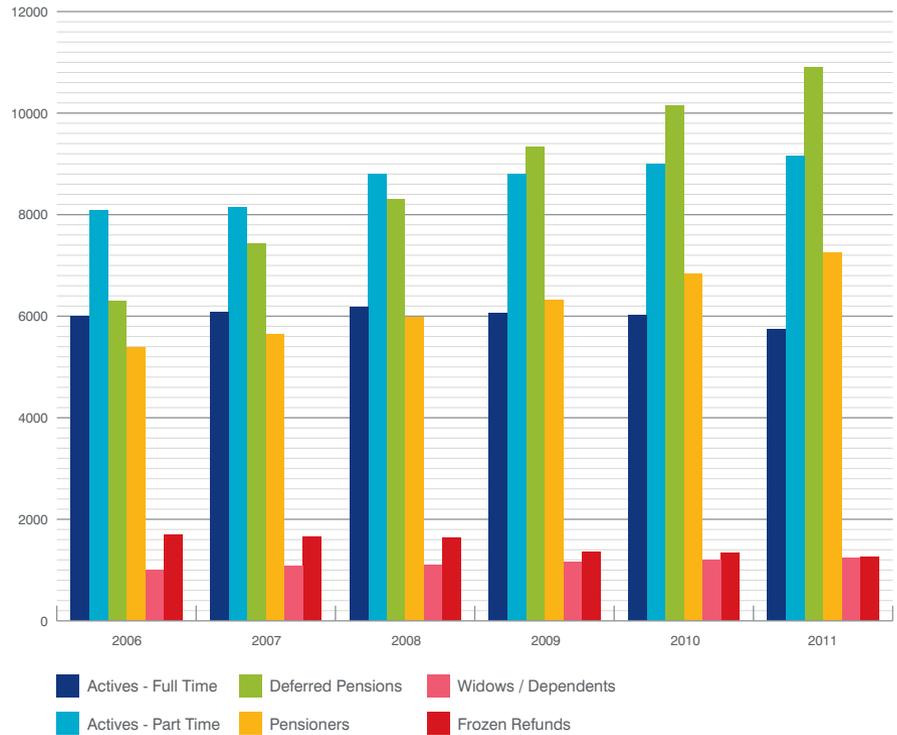
Membership

Membership with the Shropshire County Pension Fund continues to grow. As at the 31st March 2011 there were 14,889 active contributors, 10,900 deferred beneficiaries (*former members who have left the scheme prior to retirement but have elected to keep their benefits in the scheme until they become payable at retirement age*) and 8,483 pensioners and dependants.

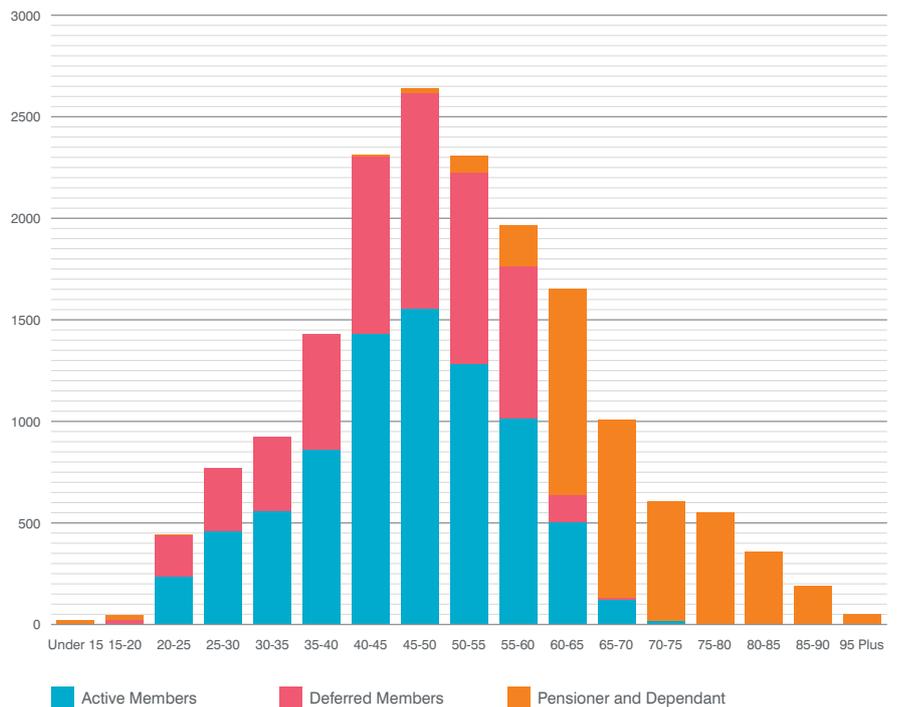
A noticeable trend in the Fund's profile is a shift to reflect nationally changing patterns in flexible working for employees. This is reflected in our active membership split between 39% full-time members and 61% part-time members.

Summaries of how the Fund membership has grown over the last 5 years and the age profile of the membership are shown here:

Scheme Membership Numbers 2006 to 2011



Age Profile of Membership 2010/11



Performance Statistics

The table below shows the actual casework volumes processed during the year and the amount completed within our performance targets.

Case Type	No. of Cases	% Within Target
Retirement Quotes	1540	90
Normal Ret (60+)	461	81
Early & Flexible Ret	151	93
Deferred Benefits	1390	83
Transfer In Quotes	202	85
Deaths	188	85
Divorce	73	86
New Starters	1676	97

Complaints and Appeals

Despite our best efforts we do, sometimes, receive complaints from our members when they believe they've been hard done by. Most of the time these arise because their employer has delayed sending information to us which means we have been unable to process their case in a timely manner. Other times, it's as a result of them not understanding the scheme provisions or being under the impression that they're entitled to something that they're not.

Internal Dispute Resolution Procedure 2010/11

Stage	Cases submitted	Dismissed	Upheld
1st	3	3	0
2nd	3	3	0

“Your responses

“Thank you for all your help and sorting things out. It’s a shame we don’t have much to do with Pensions staff until we are on our way out!”

Retired Member *“Thank you so much for helping to explain how to calculate pensionable pay”*

Employer

“Can I also add at this point how impressed I am with the service you provide, I think that the Annual Statement is very clear and it is not often I e-mail and actually get a prompt and helpful response, so many thanks!”

Active member

“ All the staff at Pension Services have been excellent with me from start to finish. Thank you.”

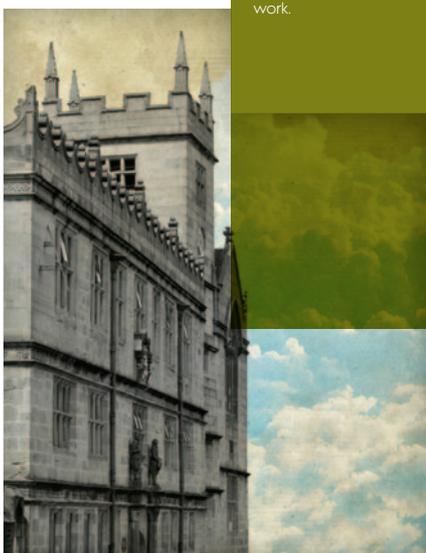
Member

“I have just taken redundancy and Laura and Barbara have provided an excellent service.”

Retired Member

Shrewsbury Library

Formerly the home of Shrewsbury School until 1882. It opened as the Library in 1983 following restoration work.



The Hutton Report - 10 March 2011

The final report of the Independent Public Services Pension Commission was announced on the 10th March 2011. It set out a number of detailed recommendations to the Government on how public service pensions can be made sustainable and affordable in the future, while providing an adequate level of retirement income.

The main recommendation of the report is that existing final salary public service pension schemes such as the LGPS should be replaced by new schemes, where an employee's pension entitlement is still linked to their salary (a "defined benefit scheme") but is related to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.

The report suggested that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.

Other key recommendations in the report include:

- Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;
- Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees' pensions – with automatic stabilisers to keep future costs under more effective control;
- Honouring, in full, the pension promises that have been earned by scheme members (*their "accrued rights"*) and maintaining the final salary link for past service for current members;
- Introducing more independent oversight and much stronger governance of all public service pension schemes;
- Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and
- Overhauling the current legal framework for public service pensions to make it simpler.
- That the LGPS remains a funded scheme.



Feathers Hotel

The oldest part of the Feathers Hotel, including the world-famous façade, was built in 1619 (during the reign of King James Ist) by Rees Jones, a successful attorney in the town of Ludlow.

Publishing the report, Lord Hutton said:

*“These proposals aim to strike a balanced deal between public service workers and the taxpayer. They will ensure that public service workers continue to have access to good pensions, while taxpayers benefit from greater control over their costs. Pensions based on career average earnings will be fairer to the majority of members that do not have the high salary growth rewarded in final salary schemes. The current model of public service pension provision is clearly not tenable in the long-term. There is a clear need for reform. **Getting the decisions right on the most appropriate structures and designs will be crucial to making any changes work in the future.** This will only be achievable if there is effective dialogue between public service employers, employees and unions.”*

As regards the cost of implementing the new schemes, the report noted that additional resources – people and money – will be needed to implement these reforms, but the details will be for the Government to determine.

Ironbridge power station

The current Ironbridge power station is operated by E.ON UK. The station stands near the Ironbridge Gorge World Heritage Site, where the Industrial Revolution began.





Communications

The Shropshire County Pension Fund is fully committed to providing Scheme Members and Scheme Employers with as much information as possible concerning the operation of the Local Government Pension Scheme (LGPS).

The Fund has published a Communications Policy Statement in compliance with Regulation 67 of the Local Government Pension Scheme (*Administration*) Regulations 2008 to ensure that the Fund offers clear communication to its stakeholders.

We communicate with:

- Scheme Members
(*actives, deferred, pensioners and dependents*)
- Prospective Scheme Members
- Representatives of Scheme Members
- Employing Authorities

This statement is available on our website:

www.shropshirecountypensionfund.co.uk
and also in Appendix 04 of this report.

Communication Team

The Fund has a dedicated team who deal with pension communications. The team work together to ensure all stakeholders are kept informed about the LGPS and any changes to the Scheme, including funding and actuarial matters.

Some of the ways we communicate & educate are as follows...



Annual Benefit Statements

Annual Benefit Statements are an important tool in communicating with current and deferred members. New re-designed statements were issued in 2010 and they are now even clearer, concise and user friendly.

This has reduced the number of queries that the team receive. The statements contain a lot of information that assists the members in understanding just how their benefits are calculated and whether or not they need to make further financial provision for their retirement.

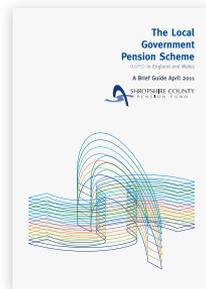


Newsletters

The Fund has produced newsletters for its Employers, its Active and Retired members in the last twelve months. The Employers Newsletter covered areas such as regulation changes, contribution rates and admitted body guidance.

Our Active members received two newsletters, covering the Hutton Report, civil partner's benefits and transferring benefits.

Our retired members also received their bi-annual editions of 'InTOUCH' their dedicated magazine issued in April and October.



Scheme Booklets and Fact Sheets

The Fund has continued to update its literature and make it available to as many of our stakeholders as possible, whether it is Pension Guides, Employer Guides, or CD Roms.

Electronic versions of all our literature can be found on our website or are available via email.



Encouraging New Members Flyer

One of our larger employers expressed an interest in contacting all its eligible members who were currently not contributing. A successful direct mailing created an increase in their membership by around 5%. The mailer was personalised with the employees name and calculations of what they could expect to receive if they were to join the Scheme.



Annual Reports

(including an abridged members' version)

The Fund's Annual Report 2009/10 was published in time for the Annual Meeting in November, and an abridged members' version was also available.



Website: www.shropshirecountypensionfund.co.uk

The fund has been fortunate enough to have its own website for a number of years now and its focus still remains the membership. The site is continually updated to include information on changing regulations, pension publications as well as dedicated areas for active, deferred and retired members.

There is also an online calculator for benefits, additional contributions, and members annual allowance figures. The Fund accepts, however that the site does require further development and this is something we will be looking at over the next year.



Workplace Pension Consultations

The Fund holds regular pension consultations all around the county, where active members are invited to meet one of our experienced staff, who answer individual queries in a confidential environment.

In the last twelve months the Fund held well over 30 consultations in the workplaces concentrating particularly on employers which were undergoing considerable change. The feedback from those who attended was very positive with satisfaction levels very high.



Meetings

The Annual Meeting was held in November to inform members of the Funds activities in the previous twelve months. Three meetings were held and around 350 people attended.

In June we held our regular meeting for retired members at the Theatre Severn in Shrewsbury and once again the Walker Theatre was virtually full to capacity.

It is the Shropshire County Pension Fund's continued ambition to provide a first class pension service to all its stakeholders, whilst equally important is for us to provide a cost base that provides realistic value for money. We have been able to demonstrate through the annual benchmarking survey that we succeed in doing so and hope to continue to deliver the service to which our stakeholders have come to expect.



governance arrangements

Local Government Pension Schemes are required to publish a number of documents which are shown within the appendices of this report

Governance Compliance Statement

(Appendix 1 page 53)

This document describes how the Shropshire Fund is governed. It explains the role of the Pensions Committee and how it reports into the Council. The make-up of the Committee is outlined and the reasons for the current representation. The role of officers, independent advisors and employee representatives are clearly explained.

The Governance Compliance Statement includes details of compliance against the best practice guidelines on pension fund governance that have been issued by the Department for Communities and Local Government. The governance arrangements of the Shropshire Fund adhere to these best practice guidelines.

Funding Strategy Statement

(Appendix 2 page 63)

This document provides the basis for the actuarial valuation which occurs every three years. The Funding Strategy Statement formed the basis of the 2010 actuarial valuation. It sets out in a transparent way the Fund's prudent approach to meeting pension liabilities and maintaining stable employer contribution rates. It outlines the financial assumptions used in the actuarial valuation and identifies the risks and countermeasures employed by the Fund.

Statement of Investment Principles

(Appendix 3 page 71)

This document sets out the investment objectives of the Fund and how investments are allocated between equities, bonds and alternatives. Target investment performance is defined for each of the Investment Managers. The Fund's approach to social, environmental and ethical issues is also explained as is the Fund's compliance with Myners Principles.

Communications Policy

(Appendix 4 page 81)

This document sets out the principles on which the Fund bases its communication activities. The Communications Strategy is outlined and the many methods of communication and publications are described to the reader.



The house of Richard Baxter, Bridgnorth

One of the founding fathers of non-conformity and influential religious writer.



Pension Fund Account for the year ended 31 March 2011

2009/10 £m		Notes (pgs 26-35)	2010/11 £m
	Contributions & Benefits		
	Contributions		
40.235	Employers	18	40.618
15.176	Employees	18	15.305
10.000	Transfers In from other pension funds	8, 18	8.381
65.411	Total Income		64.304
	Benefits Payable		
35.150	Pensions	18	36.928
9.758	Commutation of pensions and lump sum retirement benefits	18	8.638
0.999	Lump sum death benefits	18	1.048
			46.614
	Payment to & account of leavers		
0.013	Refund of contributions	18	0.019
8.972	Transfer to other Funds	8, 18	3.465
1.070	Administration Expenses		1.060
55.962	Total Expenditure		51.158
9.449	Net additions from dealings with scheme members		13.146
	Returns on Investments		
20.147	Investment Income	3, 7, 16, 17	20.416
5.558	Gain/(loss) on cash and current hedging	19, 20	9.427
(0.424)	Taxes on Income	3	(0.197)
207.790	Profits and losses on disposal of investments and changes in value of investments	1, 9	52.302
(7.969)	Less Investment Management Expenses	10	(7.247)
225.102	Net increase (decrease) in the net assets available for benefits during the year		74.701
234.551	Surplus / (deficit) on the pension fund for the year		87.847
716.155	Opening Net Assets of the Scheme		950.706
950.706	Closing Net Assets of the Scheme		1038.553

Net Asset Statement as at 31 March 2011

01/04/2009	31/03/2010		Notes	31/03/2011	
£m	£m		(pgs 26-35)	£m	%
		Investment Assets			
		Fixed Interest Securities			
53.616	36.787	Public Sector		33.373	3.21
0.000	0.000	Other		0.000	0.00
354.671	430.380	Equities		458.594	44.16
		Pooled Investment Vehicles			
68.452	80.783	Unitised Investment Vehicles		86.258	8.31
211.478	353.916	Other Managed Funds		394.912	38.02
		Derivative Contracts			
33.102	0.320	Futures	20	0.780	0.07
1.326	1.559	Forward Foreign Exchange	19	0.097	0.01
		Cash Deposits			
	4.854	Margin Balances		5.144	0.50
0.200	34.121	Deposits		57.042	5.49
0.000	0.000	Temporary Investments	21	9.550	0.92
722.845	942.720	Total Investment Assets		1045.750	100.69
		Investment Liabilities			
		Derivatives Contracts			
(11.112)	(0.147)	Futures	20	(0.412)	(0.04)
(1.087)	(0.189)	Forward Foreign Exchange	19	(5.470)	(0.53)
		Other Financial Liabilities			
	(0.440)	Margin Balances		(0.768)	(0.07)
710.646	941.944	Net Investment Assets		1039.100	100.05
		Current Assets			
1.970	2.258	Contributions due from Employers	5	2.171	0.21
1.981	1.835	Other Current Assets	5	1.828	0.17
4.093	6.903	Cash Balances	21	0.024	0.00
		Current Liabilities			
(0.572)	(0.332)	Unpaid Benefits	6	(0.128)	(0.01)
(1.963)	(1.902)	Other Current Liabilities	6	(4.442)	(0.42)
716.155	950.706	Net Assets of the Scheme Available to Fund Benefits as at 31st March		1038.553	100.00

* 2008/09 margin balances not available from Custodian ** Net Asset Statement as at 01/04/09 to comply with IFRS

Notes to the Accounts

1. Purchases and Sales

The table below shows the values of the Fund's purchases, sales and change in market value over the financial year 2010/11.

Investment Type	Value as at 1 April 2010 £m	Purchases at cost & derivative payments £m	Sales proceeds & derivative receipts £m	Other cash transactions £m	Change in market value £m	Value as at 31 March 2011 £m
Fixed Interest Securities - Public Sector	36.787	67.059	(70.205)		(0.268)	33.373
Equities	430.380	235.358	(233.240)		26.096	458.594
Pooled Investment Vehicles - Unitised Investment Vehicles	80.783	0.000	0.000		5.475	86.258
Pooled Investment Vehicles - Other managed Funds	353.916	25.982	(13.032)		28.046	394.912
Derivative contracts	1.543	0.000	(0.003)		(6.545)	(5.005)
Total	903.409	328.399	(316.480)	0.000	52.804	968.132
Cash deposits - with Managers	34.121			23.423	(0.502)	57.042
Cash deposits - margin balances	4.414			(0.038)		4.376
Temporary Investments	0.000			9.550		9.550
Total	941.944	328.399	(316.480)	32.935	52.302	1039.100

2. Related Party Transactions

In accordance with Financial Reporting Standard 8 Related Party Disclosures material transactions with related parties not disclosed elsewhere are detailed below:

- As Administering Authority, Shropshire Council has control of the Fund within the overall statutory framework. The Council was reimbursed £1,016,447 by the Pension Fund for the cost of the Pension Team and other administration costs.
- Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme and four Members of the Pension Fund Committee are Members of the Fund. These are Thomas Biggins, Malcolm Pate, Andrew B Davies and Dave Wright. Ron Pugh, pensioner representative and Charles Tranter and Patricia Wilson, employee representatives are also Members of the Fund.
- The Interim Scheme Administrator of the Pension Fund is also the Head of Financial Advice of Shropshire Council.

3. Taxation

The Fund is an exempt fund and some UK income tax is recoverable from HM Revenue and Customs. The investment income shown in the accounts is therefore, shown gross of UK tax, except UK equity dividends which are shown net as the Fund's ability

to reclaim tax on this income was abolished from July 1997. No capital gains tax is chargeable. Tax deducted from income on overseas investments is recovered wherever possible. Irrecoverable Overseas Tax in 2010/11 was £197,500.

4. Value Added Tax

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

5. Debtors

Provision has been made for debtors known to be outstanding at 31 March 2011. No provision has been made for transfer values and interfund adjustments where the amount was unknown. An analysis of debtors is shown below.

2009/10 £m		2010/11 £m
0.150	Central Government bodies	0.000
1.425	Other Local Authorities	1.391
0.000	NHS bodies	0.000
1.721	Public corporations	1.844
0.797	Other entities and individuals	0.764
4.093		3.999

6. Creditors

Provision has also been made for creditors known to be outstanding at 31 March 2011. No provision has been made for transfer values out and interfund adjustments where the amount was unknown. An analysis of creditors is shown below.

2009/10 £m		2010/11 £m
0.000	Central Government bodies	0.106
0.008	Other Local Authorities	2.268
0.000	NHS Bodies	0.000
0.000	Public corporations	0.000
2.226	Other entities and individuals	2.196
2.234		4.570

7. Investment Income

The table breaks down the investment income received by the Fund (*mostly in the form of dividends*) over the last 12 months.

2009/10 £m		2010/11 £m
0.974	Interest from Fixed Interest Securities	1.086
13.934	Dividends from equities	10.366
0.000	Income from index-linked securities	0.000
0.665	Income from pooled investment vehicles	0.512
0.018	Interest on cash deposits	0.058
4.556	Other	8.394
20.147		20.416

8. Accounting Policies

The accounts have been prepared to meet the requirements of the Local Government Pension Scheme (*Management and Investment of Funds*) Regulations 1998 (*as amended*), and to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. Contributions, investment income and benefits are on an accruals basis. Investment income is accrued to the extent that the dividend is due but unpaid at 31 March 2011. These accruals do not include the Fund's liabilities to pay pensions and other benefits in the future to all present contributors to the Fund. These liabilities are taken into account in periodic actuarial

valuations of the Fund and are reflected in the levels of the employers' contributions determined at these valuations. Transfers to and from other funds are included on a receipts and payments basis.

9. Valuation of Investments

Investments listed in the Statement of Net Assets are shown at bid-market values as at the last day of trading, if this is not the Balance Sheet date. Prices in foreign currencies are converted at the closing rates of exchange on valuation date.

Private Equity Investments are valued at estimated 31 March 2011 values based on current market knowledge. Valuations are updated on a quarterly basis.

Dividends, interest, purchases and sales have been accounted for at the spot market rates at the date of transactions. Spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and transactions outstanding at 31 March 2011.

Transaction costs (*e.g. broker commission, stamp duty*) are added to the purchase cost and deducted from the proceeds received on sales at source.

10. Investment Management Expenses

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Fund's behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (*over and above a basic fee*) for reaching required levels of out-performance.

11. Administration Expenses

The costs incurred by the Council in administering the Fund totalled £1.060m for the year ended 31 March 2011. A breakdown of the significant items is shown below.

2009/10 £m		2010/11 £m
0.935	Direct Staffing	0.925
0.034	IT	0.035
0.015	Legal and Committee	0.015
0.049	External Audit Fees	0.032
0.008	Office Accommodation	0.008
0.007	Internal Audit	0.016
0.022	Other Costs	0.029
1.070		1.060

12. Custody of Investments

Custodial Services are provided to the Fund by a single Global Custodian (*Northern Trust*). This includes the safekeeping of assets, the collection of income, the exercise of voting rights, and the monitoring and execution of corporate actions in conjunction with investment managers. The custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the custodians own assets.

13. Additional Voluntary Contributions

Scheme members have the option to make Additional Voluntary Contributions (AVC's) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (*Management and Investment of Funds*) Regulations 2009 (*SI 2009 No3093*). Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 580 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2010/11 contributions to the schemes amounted to £988,122. The combined value of the AVC funds as at 31 March 2011 was £4,425,236.

14. Contractual Commitments

The Fund has a 5% (£52 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2011 £81.628m had been committed to investment in private equity via a fund of funds manager (*HarbourVest Partners*). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2011 the funds Private Equity investments totalled £49.141m.

15. Audit Certificate

The Audit Commission has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (*UK and Ireland*) issued by the Auditing Practice Board and the Audit Certificate is published within this report.

16. Securities Lending

The Fund suspended its arrangement with its Custodian (*Northern Trust*) to lend eligible securities from within its portfolio of stocks to third parties in return for collateral in September 2008. In February 2011 the arrangement was reactivated. Collateral is restricted to AAA Sovereign Debt (*the highest rated collateral available*).

Collateralised lending generated income of £11,223 in 2010/11 and this is included within investment income in the Pension Fund Account.

As at 31st March 2011 £18,791,755 worth of stock (2% of the Fund) was on loan, for which the Fund was in receipt of £20,439,168 worth of collateral.

17. Commission Recapture

The Fund participates in Russell Investment Group's Commission Recapture Programme whereby Investment Managers execute a proportion of trades through specific brokers nominated by Russell Investment Group. In return the Fund receives a rebate which is included within the investment income in the Pension Fund Account. This programme allows the fund to reduce trading costs without compromising the Investment Managers ability to achieve best execution. Commission Recapture income during 2010/11 was £2,565.

18. Analysis of Main Revenue Account Transactions

This table provides further analysis of contributions received and benefits paid between Administering Authority (*Shropshire Council*), Designated Bodies and Scheme Employers (e.g. *Unitary, Town and Parish Councils*) and Admission Bodies (*Private Bodies carrying out former Local Government functions or bodies providing a public service on a non profit making basis*).

Year	Administering Authority	Admission Bodies	Designation Bodies / Scheme Employers	Total	
2010/11	Contributions Received				
	Employees	7.480	1.806	6.019	15.305
	Employers	19.921	4.570	16.127	40.618
	Transfers In	5.241	0.904	2.236	8.381
	Total Income	32.642	7.280	24.382	64.304
	Payments Made				
	Pensions	24.016	4.227	8.685	36.928
	Lump Sums	4.498	1.049	3.091	8.638
	Death Benefits	0.515	0.098	0.435	1.048
	Refunds	0.013	0.001	0.005	0.019
	Transfers Out	1.505	0.276	1.684	3.465
	Administration Fees	1.060	0.000	0.000	1.060
	Total Expenditure	31.607	5.651	13.900	51.158
	2009/10	Contributions Received			
Employees		7.294	1.789	6.093	15.176
Employers		19.782	4.654	15.799	40.235
Transfers In		4.927	0.665	4.408	10.000
Total Income		32.003	7.108	26.300	65.411
Payments Made					
Pensions		23.250	4.060	7.840	35.150
Lump Sums		5.514	1.328	3.915	10.757
Refunds		0.009	0.002	0.002	0.013
Transfers Out		3.688	0.962	4.322	8.972
Administration Fees		1.070	0.000	0.000	1.070
Total Expenditure		33.531	6.352	16.079	55.962

19. Currency Hedging

In November 2007 the Pensions Committee took a decision to passively hedge 50% of all currency exposure. This move was designed to eliminate some of the risks involved in holding an increased proportion of overseas investments. The aim of this hedging strategy was not to produce returns but to reduce risk over the long term. It was accepted that there would be periods where passively hedging would cost the Fund but equally there would be periods where it provided gains. The aim is to reduce the volatility of the overall Fund value due to currency movements.

Forward currency contracts were put in place which are rolled every quarter and take account of any changes to the composition of the Fund. In the financial year currency hedges made a realised gain of £9,469 million which was offset by currency losses in the value of the underlying assets owned by the Fund.

At the end of the financial year the Fund had open foreign exchange contracts with unrealised gains and losses.

Contract	Settlement Date	Currency bought	Currency Sold 000's		Asset £000	Liability £000
Forward OTC	3 months	British pound	14,824	Australian dollar		(176)
Forward OTC	3 months	British pound	35,405	Swiss franc		(131)
Forward OTC	3 months	British pound	100,041	Euro		(1,433)
Forward OTC	3 months	British pound	152,553	Hong Kong dollar		(281)
Forward OTC	3 months	British pound	4,713,968	Japanese Yen	50	
Forward OTC	3 months	British pound	2,444	Singapore dollar	9	
Forward OTC	3 months	British pound	330,705	US dollar		(2,458)
Forward OTC	3 months	British pound	20,995	South African Rand		(83)
Forward OTC	3 months	British pound	54,080	Swedish Krona		(79)
Forward OTC	3 months	British pound	10,040	Danish Krona		(26)
Forward OTC	3 months	British pound	6,466	Brazilian Real		(99)
Forward OTC	3 months	British pound	227,071	Indian Rupee		(103)
Forward OTC	3 months	British pound	16,021,909	Indonesian Rupiah		(18)
Forward OTC	3 months	British pound	9,744	Malaysian Ringgit		(17)
Forward OTC	3 months	British pound	257,322	New Taiwan Dollar		(91)
Forward OTC	3 months	British pound	15,632,062	South Korean Won		(383)
Forward OTC	3 months	British pound	2,651	Canadian Dollar	18	
Forward OTC	3 months	British pound	0.00	Mexican Peso	8	
Forward OTC	3 months	British pound	35,128	Norwegian Krona	12	
Forward OTC	3 months	British pound	8,204	New Zealand Dollar		(92)
Total					97	(5,470)

20. Cash Equitisation

The Fund employs Russell Investment Group to conduct a cash equitisation programme. This programme is designed to reduce risk by maintaining the Fund close to its strategic asset allocation and minimise the drag on investment performance caused by holding cash. This risk is hedged with the purchase of financial futures on the most underweight asset class. In the financial year the cash equitisation programme made a realised loss of £0.042 million.

This programme is implemented with the use of futures contracts. The Fund had futures contracts outstanding at year end with unrealised gains and losses. The economic exposure represents the notional value of the stock purchased under the futures contract and therefore the value subject to market movements.

Contract	Settlement Date	Underlying Investment	Economic exposure £000	Asset £000	Liability £000
Equity Derivatives					
Future	3 months	Australia	(1,297)		(68)
Future	3 months	France	1,960	114	
Future	3 months	Germany	6,882	306	
Future	3 months	Hong Kong	(647)		(10)
Future	3 months	Japan	5,724		(71)
Future	3 months	Singapore	(285)		(5)
Future	3 months	Switzerland	1,765	88	
Future	3 months	UK	(6,755)		(189)
Future	3 months	US	2,132	86	
Fixed Income Derivatives					
Future	3 months	Germany	2,579	27	(27)
Future	3 months	Japan	5,243	20	
Future	3 months	UK	15,916	139	(2)
Future	3 months	US	13,562		(40)
Total				780	(412)

21. Pension Fund Bank Account

In March 2010 a separate bank account was opened for the Shropshire County Pension Fund and from the 1st April 2010 all income received is being paid into this account. The balance on this account is monitored daily and surplus cash balances invested and as at 31st March 2011 £9.550 million was invested. The cash balance in the Pension Fund account as at the same date was £24,140. All expenditure is still being paid by Shropshire Council on behalf of the Fund and this is reimbursed to Shropshire Council on a monthly basis.

22. Actuarial Valuation

The Actuary carries out an actuarial valuation of the Fund's assets and liabilities every three years. The rate of employer's contributions payable in the year to March 2011 was determined at the 2007 valuation of the Fund. The Actuary set the common rate of employer's contribution phased from 1 April 2008 to 31 March 2011 at 12.5% of pensionable pay. This was expected to be the rate sufficient over a period of 22 years to meet 100% of existing and prospective liabilities, including pension increases.

The latest triennial valuation was undertaken as at 31 March 2010 and this has set employers contribution rates for the three year period starting 1 April 2011. At the valuation date the value of the Fund's assets represented 81% of the Fund's accrued liabilities and the Fund has assets of £951m.

23. Restatement of 2009/10 comparatives

In order to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, the 2009/10 comparative figures of the Net Asset Statement have been revised. The changes reflect the requirement to amend the classification of some of the Fund's assets, however, the overall value of the Fund has not changed (2009/10 £950.706 million).

The net asset statement also shows the opening figures as at 1 April 2009 to comply with IFRS.

24. Pension Fund Risk Management

The Pension Fund's activities means it is exposed to a number of financial risks. These include:

Credit Risk - the risk that a borrower fails to repay a loan or otherwise meet a contractual obligation.

Liquidity Risk - the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (*or make the required profit*).

Market Risk - the risk that the value of a portfolio will decrease due to the change in value of the market risk factors. The four standard market risk factors are:

- **stock prices** - the risk that stock prices change.
- **interest rates** - the risk that interest rates will change
- **foreign exchange rates** - the risk that foreign exchange rates will change
- **commodity prices** - the risk that commodity prices will change

Credit risk

The risk that the credit worthiness of counter parties will decrease is limited through good quality management and diversification of the Fund's investments.

Pension Fund bank account revenue cash

The investment priorities for the management of the Pension Fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counter parties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury Strategy. The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000.

With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and

other Local Authorities. In addition to credit ratings the Administering Authority also continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

Pension Fund Investment Managers

The Fund currently has 13 investment managers covering 14 portfolios, diversifying the Fund's assets between them. The performance of each manager is reviewed on a quarterly basis against the agreed benchmark and any queries on performance, change of personnel or working practices are discussed with each manager during the quarterly visits.

The Fund conducts a full review of its strategic asset allocation every three years after each actuarial valuation and interim reviews are conducted annually. This review is completed with the assistance of the Fund's Investment Advisors and the Fund Actuary. The risk character of each asset class will be reviewed and a portfolio of investments constructed to match the expected liability outgoings which represents the least risk investment position.

The Fund receives regular investment advice from Aon Hewitt and they constantly monitor the rating criteria set out for all investment managers and alert the Administering Authority to any changes to these ratings where necessary.

Liquidity Risk

The risk that cash is not available when required. This could jeopardise the ability of the Fund to pay benefits in a timely manner or the ability to move funds between different portfolios to attract better returns.

The Fund has its own bank account from 1 April 2010 and its surplus revenue funds are held separately from the Administering Authorities. It is therefore important that cash is available when required by the Fund to meet any payments that need to be made. To reduce this risk the Administering Authority maintains a cashflow forecast to predict when monies are required and also when surplus monies are available to be invested at a more attractive rate. The Pension Fund can also place investments in a Special Interest Bearing Account which is an instant access account allowing the Fund to access invested funds when required and satisfy any short term borrowing.

The Fund has various liabilities which include futures and forward foreign exchange. The future contracts

are put in place and could be liquidated at any time during the contract period. It is not possible, however, to break the forward currency contracts in between roll dates.

Market Risk

Stock price movement risk - the proportion of investments in stocks is determined by the strategic asset allocation. We diversify the risks inherent to these securities by investing in various investment classes, regions, categories and sectors. We further diversify the risk by investing in a mix of companies. Please see the major shareholding table on page 39.

Interest rate risk - the risk that changes in interest rates expose the Fund to an unexpected increase/decrease in income in relation to the temporary investments made during the year. As at 31 March 2011 the Fund had £9.550 million invested, however, £5.680 million were fixed deposits. £3.870 million was invested in the call account and this is classified as a variable rate investment. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £3,870. Similarly, the impact of a 1% fall in interest rates would be a £3,870 reduction in interest received.

Currency risk - The Fund's risk to currency movements is reduced as the Fund passively hedges 50% of all currency exposure. Please see note 19 for more information.

Commodity prices - the Fund diversifies its investment portfolio as much as possible investing in several sectors.

To monitor market risk each investment manager has an Investment Manager Agreement which identifies the various investment restrictions placed on each account. Restrictions include maximum credit exposure to any one Bank, maximum amount to be invested in the securities of any one company and country. These parameters are monitored by Pension Fund staff throughout the year as well as a review of the level of active risk and a comparison between individual equity holdings and the appropriate index.

The Pension Fund has also produced a Funding Strategy Statement in conjunction with the Fund's Actuary which states how solvency and risk will be managed in relation to liabilities. The Funding Strategy

Statement has been produced taking an overall view of the level of risk within the investment policy for the Fund as set out in the Statement of Investment Principles. Shropshire Council, as Administering Authority, will continue to review both documents to ensure the overall risk profile remains appropriate.

As well as the risks above the Fund considers many other risks in relation to the running of the Fund. These include demographic risks, regulatory risks, governance risks and other financial risks.

Demographic risk

People are living longer and therefore will draw their pension for longer meaning a greater strain on the pension fund. Many employers also permit early retirements of staff. In order to manage this risk the Scheme's valuation position, including the demographic changes, is monitored annually in consultation with the Actuary.

Regulatory risk

These include any changes to pension regulations e.g. more favourable benefits packages or any changes to national pension requirements and/or HMRC rules. In order to manage this risk changes to regulations are continually monitored.

Governance risk

This risk centres around the employers within the Fund. Some of the risks highlighted to the Fund by the Actuary include:

- the Administering Authority is not made aware of structural changes in the employers' membership or is not advised of an employer closing the scheme to new entrants.
- An employer ceases to exist with insufficient funding and / or inadequate cover from a bond.

In order to manage these risks we have Service Level Agreements with scheme employers to ensure that the Administering Authority holds up to date information about scheme membership. In addition a Governance Policy Statement has been published which clearly outlines the governance arrangements for the Shropshire Fund.

Other Financial risks

We undertake rigorous monitoring of the investment performance of our managers and carefully monitor other financial events which may affect the financial performance of the Scheme to reduce the risk of any of the following:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Pay and price inflation are significantly more or less than anticipated
- Employer's contribution rates may increase
- Investment Fund Managers fail to achieve performance targets over the longer term.





Castle Gates House in Shrewsbury

Originally located on the site of Newport's house on Dogpole but was dismantled and re-erected in the seventeenth century by the Earl of Bradford.



Investments

Investment of funds

The Fund pursues a policy of managing risk by diversifying both investments and investment managers. During the year the Fund appointed Aon Hewitt as its investment consultant. Aon Hewitt in conjunction with Officers and Members are currently in the process of completing a formal review of the Fund's investment arrangements including a review of the current strategic asset allocation.

In May 2010 the Pensions Committee in conjunction with its investment advisers made the decision to terminate its contract with AXA Rosenberg who managed a portfolio of European Equities. This followed notification from the fund manager that an error that affected the flow of information between their risk model and their portfolio optimisation process had been identified. This error was identified in June 2009 and not reported to Shropshire County Pension Fund until April 2010. The Fund is due to receive compensation for this error in 2011/12.

It was agreed by Pensions Committee to move the assets to a European (ex UK) index tracking portfolio managed passively by Legal & General in May 2010. This will be reviewed again as part of Aon Hewitt's strategic asset allocation review outlined above.

Assets are held by the Fund in order to achieve returns consistent with the cost of future pension liabilities as assessed by the actuary at the 2010 valuation. For 2010/11 the Fund's strategic allocation was as follows and did not change during the year:

Fixed Interest Stocks	25% of Fund
Equities	55% of Fund
Alternatives (e.g. Property, Hedge Funds)	20% of Fund

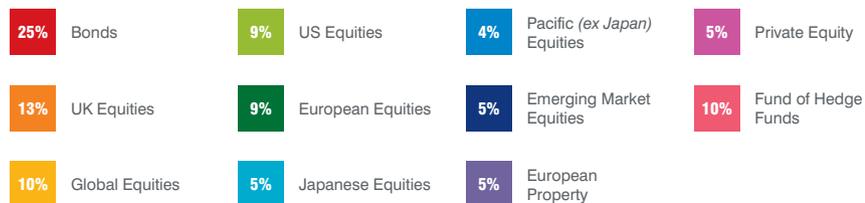
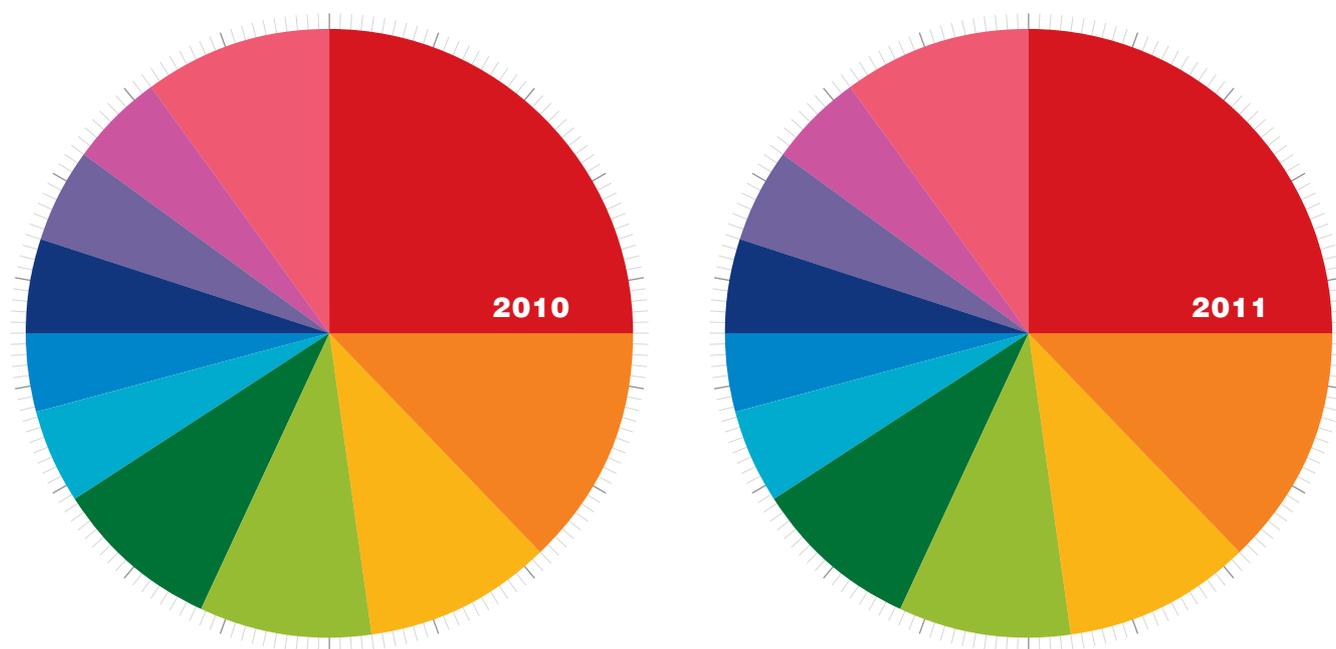
Fixed Interest Stocks (*also known as Bonds*) are generally considered to be less risky as returns are less volatile than Equities. Bonds are deemed to closely match liabilities as they are both valued on the same basis. Over longer periods, investment returns achieved by Bonds are expected to be lower than those achieved by Equities.

In April 2011 the Fund appointed an Infrastructure Manager, Global Infrastructure Partners, to manage a 3% allocation of the Fund following a tender process. This change was made possible by reducing the allocation of UK Equities. It is expected that this appointment will help maintain the high standards expected from Shropshire's investment managers.

The Fund passively hedges 50% of its overseas currency exposure. This is designed to eliminate some of the risks in holding an increased proportion of overseas investments. The Fund's Global Custodian, Northern Trust, implements a passive currency hedging programme for the Fund.

The Fund also employs a cash equitisation programme with the aim of reducing risk by maintaining the Fund close to its strategic asset allocation and minimising the potential drag on investment performance caused by holding cash. This programme is provided by Russell Investment Group.

Asset allocation as at 1 April 2010 & 31 March 2011



The following table shows the managers responsible for individual portfolios and the value of the Funds they manage.

Spread of Assets between Fund Managers

Fund Manager	% of Fund	Value of Fund Held (£m)	Portfolios Held
Majedie Asset Management	14.43	149.860	UK Equities
PIMCO Europe Ltd	9.90	102.791	Global Aggregate Bonds
MFS	9.69	100.591	Global Equities
Goldman Sachs Asset Management	9.50	98.631	US Equities
Legal & General Investment Managers	8.49	88.165	European Equities
Legal & General Investment Managers	8.31	86.258	UK Index Linked Bonds
Man Investment Ltd	5.57	57.826	Hedge Fund
F&C Management Ltd	5.14	53.427	Emerging Markets
HarbourVest Partners Ltd	4.73	49.141	Private Equity
Martin Currie Investment Management Ltd	4.62	47.981	Pacific Equities
Baillie Gifford & Co	4.33	44.927	Japanese Equities
Strategic Fixed Income	4.06	42.202	Global Bonds
Aberdeen Property Investors	3.82	39.646	Property Unit Trusts
Blackrock	3.32	34.522	Hedge Fund
Russells Investment Group	3.19	33.096	Futures
Other	0.05	0.486	Other
Total Assets Held by Fund Managers	99.15	1029.550	
Net Current Assets	0.85	9.003	Net Current Assets
Total Fund	100.00	1038.553	

Major Shareholdings at 31 March 2011

UK Equities



UK

01. Royal Dutch Shell
02. Vodafone Group
03. BP
04. GlaxoSmithKline
05. HSBC Holdings
06. Unilever PLC
07. Astrazeneca
08. Pearson
09. BAE Systems
10. National Grid

Overseas Equities



Overseas

11. Samsung Electronic
12. Exxon Mobil Corp
13. CNOOC Ltd
14. China Construction
15. Microsoft Corp
16. Hyundai Mobis
17. Chevron
18. ConocoPhillips
19. Taiwan Semicon
20. Canon

VALUE HELD £M

% OF FUND

Investment Performance

The last year has seen modest returns in stock markets around the world. During the year the Shropshire Fund increased in value by over £87 million to be valued at £1.039 billion at the end of the year. The Fund increased in value by 8.2% over the year outperforming its benchmark by 1.2%.

The Shropshire Fund benefited from strong investment returns in a number of markets including Private Equity where the Fund's investments increased in value by 15% in the year. The Fund has also achieved strong returns in Pacific Basin (*ex Japan*) Equities which delivered an investment return of 13% over the year. UK and US Equities also achieved returns of over 9% over the year.

All asset classes with the exception of Japanese equities delivered positive returns during the financial year. The Fund's Japanese equities portfolio was impacted by Japan's biggest ever earthquake, tsunami and nuclear meltdown which nobody could have predicted.

The Fund's investments in Global Bonds performed strongly delivering an investment return of 7.2%. Hedge Fund managers also delivered returns of over 6% during the year.

Graph 01

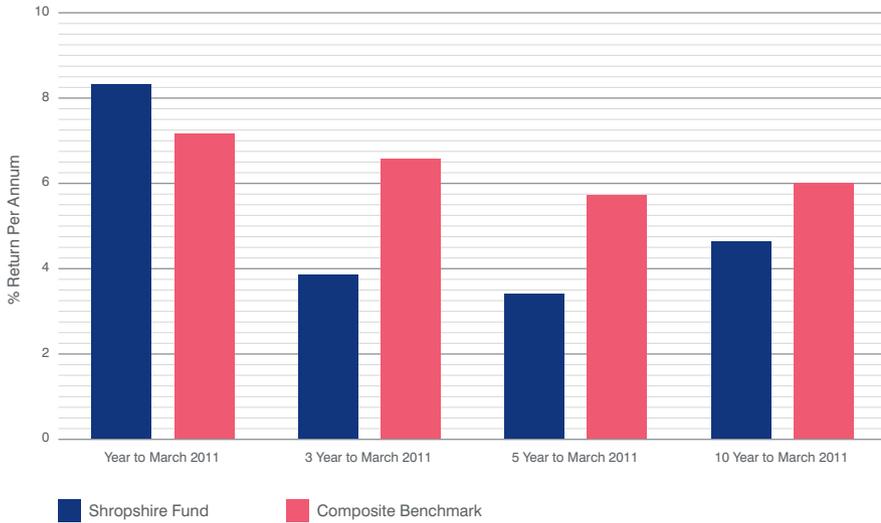
Shows whole fund investment returns compared with the benchmark. The stock markets that make up the benchmark showed positive returns in 2010/11 of 7%. The Fund increased in value by 8.2% over the year outperforming its benchmark by 1.2%. Overall the Fund has increased in value by an average of 4.7% per annum over the last 10 years.

Performance data used in this report is provided by Northern Trust who supply independent confirmation of the investment performance of individual managers on the Fund's behalf.

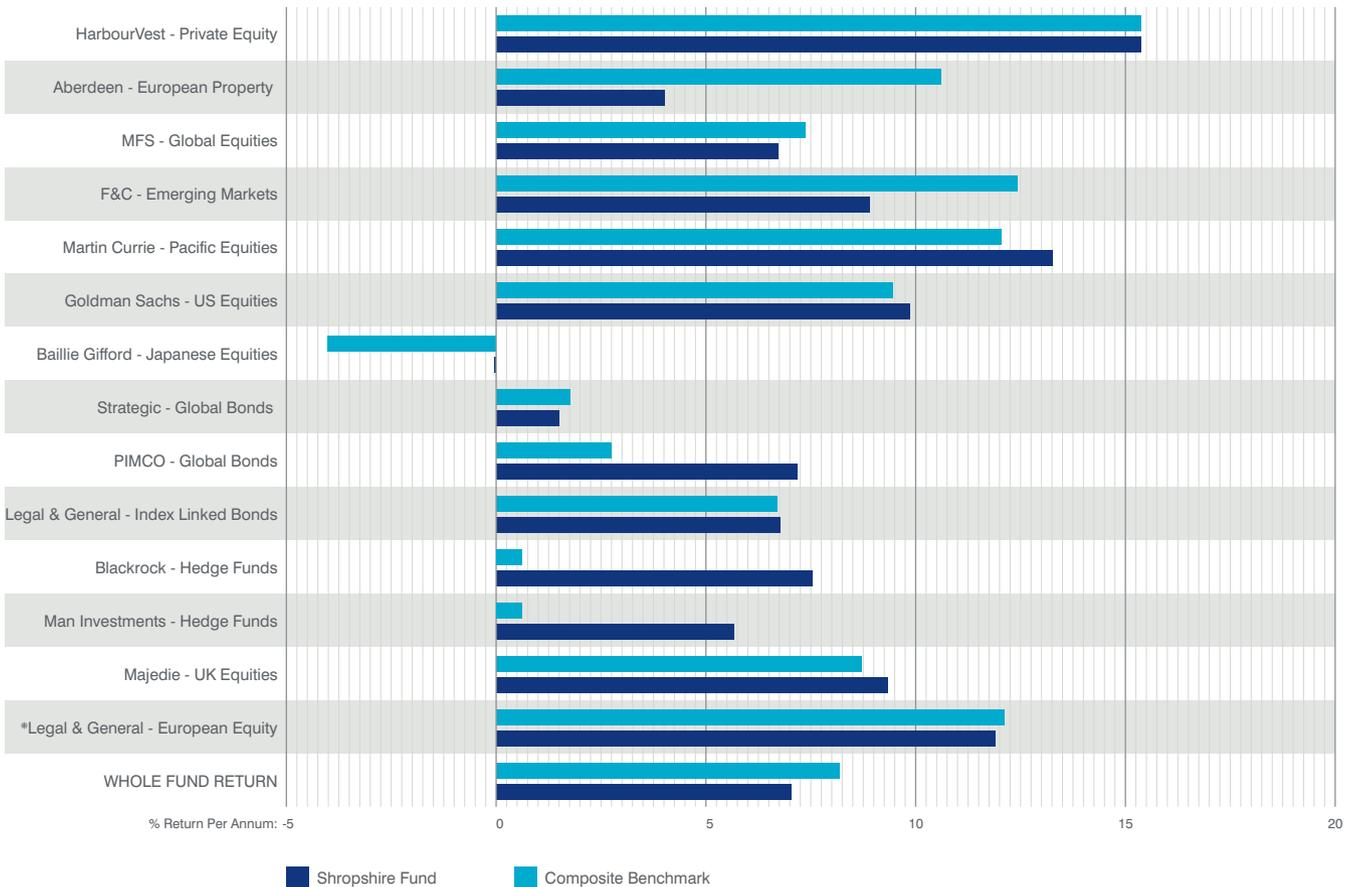
Graph 02

Individual portfolio managers are given performance benchmarks related to the indices of the assets in which they invest or an absolute return benchmark where this is more appropriate. The graph shows Manager performance compared to their benchmark for the year.

Graph 01: Whole fund performance



Graph 02: Individual Fund Manager Performance *New manager appointed 04/05/10. Figures based on period 04/05/10 to 31/03/11



Corporate governance & socially responsible engagement

The Shropshire County Pension Fund takes corporate governance and social responsibility seriously. Whilst the Pensions Committee has an overriding duty to consider its financial responsibilities above any other considerations it remains committed to these important issues. Through actively voting at shareholder meetings and sustained shareholder engagement it is felt the Fund is best able to change company behaviour.

The Shropshire Fund does not restrict its investment managers in the companies in which they can invest. To do so would be contrary to the overriding financial responsibility of the Pension Committee. Furthermore, it is difficult to define a company for exclusion. For example, companies such as Boeing and Rolls Royce are often defined as arms companies but have highly profitable non-arms related aspects to their businesses. The Pensions Committee believe it is more effective to influence company behaviour from the inside as a shareholder.

Shareholder voting

The Shropshire County Pension Fund has been actively voting at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests for over ten years. During the last 12 months the Fund has voted at 73 UK and 183 US company meetings using independent best practice advice from Pensions Investment Research Consultants Ltd (*PIRC*).

The Fund believes that good governance is an important element in reducing the risk of corporate failures in the future. It also believes that over the long term, commitment to corporate best practice will enhance investment returns. As shareholders, we have a fiduciary interest and a responsibility in ensuring the highest standards of governance and accountability within the companies in which we invest.

Through *PIRC* the Fund has adopted a corporate governance policy based on codes of best practice and governance reports. The Fund has incorporated the recommendations of the Combined Code on internal controls and the Higgs report on roles and responsibilities of directors.

During the last year the Fund's voting activity has continued to focus on encouraging the boards of listed companies to be transparent and accountable, maintain effective systems of internal control and adopt fair remuneration structures.

Socially responsible engagement

The Shropshire Fund is addressing its social responsibility through a strategy of responsible engagement with companies. As a shareholder, the Shropshire Fund is a part owner in a large number of UK companies and by entering into dialogue with these companies it is felt that there is potential to achieve change from the inside. However, it is also recognised that there are certain industries and sectors where engagement is less effective.

Given that the Fund does not have the resources to regularly visit the companies itself, an external advisor has been employed to develop an engagement programme. F&C Asset Management provide this responsible engagement overlay on the Fund's UK Equities portfolio. F&C enter into dialogue with companies on the Fund's behalf to put to them the case for improved financial performance through better management of the negative impacts they might have on the environment and society in general.

For example, F&C have alerted Asia's largest oil palm growers IOI Group and Sime Darby, and consumer brands Nestle, Unilever and Kraft to expect tighter government policies, encouraging them to curb deforestation linked to palm oil production. As a result Unilever has led the way by committing to sourcing 100% of palm oil from sustainable certified sources, while Nestle has followed suit and also announced it will improve supplier practices.

Local authority pension fund forum

Shropshire remains a committed and active member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF brings together 53 public sector pension funds representing more than 75% of local government pension funds when measured by assets. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards in corporate governance among the companies in which they invest.

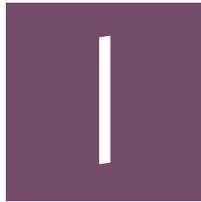
As a member of the Forum the Shropshire Fund has a stronger voice in influencing the companies in which it invests. Over the last 12 months our work with the Forum has included the following areas:

Climate Change and Greenhouse Gas Emissions

Climate change is now recognised by government, business and investors as a major risk for companies in the medium to long term. During the last year the Forum has continued to actively engage with companies from the oil and gas and transport sectors on sector-specific climate change risks and their mitigation. The Shropshire Fund as shareholder and member of LAPFF is actively encouraging companies to reduce emissions.

Response to BP Gulf of Mexico oil spill

The LAPFF has engaged with BP since 2006 on its health and safety management, including promoting the linkage of health and safety management to executive incentives. After the Gulf of Mexico oil spill in 2010, BP announced its intention to conduct a fundamental review of how the group incentivises business performance, including reward strategy, with the aim of encouraging excellence in safety and risk management. LAPFF has met with the BP chairman during 2010 and is seeking a meeting with the new CEO and head of safety. LAPFF's ongoing engagement with BP will continue and will take account the worldwide risk management issues for BP.



Independent opinions

Statement by Consulting Actuary

Accounts for the year ended 31 March 2011

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (*Administration*) Regulations 2008.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £951 million represented 81% of the Funding Target of £1,177 million at the valuation date. The valuation also showed that a common rate of contribution of 11.6% 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 5.9% of pensionable pay for 19 years. This would imply an average employer contribution rate of 17.5% 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 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (*other than ill-health retirements*) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (*FSS*). In particular, there were variations in the approach adopted in setting the Funding Target for certain employees. Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the *FSS* consultation process.

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	7.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (<i>in excess of Guaranteed Minimum Pension</i>)	3.0% per annum	3.0% per annum

The assets were assessed at market value.



John Livesey
Fellow of the Institute
& Faculty of Actuaries
Mercer Limited
June 2011

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £1,326 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,223 million.

Statement of Responsibilities for the Statement of Accounts



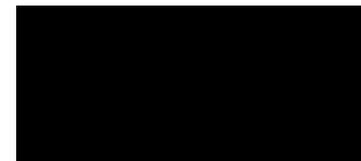
Shropshire Council's Responsibilities

Shropshire Council, as administering authority for the Shropshire County Pension Fund, is required to:

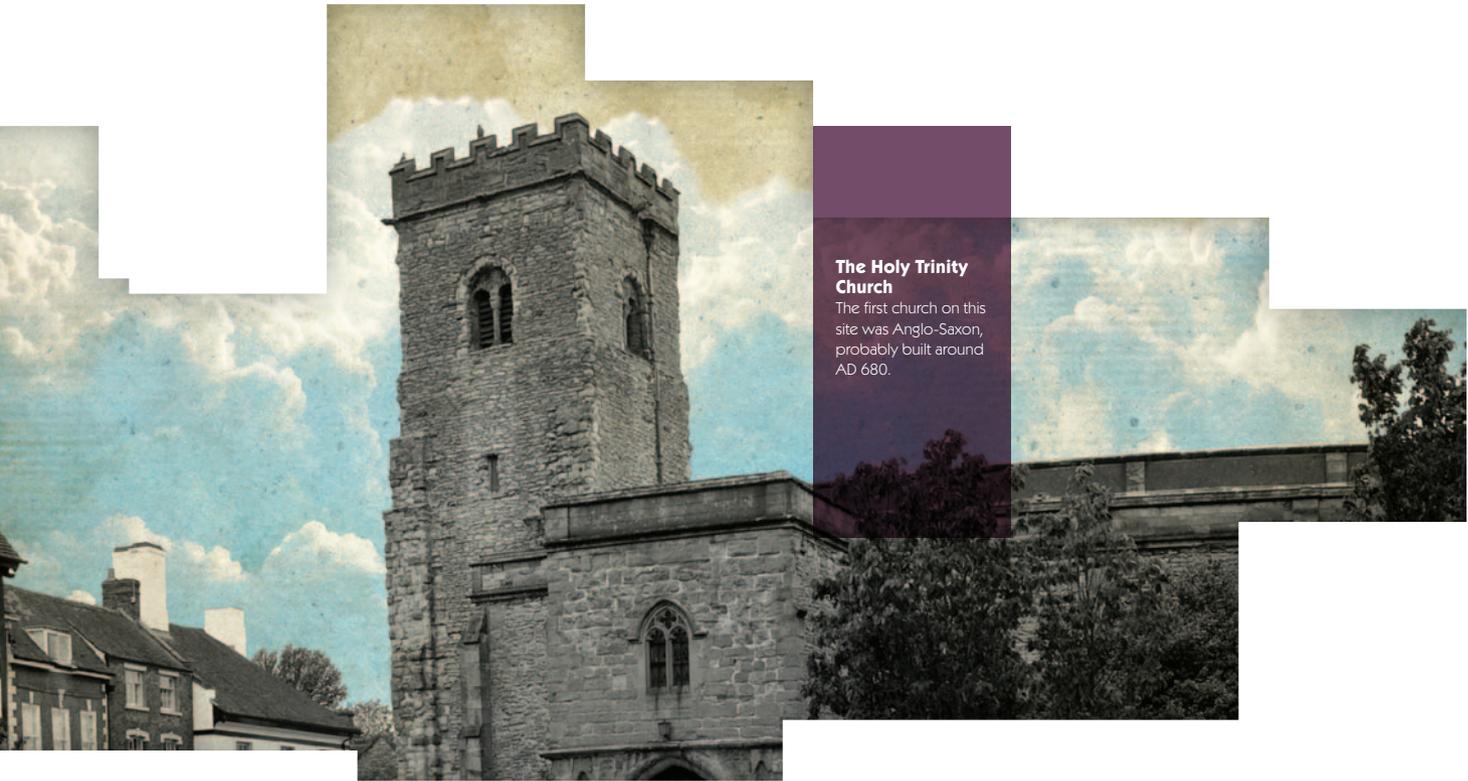
- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, the responsibility of Chief Financial Officer is allocated to the Scheme Administrator;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approved by Pensions Committee

The Statement of Accounts was approved at a meeting of the Pensions Committee on 15 September 2011.



Malcolm Pate
Chair of Pensions Committee
15 September 2011



The Holy Trinity Church

The first church on this site was Anglo-Saxon, probably built around AD 680.

Responsibilities of Interim Scheme Administrator as Chief Financial Officer

The Scheme Administrator is responsible for the preparation of the Shropshire County Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("*the Code of Practice*").

In preparing this Statement of Accounts, the Interim Scheme Administrator has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Interim Scheme Administrator has also:

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

Certificate of the Chief Financial Officer

I hereby certify that the Shropshire County Pension Fund Statement of Accounts presents a true and fair view of the financial position and the income and expenditure of the Fund for the year ended 31 March 2011 and also that the Statement of Accounts complies with the requirements of the Accounts and Audit Regulations 2003, as Amended 2011.



James Walton
Financial Advice Manager & Interim
Scheme Administrator
15 September 2011

Independent auditor's report to the members of Shropshire County Pension Fund

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Shropshire County Pension Fund Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Financial Advice Manager and Interim Scheme Administrator and auditor

As explained more fully in responsibilities of the Interim Scheme Administrator as Chief Financial Officer, the Interim Scheme Administrator is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (*UK and Ireland*). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (*Administration*) Regulations 2008 and related guidance.



Grant Patterson
Officer of the Audit Commission

Opus House
Priestley Court
Staffordshire Technology Park
Beaconside
Staffordshire
ST18 0LQ

15 September 2011

G

Glossary of terms

Actuary: An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Additional Voluntary Contributions (AVC): An option available to individuals to secure additional pension benefits by making regular payments in addition to the basic employee contribution payable.

Admission Bodies: Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Fund and the relevant body.

Benchmark: A yardstick against which the investment performance of a fund manager can be compared, usually the index relating to the particular assets held.

Cash Equitisation: A technique using financial futures to minimise the drag on investment performance by holding cash.

Corporate Bonds: Investment in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.

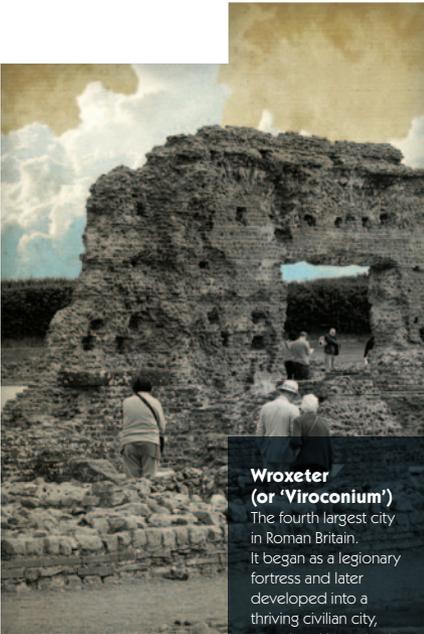
Currency Hedging: A technique using forward currency contracts to off set the risks associated with the changing value of currency on the Funds overseas investments.

Custody: Safe-keeping of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide other services according to the client's instructions.

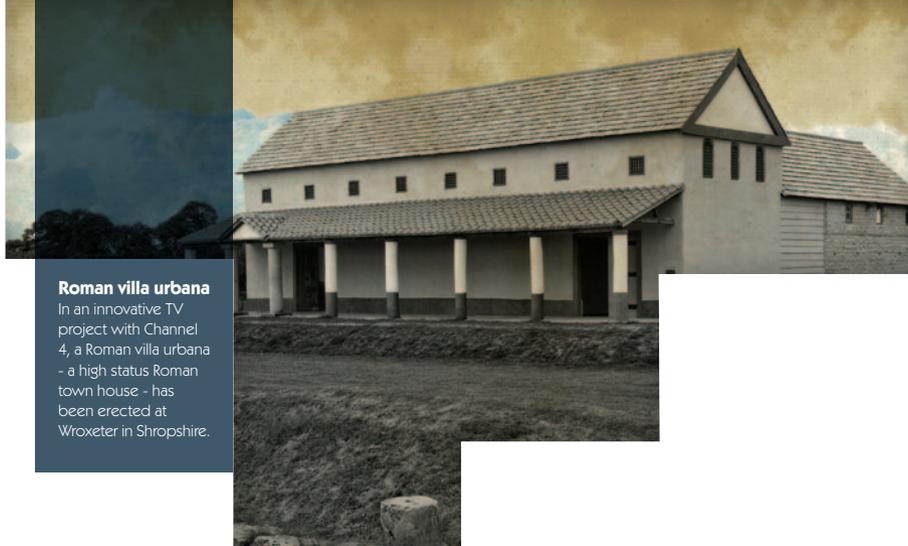
Deferred Pension: The inflation linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before the normal retirement age.

Designated Bodies: An organisation which must make a statutory resolution covering some or all of its employees, stating that they may be scheme members.

Emerging Markets: Developing economies in Latin America, Africa, Asia, and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.



Wroxeter (or 'Viroconium')
The fourth largest city in Roman Britain. It began as a legionary fortress and later developed into a thriving civilian city, populated by retired soldiers and traders



Roman villa urbana

In an innovative TV project with Channel 4, a Roman villa urbana - a high status Roman town house - has been erected at Wroxeter in Shropshire.

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at Shareholders' meetings.

Fixed Interest Securities:

Investments in mainly government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Fund of Funds: Funds whose principle activity is investing in other investment funds. Investors in funds of funds can increase their level of diversification and take advantage of the experience and research capability of the fund of funds manager.

Futures: A contract made to purchase or sell an asset at an agreed price on a specified date.

Hedge Funds: An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.

Infrastructure: A relatively new asset class often regarded as a stable source of cash flow with limited correlation to other asset classes providing diversification and low volatility. Its inflation hedging and long duration characteristics have also added to its attraction for investors. Infrastructure encompasses two broad groups: economic (*transportation, utilities and communications*) and Social (*schools, hospitals, prisons and government buildings*).

Index linked Securities: Investment in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Market Value: The price at which an investment can be bought or sold at a given date.

Myners Principles: A set of 6 principles which Pension Schemes are required to consider and publish their degrees of compliance. The principles require Pension Schemes to disclose, for example, the effectiveness of decision making, performance management reporting and approach to shareholder voting.

Pooled Investment Vehicles: Any fund in which multiple investors contribute assets and hold them as a group.

Private Equity: Investments into new and developing companies and enterprises which are not publicly traded on a recognised stock exchange.

Return: The total gain from holding an investment over a given period, including income and increase (*decrease*) in market value.

Scheme Employers: Councils and other similar bodies whose staff automatically qualify to become members of the Pension Scheme.

Stakeholders: Members who have a financial interest in the Fund's investments.

Transfer Value: These are sums which represent the capital value of past pension rights which a member may transfer on changing pension schemes.

Unit Trust (Managed Funds): A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Appendices

Appendix 01

01 Governance Compliance Statement

Appendix 02

02 Funding Strategy Statement

Appendix 03

03 Statement of Investment Principles

Appendix 04

04 Communications Policy Statement

Appendix 01

Governance Compliance Statement



Agreed by Pensions Committee on 20th June 2011

Introduction

1. This Statement has been prepared by Shropshire Council (*the Administering Authority*) to set out the governance compliance statement for the Shropshire County Pension Fund (*the Scheme*), in accordance with The Local Government Pension Scheme (*Administration*) Regulations 2008 (*Regulation 31 refers*), and its predecessor, Regulation 73A of the Local Government Pension Scheme Regulations 1997 (*as amended*).
2. It has been prepared by the administering authority in consultation with appropriate interested persons.

Purpose of Governance Compliance Statement

3. The regulations on governance compliance statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out ...
 - a) whether it delegates its functions, or part of its functions, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;
 - b) and, if so, it must state:
 - the terms of reference, structure and operational procedures of the delegation;
 - the frequency of any committee/sub-committee meetings;
 - whether the committee/sub-committee includes representatives of employing authorities (*including non-scheme employers*) or scheme members and, if there are such representatives, whether they have voting rights.
 - c) the extent to which delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
4. Thus, the policy statement should include information about all of the administering authority's pension fund governance arrangements. Information about the representation of employers should cover any arrangements for representing admitted body employers (*non-scheme employers*).

Governance of Shropshire County Pension Fund

5. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the Shropshire Council governance structure that is set out below.
6. The Pensions Committee was established in 1994

with responsibility for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the Council and is linked to Full Council by virtue of the Chairman or Vice Chairman being a Shropshire Council member.

SHROPSHIRE COUNCIL

Pensions Committee (*non-executive committee*)

The Pensions Committee reports to Full Council. It meets formally at least quarterly and more frequently if formal decisions are required. In between meetings Chairman's approval may be sought.

Terms of Reference:

- a) To advise the Council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government (*Administration*) Regulations 2008 and the Local Government Pension Scheme (*Management and Investment of Funds*) Regulations 2009;
- b) To advise employing organisations and employees within the Fund of their benefits, contributions and the financial performance of the Fund;
- c) To advise and assist the Council on the determination of any matters of general policy relating to the investment of the Pension Fund;
- d) To approve the annual report and accounts of the Fund and hold an Annual Meeting.

7. The Pensions Committee formal terms of reference (*above*) are interpreted as including:

- Admission of employing organisations to the Fund where discretion is permitted;
- Appointment of external advisors and actuaries to assist with the administration of the Fund, and of external managers for the management of the Fund's portfolio of assets;
- Approval of the periodic formal valuation of the Fund;
- Consideration of the advice of the Council's external investment advisers and of the Scheme Administrator;
- Determination of the objectives and general investment approach to be adopted by external fund managers;
- Review and monitoring of investment transactions and the overall investment performance of the Fund;
- To develop and implement shareholder policies on corporate governance issues;
- To review and approve on a regular basis the content of the Statement of Investment Principles and to monitor compliance of the investment arrangements with the Statement;
- To review the Funding Strategy Statement in detail

at least every three years ahead of the triennial valuations being carried out, in order to inform the valuation process;

- To review and approve on a regular basis the Communications Policy for the Fund;

Representation

8. Representation on the Pensions Committee is as follows:

Organisation	Allocation
Shropshire Council	4
Borough of Telford and Wrekin Council (co-opted)	2
Employees (co-opted)	2 (non-voting)
Pensioners (co-opted)	1 (non-voting)

The Administering Authority (*Shropshire Council*) always holds either the Chairmanship or Vice Chairmanship. The position of Chairman and Vice Chairman rotate between Shropshire Council and the Borough of Telford & Wrekin on a one year basis.

The Committee is supported by the advice from an independent advisor and investment consultant – one advises on strategic issues and overall investment approach and the investment consultant provide analysis and advice of a technical nature in relation to portfolio construction, interpretation of performance measurement and the monitoring of investment managers.

The Corporate Head of Finance & Commerce has responsibilities under S151 of the Local Government Act 1972 and provides financial (*non-investment*) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

Legal advice is provided by the Corporate Head of Legal and Democratic Services.

The remit for the LGPS vests formal statutory responsibility for the LGPS and fund investment with the administering authority which is answerable for the effective and prudent management of the scheme.

9. The power to co-opt rests with the Council in full assembly and not with committees, although in practice the selection of persons to serve as co-opted members is usually left to committees. The co-opted members from the Borough of Telford & Wrekin are voting members.

10. The Pensions Committee can, if so minded, elect a co-opted member as its Chairman but in this instance the Chairman is unable to:

- attend council meetings and pilot Pension Committee proposals through the full assembly;
- answer questions put to him/her there;
- represent the Pensions Committee on other committees

However, a Shropshire Council Vice-Chairman is able to deputise for the co-opted member Chairman.

Reasons for Current Representation

11. Myrners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Pensions Committee are offered the Employers Organisation training. The Fund holds an annual training day when members of the Committee are exposed to presentations on topical issues, such as hedge funds, private equity, actuarial valuations, infrastructure etc.

12. In the CIPFA Guidelines relating to the governance regulations, it states that...

'As things stand, Section 7 of the Superannuation Act 1972 does not permit the Secretary of State to make regulations which impact on the constitution and membership of local authority committees. There are no plans at present to amend local government law to change the provisions regarding the composition of investment or pension committees. This must be a matter for individual fund administering authorities to consider, reflecting local circumstances and choice. But in exercising that choice, it is important that authorities recognise the desirability of achieving an effective and comprehensive level of stakeholder representation within the LGPS nationally.'

'The challenge for pension fund panels is to find ways of

engaging those people with an interest in decisions made without undermining the operation of the Panel. The Funding Strategy Statements will encourage greater emphasis on consultation and if local authority employers contributing to a fund do not have representation on the panel or committee, be it voting or non voting, then there would be a need to demonstrate they were being engaged in other ways.

For example by the holding of

- bi-lateral discussions, or similar forums, involving employers and other stakeholders;
- an annual general meeting for all employers;
- a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation'.

13. The Myners principle, the CIPFA guidance and the statutory position have led the Council as administering authority to conclude that current representation provides the appropriate balance between accountability and inclusion.

Delegation to Officers

14. Under the Local Government Pension Scheme Regulations 1997 the Shropshire Fund is required to formulate a policy on local discretions. These discretions were approved by Pensions Committee in March 1998 and have been updated following subsequent regulation changes. The latest version is listed in Appendix A.

15. In addition to these local fund-wide discretions there are certain employer discretions which under regulations employers have the authority to determine. These discretions are employer specific.

Arrangements Outside of Formal Governance

16. The Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. The arrangements include:

With Employing Authorities

17. The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this to endeavour to maintain stable employers' contribution rates. Employing Authorities are pro-actively consulted on the Funding Strategy Statement on which the valuation and employer contribution rates are based.

18. The ratio of membership from the various employing authorities in the Shropshire County Pension Fund is:

Organisation	Contributors %
Shropshire Council	53
Borough of Telford & Wrekin Council	28
Parish / Town Councils	1
Other Scheme Employers	8
Admitted Bodies	10
Total	100

The Shropshire County Pension Fund involves all employers, irrespective of size, in consultations and communications.

19. Over the last decade, consultation with employing authorities on pension fund investment, actuarial matters and proposed central government changes to the regulations has evolved. A large step forward was afforded by the introduction of Statements of Investment Principles and Funding Strategy Statements, the consultation process surrounding them, and their accessibility to the Council's web site.

20. All employers are invited to regular employer meetings which provide information on changes in regulations, investment matters and actuarial valuations. All employing authorities are also kept abreast of events, by e-mail, and they are encouraged to get in touch if they have questions.

21. The Fund undertakes annual monitoring of its actuarial valuation position. Employer organisations are kept up to date of the latest position and its likely impact on employer contributions at the next formal valuation. At triennial valuations the Scheme Actuary presents to the employers meeting to explain changes in the funding level and implications on employer contribution rates. Employers meetings are also used to discuss the Funding Strategy Statements and data requirements for FRS17.

22. An annual meeting is held each year to which all employers are invited. The meeting outlines investment performance and any changes to the Fund's investment strategy as well as regulation changes and administration issues. A Fund Manager also presents at the meeting and allows employers

and scheme members the opportunity to ask questions.

With Scheme members

23. Employees are represented on the Pensions Committee by two non-voting members (*both Union members*) who have an active role in the selection of managers, performance monitoring, investment strategy and responses to consultations on regulation changes. Pensioners are represented by a non-voting pensioner member.
24. All employees, as well as representatives from employer organisations, are invited to the Annual Meeting each year. All pensioners and deferred members also receive an invite to the Annual Meeting. Three meetings are held in November at locations in Telford and Shrewsbury. An early evening session is held to enable attendance from employees involved in front line services. The meeting is well attended and provides a useful opportunity for members to meet their Employee or Pensioner Representative, learn about the fund and ask questions.
25. Every member of the scheme receives Pensions Newsletters, together with an annual report and financial summary of the scheme in leaflet form. The Pension Fund's web site includes further information on:
 - Full annual report and financial summary
 - Statement of Investment Principles
 - Myners Compliance
 - Funding Strategy Statement
 - Communication Policy
 - Actuarial Valuation
 - Investments
 - Pensioner meetings
26. The Pensions Section has a very good informal working relationship with the unions, and is always there to assist with any problems in understanding the regulations.

Compliance against Best Practice Guidelines

27. The current governance arrangements which were established in 1994 adhere to the best practice guidance given by the Secretary of State. The extent to which delegation complies with the best practice guidance is shown in Appendix B.

Appendix A: Shropshire County Pension Fund - Policy on Local Discretions

Discretion	Guideline	Delegated To
Payment of death grant	The death grant will normally be paid to or amongst nominated beneficiaries. Where no nomination has been made, we would normally pay a death grant to the deceased's personal representatives (<i>in that capacity</i>). Where both of these options are seen to be inappropriate or impossible perhaps because nominees have died, circumstances appear to have changed since the nomination was made or other persons claiming some or all of the death grant or would seem to have a claim, we may pay the grant as we see fit to or between surviving nominees or personal representatives or any person appearing to us to have been a relative or dependant of the deceased at any time.	Scheme Administrator
Child's pension following education break	To be reinstated where break does not exceed one academic year	Scheme Administrator
Split of children's pensions	To be paid in equal proportions	Scheme Administrator
Payment of children's pensions to parent or guardian	To be paid to parent or guardian unless requested otherwise up to age 18. To be paid to child from age 18 except in exceptional circumstances.	Scheme Administrator
Commutation of small pensions	To be commuted in all cases where annual value is below Inland Revenue limits	Scheme Administrator
Commutation – serious ill health	To be commuted with agreement of pensioner	Scheme Administrator
Medical requirements	To be based on advice from the Council's Occupational Health Physician or one of the doctors on the list as approved for the giving of certificates regarding permanent incapacity.	Scheme Administrator
Minimum level of Additional Voluntary Contribution	None	Scheme Administrator
Employer's Contributions	To be paid within 1 month of the end of the month to which they relate after which time interest will be chargeable	Scheme Administrator
Charge for estimate of transfer of AVC to main scheme	£25 per estimate	Scheme Administrator
Recovery of Contribution Equivalent Premium	To be recovered in all cases permitted by the regulations	Scheme Administrator
Acceptance of transfer value	To be refused if insufficient to meet Guaranteed Minimum Pension liability	Scheme Administrator
Overpayment of pension	Overpayments of less than £100 not to be recovered where they occur during the month of death and recovery is likely to cause hardship or be impractical. Write-offs to be in accordance with the Financial Rules of the Administering Authority, Shropshire Council.	Scheme Administrator

Appendix B: Governance Compliance Statement

The best practice guidelines on pension fund governance that has been issued by Communities and Local Government and the extent of the Council's compliance with each of the guidelines is set out below.

I. Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

Fully compliant

The Council delegates the management of the Shropshire County Pension Fund to the Pensions Committee.

- b) That representatives of participating LGPS employers, admitted bodies and scheme members (*including pensioner and deferred members*) are members of either the main or secondary committee established to underpin the work of the main committee.

Fully compliant

The Pensions Committee includes a representative from Shropshire Council and Borough of Telford and Wrekin Council. Representatives of employees and pensioners are also members of the Pension Committee.

- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

Not applicable.

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Not applicable

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

2. Representation

- a) That all key stakeholders are afforded the opportunity to be represented within the main committee or advisory panel. These include:
- i) employing authorities (*including non-scheme employers, eg admitted bodies*)
 - ii) scheme members (*including deferred and pensioner scheme members*),
 - iii) independent professional advisors
 - iv) expert advisors (*on an ad-hoc basis*)

Fully compliant

The Pension Committee includes representatives from its main employers which represent 81% of active members. The Committee includes two co-opted employee representatives and a pensioner representative. The Committee is supported by the advice of an independent advisor and investment consultant.

- b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Fully compliant

All Pension Committee members have equal access to all papers and meetings, and are able to participate in training, and contribute to the Committee's decision-making process.

3. Selection and role of lay members

- a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Fully compliant

All Pension Committee members are given training on their responsibilities and are aware of the terms of reference and remit of the Pensions Committee.

4. Voting

- a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Fully compliant

The elected councillor representatives, from Shropshire Council and Borough of Telford and

Wrekin Council representative all have voting rights. The Constitution of the Administering Authority requires voting members to be democratically elected. The employee and pensioner representatives are therefore co-opted non-voting members of the Committee.

5. Training/ Facility Time/ Expenses

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.

Fully compliant

The Pensions Committee hold an Annual Training day to which all Committee members and substitute members are invited. Training is also provided to new members and on an ad hoc basis as required. All Pensions Committee members are covered by their respective Council's scheme for reimbursement of expenses for committee members.

- b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Fully Compliant

All Pensions Committee members have equal access to training and reimbursement of expenses.

6. Meetings (Frequency/Quorum)

- a) That an administering authority's main committee or committees meet at least quarterly.

Fully compliant

The Pensions Committee meets quarterly. Additional meetings are arranged for specific items of business as required.

- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

Not applicable

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that having all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

Fully compliant

The Fund includes employee and pensioner representatives on its main Committee. The Fund also hold an Annual Meeting to which all employers, employees, deferred members and pensioners are invited.

7. Access to information, documents and advice

- a) That subject to any rules in the Councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.

Fully compliant

All Pensions Committee members have equal access to all papers and meetings.

8. Scope

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Fully compliant

The Pensions Committee terms of reference are multi-disciplined and include the monitoring of investments, scheme administration and general scheme issues.

9. Publicity

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Fully compliant

The Pension Fund Governance Policy Statement is published on the Administering Authority's web-site and hard copies are available on request.

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Funding Strategy Statement



Agreed by Pensions Committee on 24th November 2010

This Statement has been prepared by Shropshire Council (*the Administering Authority*) to set out the funding strategy for the Shropshire County Pension Fund (*the Scheme*), in accordance with Regulation 35 of the Local Government Pension Scheme (*Administration*) Regulations 2008 (*as amended*) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (*CIPFA*) Pensions Panel.

1. Introduction

1.1 The Local Government Pension Scheme (*Administration*) Regulations 2008 (*as amended*) (“*the Regulations*”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS are set out below:

- After consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their funding strategy statement.
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose, and
 - the Statement of Investment Principles (*SIP*) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (*Management and Investment of Funds*) Regulations 2009 (*as amended*).
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

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

1.3 The LGPS is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (*the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)*). The required levels of employee contributions are also specified in the Regulations.

1.4 Employer contributions are determined in accordance with the Regulations (*principally Regulation 36*) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as

to “*secure its solvency*”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

1.5 Shropshire’s original FSS was published in 2005 following consultation with the scheme employers. This Statement has been updated to incorporate the key assumptions to be used in the 2010 actuarial valuation.

2. Purpose of the FSS in policy terms

2.1 The purpose of this Funding Strategy Statement is:

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

2.2 Whilst the position of individual employers must be reflected in the FSS, it must remain a single strategy in order for the Administering Authority to implement and maintain it efficiently.

3. Aims and purpose of the Scheme

The main aims of the Scheme are to:

- Enable employer contribution rates to be kept as low and as stable as possible.
- To aim for a 100% funding level.

In pursuing these aims the Fund intends to:

- Manage employers’ liabilities effectively
- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the LGPS is to:

- receive monies in respect of contributions, transfer values and investment income
- pay out scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations.

4. Responsibilities of the key parties

The Administering Authority should:

- Collect employer and employee contributions.
- Invest surplus monies in accordance with the Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the actuary.
- Prepare and maintain a FSS and a SIP, both after due consultation with interested parties.
- Monitor all aspects of the Scheme's performance and funding and amend the FSS/SIP accordingly.
- Administer member benefits and the payment of pensions.

The Individual Employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework in consultation with the Administering Authority.
- Make additional contributions in accordance with agreed arrangements, for example, to meet the costs of augmentation of scheme benefits on early retirement strain.
- Notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Scheme actuary should:

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

5. Solvency issues and target funding levels

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

5.2 The current actuarial valuation of the Scheme is effective as at 31 March 2010. The results of the valuation indicate that overall the assets of the Scheme represented 81% of projected accrued liabilities at the valuation date.

5.3 The key financial assumptions making up the funding strategy and as adopted for the 31 March 2010 actuarial valuation are in the table below.

	In respect of past service liabilities	In respect of future service liabilities
Fixed interest gilts yield:	4.5%	n/a
Index linked gilts real yield:	1.5%	n/a
Asset Out-performance Assumption Pre Retirement	3.0%	n/a
Asset Out-performance Assumption Post Retirement	1.0%	n/a
Real Earnings Inflation (<i>above CPI</i>)	1.5%	1.5%
Discount rate (<i>pre retirement</i>)	7.5%	6.75%
Discount rate (<i>post retirement</i>)	5.5%	6.75%
Price Inflation	3.0%	3.0%
Earnings Inflation	4.5%	4.5%
Pension Increases	3.0%	3.0%

Underlying these assumptions are the following key assumptions:

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

- 5.4 The asset out-performance assumption represents the allowance made, in calculating the past service liabilities, for the long term additional investment performance on the assets of the Scheme relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption for “pre-retirement” (i.e. active and deferred pensioner) liabilities than for the “post-retirement” (i.e. pensioner) liabilities. This approach allows for a gradual shift in the overall equity/bond weighting of the Scheme as the liability profile of the membership matures over time.
- 5.5 In relation to future service (i.e. calculation of the future service contribution rate) the assumptions are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. This approach means that the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In the market conditions applying as at the 2010 valuation date this means taking a more optimistic view about the cost of the accrual of future benefits when compared with the market related basis used for the assessment of past service liabilities.
- 5.6 A number of changes have been made to the demographic assumptions adopted for the 2010 valuation. The 2010 valuation takes into account increased longevity and assumes that the accelerated trend in longevity seen in recent years will continue. The assumptions made in the valuation reflect the mortality experience analysis which has been carried out by the Fund’s actuary.
- 5.7 In the light of the continued reduction in the numbers of members taking ill-health retirement, the assumption for the frequency of such retirements in future has been reduced in line with an ill health experience analysis which has been carried out by the Fund’s actuary.
- 5.8 Following the introduction of the option for members to take an increased cash sum at retirement in return for a lower pension, it has again been assumed that on average 50% of retiring members will take the maximum cash sum available and 50% will take the standard 3/80ths cash sum.
- 5.9 Full details of the assumptions adopted for the 2010 valuation will be set out in the actuary’s formal report, which is made available to all employers in the Scheme.
- 5.10 As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.
- 5.11 In 2004, the Administering Authority consulted with participating employers on the Fund’s objectives for setting individual employer contribution rates. These objectives have been updated for the 2010 actuarial valuation as follows:
- The total employer contribution rate will be made up of an element to meet the ongoing accrual of benefits for current members, plus an addition for deficit recovery (or if applicable an offset in respect of surplus). The costs of non-ill health early retirements will be recovered separately, over a maximum of three years.
 - The fund will operate a default deficit recovery period of 19 years. However, in order to allow some flexibility for employers to maintain their current contribution rates, employers will normally have some limited options to extend the deficit recovery period. Nevertheless, in current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, all employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions will be allowed.
 - A maximum deficit recovery period of 25 years will apply in any event.
 - Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
 - With effect from April 2011 employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of future accrual of benefits
- a schedule of fixed £s amounts over 2011/14, building in an allowance for increases annually in line with the valuation funding assumption for long term pay growth, in respect of the past service deficit or surplus subject to review from April 2014 based on the results of the 2013 actuarial valuation.

Where an employer is in a surplus position the fixed amount deduction from the future service rate will be subject to a threshold of £1,000 below which no deduction will be made.

- Where increases in employer contributions are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the contributions payable in the year 2010/11 will be implemented from 1 April 2011, unless it is agreed with the Administering Authority that the new rate can be implemented in steps, over a maximum period of 3 years.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme for an employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

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

- The responses made to the consultation with employers in 2004 on the FSS principles.
- The supplementary guidance on the funding strategy issued by the CIPFA Pensions Panel in November 2004.
- The need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose.
- The Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

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

- 6.1 The results of the 2010 valuation show the liabilities to be 81% covered by the current assets, with the funding deficit of 19% being covered by future deficit contributions. This is after allowing for the change in the Actuary's demographic assumptions and allowing for benefits to increase in line with CPI in future rather than RPI.

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

6.3 It is difficult and potentially costly to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgoings. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements.

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

Asset class	Strategic allocation %
Matching Assets	
UK Index Linked Bonds	10
Global Aggregate Bonds	10
Global Aggregate Bonds	5
Total Matching Assets	25
Growth Assets	
UK Equities	10
Global Equity	10
US Equities	9
Europe (ex UK) Equities	9
Japan Equities	5
Pacific (ex Japan) Equities	4
Emerging Markets Equities	5
European Property (incl UK)	5
Private Equity (fund of funds)	5
Infrastructure	3
Hedge funds (fund of funds)	10
Total Growth Assets	75
Total Fund	100

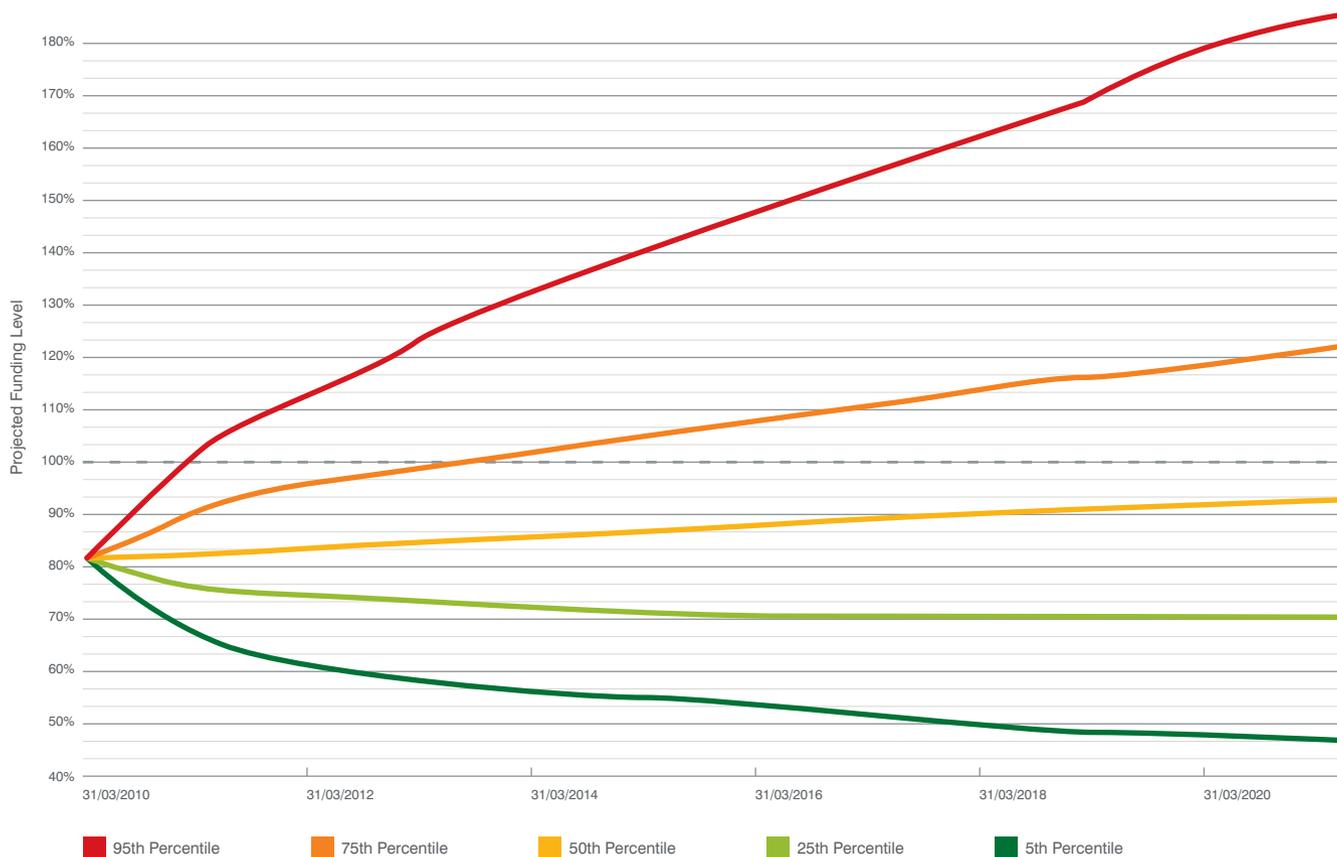
6.5 The funding strategy adopted for the 2010 valuation is based on an assumed asset out performance of 3% for liabilities pre-retirement, and 1% for post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance to keep pace with the liabilities of 2.1% per annum. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

7. Identification of risks and counter-measures

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

7.2 The Administering Authority has been advised by the actuary that the greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 2.1% per annum currently required on the basis of the 2010 valuation assumptions.

7.3 The following chart illustrates the potential variability of future funding levels, based on the funding and investment strategies currently adopted. In projecting these funding levels, typical best estimate expectations for asset returns and the variability of those returns underlying the SIP have been taken into account.



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

7.5 Financial risks

- Investment markets fail to perform in line with expectations.
- Market yields move at variance with assumptions.
- Changes in investment strategy increase the risk that the funding strategy may not be delivered.
- Investment Fund Managers fail to achieve performance targets over the longer term.
- Asset re-allocations in volatile markets may lock in past losses.
- Pay and price inflation are significantly more or less than anticipated.
- Employer's contribution rates may increase.

We undertake rigorous monitoring of the investment performance of our managers and carefully monitor other financial events which may affect the financial performance of the Scheme.

7.6 Demographic risks

- People continue to live longer lives.
- Employers permit early retirements.

In order to manage this risk the Scheme's valuation position, including demographic changes, is monitored annually in consultation with the Scheme Actuary.

7.7 Regulatory risks

- Changes to Regulation, e.g. more favourable benefits packages, potential new entrants to scheme, e.g. part-time employees.
- Changes to national pension requirements and/or HMRC rules.

In order to manage this risk changes to regulations are monitored continually.

7.8 Governance risks

- The Administering Authority is not made aware of structural changes in the employers' membership (e.g. *large falls in employee numbers, large numbers of retirements*)
- The Administering Authority is not advised of an employer closing the Scheme to new entrants.
- An employer ceases to exist with insufficient funding and / or inadequate cover from a bond.

In order to manage this risk we have Service Level Agreements with scheme employers so as to ensure that the Administering Authority holds up to date information about Scheme membership. In addition a Governance Policy Statement has been published which clearly outlines the governance arrangements for the Shropshire Fund.

8. Monitoring and Review

8.1 The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with its investment advisor and employing organisations.

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

8.3 The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. The funding strategy will be reviewed where appropriate (*other than as part of the triennial valuation process*) in the circumstances set out below.

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

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Statement of Investment Principles

Agreed by Pensions Committee on 20th June 2011



1. Introduction

The purpose of the Statement of Investment Principles (*'the Statement'*) is to document the principles, policies and beliefs by which the Pensions Committee of the Shropshire County Pension Fund (*"the Fund"*) manages the Fund's assets. This document takes account of:

- The Local Government Pension Scheme (*Management and Investment of Funds*) Regulations 2009
- The requirements of the Pensions Act 2004
- The requirements of the Occupational Pension Schemes (*Investment*) Regulations 2005;
- The principles of the Myners Code
- CIPFA guidance

The Local Government Pension Scheme (*"LGPS"*), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act. Shropshire Council is the Administrating Authority for the Fund

The Pensions Committee consulted with employing bodies and received written advice from the Fund's investment consultant, Aon Hewitt, on this statement. There are close links between this statement and two other statements. The Funding Strategy Statement (*"FSS"*) sets out the main aims of the fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund.

A copy of this Statement will be sent to each investment manager hired by the Fund, the auditor, the actuary and the investment consultant.

The Statement will be reviewed annually and when there is a significant change in the Fund's circumstances.

2. Governance

Shropshire Council has delegated to the Pensions Committee the administration of the Pension Fund, and the functions relating to local government pensions, etc., as set out in Schedule 1 to the Functions Regulations. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- ongoing monitoring and evaluation of the investment arrangements.

The Pensions Committee is made up of nine members comprising both elected councillors and non-voting employee and pensioner representatives.

Members of the Pensions Committee recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (*pensioners, employees and employers*), together with local Council Tax Payers.

2.1 Advice and Consultation

Members of the Committee receive independent investment advice from the following sources:

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt - analysis and advice of a technical nature in relation to all investment related aspects of the pension fund including (but not limited to) portfolio construction, manager monitoring and appointment, and interpretation of performance measurement information.

The Head of Finance & Commerce has responsibilities under S151 of the Local Government Act 1972 and provides financial (*non-investment*) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

2.2 Liabilities

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary of members. The Scheme is a contributory defined benefit arrangement, with active members and employing authorities contributing to the Scheme.

The value of the Fund's ongoing liabilities is sensitive to various demographic (*principally longevity*) and financial factors. The financial factors relevant to the fund's investment policy are:

- the rate of return on assets;
- salary escalation for active members;
- price inflation for pensioners; and
- long-term interest rates.

2.2 Maturity and Cashflow

The Fund remains open to new members and new accruals. Contributions are received from both active members and Employing authorities. Active members contribute on a tiered system. Employing authorities

contributions are determined based on advice from the Fund's actuary based on the triennial valuation. Cash inflows from contributions currently exceed cash outflows (*benefit payments*).

3. Objectives

The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

4. Risks

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Committee have considered the following key risks:

- asset-liability mismatch risk (*asset allocation risk*)
- the need to pay benefits when due (*cash-flow risk*)
- actions by the investment managers (*investment risk*)
- the failure of some investments (*concentration risk*)
- currency and counterparty risk
- custody risk

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (*e.g. items associated with accounting measures, contributions etc.*), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to

pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds. Each investment manager appointed by the Committee is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund.

5. Strategic Asset Allocation

The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Committee retains direct responsibility for this decision which is made on the advice of their investment adviser with input from their Fund actuary and in consultation with the Employing Authorities.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Committee formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments
- the suitability of particular investment and types of investment

The Committee will consider a full range of investment opportunities including:

- quoted and unquoted private equity
- government and non-government bonds
- property
- hedge funds and other alternative investments

The Committee further considers the legality of all investments for compliance with the LGPS.

The Committee determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund's

actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund's objectives.

5.1 Expected return on investments

The study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (*such as their expected return over long periods of time and the variability of those returns*) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (*particularly index-linked gilts*) is more closely linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the current 10 year annualised nominal return assumptions from Aon Hewitt.

Asset class	Expected Return	Volatility
UK Equities	8.6%	22.5%
US Equities	7.8%	21.0%
Europe X UK Equities	8.7%	22.5%
Japan	8.6%	22.5%
Emerging Markets	9.2%	31.5%
UK Property	8.2%	16.0%
UK Gilts (15 year duration)	3.9%	11.0%
UK Investment Grade Corporate Bonds	5.0%	16.0%
UK Index-Linked Gilts (15 year duration)	3.6%	9.0%
Global Fund of Hedge Funds	5.9%	8.0%
Global Private Equity	9.0%	29.0%
Inflation (CPI)	2.6%	-

5.2 Current strategy

The Fund's current strategic asset allocation was agreed by Pensions Committee in March 2009.

Asset class	Allocation
Matching assets	25%
UK Index Linked Bonds	10%
Global Aggregate Bonds	10%
Global Government Bonds	5%
Growth assets	75%
UK Equity	10%
Global Equity	10%
US Equity	9%
Europe ex UK Equity	9%
Japan Equity	5%
Pacific ex Japan Equity	4%
Emerging Markets Equity	5%
European (Incl UK) Property	5%
Private Equity	5%
Infrastructure*	3%
Hedge Funds	10%

5.3 Rebalancing policy

Russell Investments is employed to manage fund rebalancing. A combination of futures and physical rebalancing is used to maintain a balance of assets allocated to each asset class. Risk is controlled by way of control bands around the strategic benchmark which restrict the extent to which the fund, through market movements, can deviate away from benchmark proportions. Futures are used within bands to ensure the Fund is as close to the strategic benchmark as possible. Periodic physical re-balancing is undertaken should any of the futures control bands be breached.

5.4 Currency hedging policy

The Committee considers currency risk as an unrewarded risk – one that is expected to increase the volatility of the Fund, but not increase return. Fixed income investments are fully currency hedged by the investment manager. The Fund's investment consultant, Aon Hewitt, will provide advice on the level and timing of any currency hedging programme, liaising with Northern Trust, who have been appointed to manage any currency hedge.

6. Implementation

The committee have appointed investment managers to manage the Fund's investments as set out in Appendix A.

The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives.

The Committee also avails of passive management where they believe the extra risk and costs of active management would not benefit the Fund.

The activities of each manager are governed by their Investment Management Agreement. This includes details on the portfolio performance objectives and risk limits as well as information on permissible investments.

6.1 Selection & realisation of investment

Each investment manager has full discretion in terms of stock selection within the constraints of the investment management agreement signed with each manager. The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge funds, Private Equity, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.

The current list (*as at 31 March 2011*) of investment managers and pooled funds used with a view to implementing the above strategy is set out in the Appendix A to this document. The Appendix is included for information only, and does not form part of the Statement of Investment Principles.

6.2 Security Lending

The fund reactivated its security lending policy with Northern Trust in February 2011, having temporarily paused the lending activity in the period after the collapse of Lehmans. The collateral arrangements for the lending programme have been tightened on advice from Aon Hewitt, and the programme restarted. The performance of the programme, and the revenue generated, will be monitored for a year, with a review being undertaken in February 2012.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager.

6.3 Custody

The Committee regards the safekeeping of the Fund's assets as of paramount importance and has appointed Northern Trust company as global custodian and record-keeper of the Fund's assets.

7. Review and Control

The Committee are satisfied that they have adequate resources to monitor the investment arrangements.

7.1 Performance Measurement

The Committee monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the fund and asset classes together with supporting analysis.
- The performance of the total fund is also measured against the strategic benchmark, which is comprised of the asset class benchmarks weighted by the strategic allocations, and against agreed out-performance targets.
- The performance of the fund in each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

7.2 Service Provider Monitoring

The Committee reviews from time to time the services provided by the investment adviser and other

service providers as necessary to ensure that the services provided remain appropriate for the Fund.

8. Environmental, Social and Governance and Exercise of Rights

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance.

F&C provides a responsible engagement overlay on the Fund's UK equity portfolios. F&C enters into constructive discussions with companies on the Fund's behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

In 1995, the Shropshire Pension Fund adopted a Corporate Governance Policy in respect of the companies in which it invests. The Fund adopted the corporate governance guidelines proposed by Pensions Investment Research Consultants Ltd (*PIRC*). The Fund exercises its corporate governance policy by actively voting at UK and US Company Annual and Special meetings each year. Voting rights are exercised on the Fund's behalf by *PIRC*.

The Fund is also a member of the Local Authorities Pension Fund Forum (*LAPFF*), which seeks to combine like-minded bodies to promote the above issues. At present 53 Local Authorities are members of this forum with a combined asset value of 75% of local government pension fund assets.

8.1 Myners Investment Principles

Details to the extent to which the Pensions Committee complies with the six Myners principles and the extent to which management and investment arrangements at Shropshire comply (*in accordance with the existing CIPFA guidance*), and where not, what action is proposed in order to comply are set out in Appendix B.

9. Investment Manager and Adviser Fees

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The

assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements.

Appendix A: Investment Managers

Fund assets are invested in portfolios managed by external investment managers shown in the table below. They are benchmarked against the indicated indices. The table shows whether portfolios are managed on a segregated or pooled basis, and their out-performance target. Based on expert advice, investment managers may be replaced at any time and this list may not always be current.

This appendix shows the position at 31 March 2011. It has been appended to the Statement of Investment Principles for information only, and does not form part of the Statement.

Appendix A

Investment Manager	Asset class	Benchmark	Target
Active portfolios			
Strategic Fixed Income	Global Government Bonds	Citigroup World Government Bond Index (Sterling Hedged)	+1.0% pa over rolling 3yr periods
PIMCO Europe Ltd	Global Aggregate Bonds	Barclays Global Aggregate Index (Sterling Hedged)	+1.0% pa over rolling 3yr periods
	Absolute Returns	1 month Stirling LIBOR	+4% p.a.
	Global Credit	Barclays Corporate (ex-Treasuries, ex-Securitised)	+1.0% pa over rolling 3yr periods
Majedie Asset Management	UK Equities	FTSE All Share	+2% pa over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+2% pa over rolling 3 year periods
Goldman Sachs Asset Management	US Equities	S&P 500	+0.75% pa over rolling 3 year periods
Baillie Gifford & Co	Japan Equities	FTSE Japan	+2.0% pa over rolling 3 year periods
Martin Currie Investment Management	Pacific (ex Japan) Equities	FTSE WI Asia Pacific (ex. Japan)	+2.0% pa over rolling 3 year periods
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% pa
F&C Management Limited	Emerging Markets Equities	MSCI Emerging Markets Free (£)	Match or exceed Benchmark
Aberdeen Property Investors	European (incl UK) Property	RPI + 5%	Match or exceed Benchmark
Man Investments Ltd	Fund of Hedge Funds	3month Stirling LIBOR	+ 5.0% pa
BlackRock	Fund of Hedge Funds	3month Stirling LIBOR	+5.0% pa
Indexed (Passive) Portfolios			
Legal & General Investment Management	UK Index linked Bonds	FTSE (over 5 yrs) Index Linked stocks	Match benchmark
Legal & General Investment Management	Europe ex UK equities	FTSE AW-Developed Europe (ex-UK)	Match benchmark

Appendix B: Myners Principles Compliance Statement

Principle	Comply/ explain
1. Effective decision making Administrating authorities should ensure: <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest 	Comply
2. Clear Objectives <ul style="list-style-type: none"> • An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers 	Comply
3. Risk and liabilities <ul style="list-style-type: none"> • In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk 	Comply
4. Performance assessment <ul style="list-style-type: none"> • Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors • Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members 	Partial Compliance – Fund needs to develop monitoring procedures for advice
5. Responsible ownership Administrating authorities should: <ul style="list-style-type: none"> • Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee • Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities 	Comply
6. Transparency and reporting Administrating authorities should <ul style="list-style-type: none"> • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate 	Comply

Comment/Examples

Development needs

Pensions Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pensions Committee members, substitute members and officers participate in an annual training day, attend educational seminary and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.

A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process. Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.

Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. The actuarial funding position will be monitored on a quarterly basis by the Pensions Committee, using information provided by Aon Hewitt.

Target performance and risk are explicitly included in manager contracts and formal and rigorous performance appraisal procedures at both officer and member level

Consideration to be given to developing monitoring procedures for advice

The SIP includes a statement on responsible ownership. An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's corporate governance advisor

A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published. Stakeholders are also invited to attend the annual meeting of the scheme.

Appendices

Appendix 01

01 Governance Compliance Statement

Appendix 02

02 Funding Strategy Statement

Appendix 03

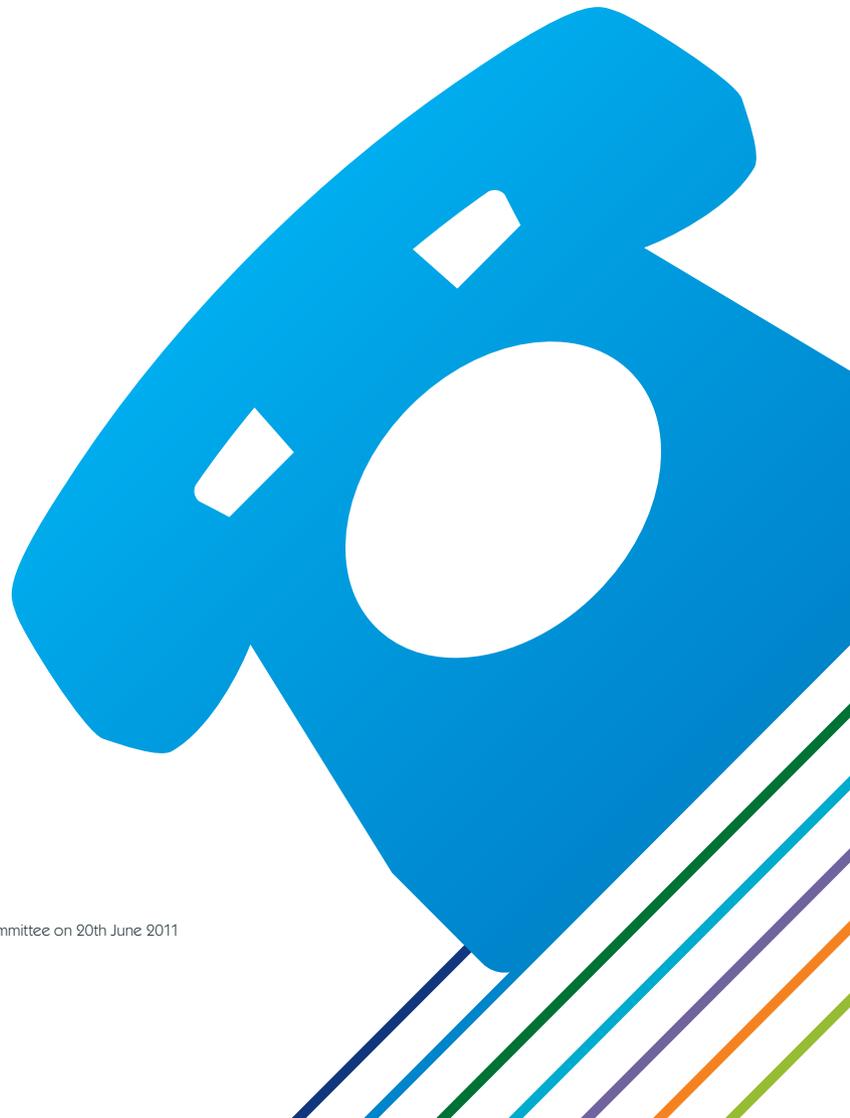
03 Statement of Investment Principles

Appendix 04

04 Communications Policy Statement

Appendix 04

Communications Policy Statement



Agreed by Pensions Committee on 20th June 2011

This Statement has been prepared by Shropshire Council (*the Administering Authority*) to set out the communications strategy for the Shropshire County Pension Fund (*the Scheme*), in accordance with Regulation 67 of the Local Government Pension Scheme (*Administration*) Regulations 2008.

Shropshire Council, in its capacity as Administering Authority deals with over 70 employers and approximately 15,000 scheme members, 9,300 deferred members and 7,500 pensioners in relation to the Local Government Pension Scheme (*LGPS*). The delivery of benefits involves communication with the membership and a whole range of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

This statement is effective as of 20 June 2011 and the membership details were correct as of that date.

Any enquiries in relation to this Communication Policy Statement should be made to:

Debbie Sharp,
Pensions Manager,
Shropshire Council,
Shirehall,
Abbey Foregate,
Shrewsbury,
Shropshire
SY2 6ND

1. Introduction

- 1.1 The principal aim of the Shropshire County Pension Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to the contributing employers.
- 1.2 The Fund is committed to providing comprehensive information to all stakeholders, through the most appropriate communication methods. Effective communication cannot be left to chance and this document outlines the ways in which the Fund aims to meet this objective.
- 1.3 The Shropshire County Pension Fund has experience of using innovative communication techniques and intends to continue using a wide variety of communication tools in the future.
- 1.4 The Fund is now part of a 'Shared Services Group' with neighbouring Local Government Pension Fund Authorities. Thus the funding and resourcing of elements of our communication service is shared, such as the development and production

of newsletters. This has already and will continue to provide Fund efficiency savings.

- 1.5 The Fund Officers will endeavour to ensure that value for money and quality of service is obtained from sourcing both imaginative designers and reliable printing departments.

2. Principles of Communication

- 2.1 The Fund has adopted five key principles that support all of its communication. The Fund is committed to ensuring that:
 - Communication is factual and presented in plain language
 - Communication is designed in a manner appropriate to its audience
 - Communication is looked upon as involving a dialogue with others
 - Communication exploits the developments and improvements in new technology
 - Communication is planned, co-ordinated and evaluated.
- 2.2 The Fund makes every effort to make communication materials available in large print, Braille, audio tape and different languages on request.
- 2.3 The Local Government Pension Scheme is a useful tool in attracting employees to work in local government. For Employers it is a key part of their recruitment and retention package. Pension Services are also the last, and often the only, link between former staff members and their employers. The Fund therefore has an important role in ensuring that it communicates effectively with all its stakeholders.
- 2.4 Pension Services work to maintain a thorough knowledge of the regulations in order to retain the confidence of its members. Pension Services should always be the first place staff members turn for pension information during their working life and in retirement.
- 2.5 Pension Services are committed to responding promptly to members' requests for information, whether it's by face to face communication, e-mail or by letter. Information is provided within set timescales.

3. How does the Fund Communicate with Stakeholders?

3.1 Printed/ Electronic Literature

The Fund produces all paper and electronic based communications in a corporate style, be that brochures, guides or individual letters. All key communications are produced in a printed format and made available to members as appropriate, they are also available on our website in electronic format with a page turning facility.

3.2 Enquiry Counter

For those members who prefer 'face to face' communication the Fund's office is centrally situated in Shrewsbury and is easily accessible by public transport from all areas of Shropshire.

The Council has an enquiry counter on the ground floor from which Pension Staff can be contacted during working hours. A private interview room is available if required if members wish to discuss confidential matters.

Appointments can be made to discuss specific pension options or problems, but generally this is not necessary as a member of the team is generally available.

3.3 Telephone

All Fund communications have a published telephone number. The number may be our general helpdesk number (01743) 252130 or the direct telephone number of the staff member responsible for carrying out your request.

3.4 Internet

The Fund has a website (www.shropshirecountypensionfund.co.uk) that is extremely popular amongst members and other stakeholders as a source of information. Electronic copies of Fund Literature, policies and reports are available for download: such as this Communications Policy Statement.

The Fund provides a number of online forms and secure areas on the site which allow Scheme members to access their own records, calculate benefit estimates, projections and to update home address information.

3.5 Fax, Mail and E-Mail

For general Communications, the Fund has a central FAX number, e-mail account and postal address.

These details can be found on the back cover of this statement.

3.6 Presentations and Courses

The Fund delivers standard or tailored presentations on a wide range of subjects for both Employers and their staff. These presentations are provided at the request of Employers at geographically convenient locations by Fund staff and other specialists.

Presentations are held around the county to keep members informed of any changes that may alter their benefits. Presentations are in PowerPoint and use other media technology, including DVDs and CD Roms.

3.7 Roadshows / Consultations

The Fund organise 'Roadshow' events. They are run on a consultation/ surgery basis with half-hour time slots for members and prospective members. This is particularly useful for employers with small numbers of staff, although all our employers are catered for.

Our membership is dispersed over a large rural area and therefore these consultations are an ideal way to reach them.

3.8 Newsletters

Pension Update is the Fund's in-house newsletter, currently produced in conjunction with our Shared Services Group. This in-house newsletter is issued periodically. With an audience of Scheme and eligible non-members the newsletter aims to provide topical news, articles and the latest information about the Scheme and pensions in general.

In TOUCH is the Fund's in-house newsletter for retired members. Published twice a year, the newsletter proves to be a useful way of providing up dates on relevant changes in legislation, topical news, competitions and members articles.

Deferred members also receive a newsletter, when information needs to be communicated to them, again providing updates on relevant changes in legislation, topical news and reminding the member to keep the Fund notified of any future changes in address.

A newsletter is also issued out to Scheme Employers at least once year. It provides legislation, operational items and technical updates and support.

3.9 Annual Report, Accounts & Meeting

The aim of the report is to highlight the important issues affecting the Fund over the previous twelve months, along with detail on both investment and administration performance.

The Report and Accounts are distributed at the Annual Meeting that we hold in November, made available on our website and an abridged version sent to all active, deferred and retired members.

All retired, active and deferred members are invited to attend the Annual Meeting. The meeting gives members the opportunity to meet the Pension Committee and the members of staff who administer the Scheme on a one to one basis. The Fund is committed to making the meeting widely accessible to the membership and ensuring its content is of both interest and relevance. The Annual Meeting aims to cover scheme benefits, valuation position and investments in an interesting and informative manner.

4. Who are the Stakeholders of the Fund and what is provided to them?

4.1 Active & Deferred Scheme Members

Certificate of Membership

Within thirteen weeks of joining the Fund, each Member receives a Statutory Notification detailing the information recorded on the Pension Administration System about them, such as date they joined the Scheme and whether or not they have transferred service into the Fund from elsewhere. A new notification is issued every time a member's record is amended.

Annual Benefit Statement

An Annual Benefit Statement is sent direct to the home address of all active and deferred members. The Statements include various pension details including the current value of benefits within the scheme. The format of our statements is continually being developed to provide members with information they require in a clear and concise manner.

Scheme Literature

A large range of literature is produced by the Administering Authority and is made available to both Employers and Scheme members. The literature includes Guides, Information sheets and an Interactive CD Rom.

A different guide is available for councillors to whom different rules apply.

Retirement Booklet

All active members on reaching retirement receive a comprehensive booklet providing information on the Scheme and the retirement process.

4.2 Prospective Scheme Members

Scheme Booklet

The Fund produces an information booklet on the Local Government Pension Scheme. This should be provided by Scheme Employers to all new employees as part of their letter of employment, terms and conditions.

Scheme Website

The Fund's website contains specific information on joining the Scheme and the benefits of membership

Promotional Campaigns

Periodically the Fund produces dedicated marketing literature that is sent to those who choose not to join or opt to leave the Scheme. This literature promotes the benefits of having an occupational pension and gives an option to join the Scheme.

Pay Advice

Periodically, the Fund in collaboration with Scheme Employers identifies prospective members and utilises the payroll process to distribute targeted communication.

Corporate Induction Courses

Officers of the Fund attend Corporate Induction Courses in order to present to prospective members the benefits of joining the LGPS.

Other Employer Communications

The increasing role of communication within all organisations means that more Employers have staff newsletters, intranets and other broadcast communications. The Fund actively works to provide their employees with the best information and opportunities in regard to the Scheme.

4.3 Retired Members

Pay Advices

The Fund issues monthly pay advices to Scheme pensioners. They are used as a communication mechanism, as messages can be placed on the

payslips and they also reinforce the need for retired members and their families to ensure that in the event of death or change of address the Fund is notified promptly.

P60s

Every retired member and/or their dependents will receive a P60 each year normally at the end of April.

Annual Pension Increase Letter

Retired members will receive a pension increase letter each year to inform them of the inflation increase on their pension. This letter will include details of the monetary value of their revised pension and details of the amount to be paid in April.

Retired Members Meeting

Every summer a dedicated meeting is held for our retired members. These include a presentation from an outside speaker on a non-pension related subject.

Cards & Flowers

The Fund sends Birthday Cards and Flowers to all our retired members' age 100 years and over.

Validation - Pensioners Living Abroad

The Fund undertakes a regular exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

4.4 Employing Authorities

Employer Meetings & Training Sessions

Meetings and training sessions are arranged for employers on a regular basis. They are used to communicate major issues with employers, specifically benefit regulation changes, employer contribution rates and the funding level of the Shropshire Fund.

Employers' Guide

An Employers' Guide is issued to all employers, detailing the processes, procedures and forms required to effectively discharge their pension administration responsibilities.

Employers Bulletin

A technical newsletter/bulletin is periodically sent out to all employers. It aims to inform employers on common problems, issues, queries and regulatory changes. The bulletin is also used to communicate any consultations in regard to policy and regulations.

Data Transmission

A secure system of data transmission has been developed which allows employers to forward information directly to the Fund in order for the administering authority to update their records.

4.5 Pension Committee & Fund Staff

Pensions Committee

The Committee is comprised of 9 members, representing the principal employing authorities, trade union representatives and a retired member representative. The Fund has an ongoing training programme for Members and Officers to ensure that decision making is on an informed basis.

Knowledge building and training is provided via the Fund's Officers, advisors and external training courses. An annual training day is held for all Pension Committee Members and their substitutes.

Pension Committee reports are available on the council's website and in hard copy at customer information points around the county.

Service Management Team

The Corporate Head of Finance and Commerce acts as Scheme Administrator and is responsible for the Investment Team. The Pension Administration Team is managed by Mrs. Debbie Sharp the Pension Manager. The Pensions Management Team meets on a monthly basis to discuss items in relation to the running of the team and regulation changes. It comprises the Pensions Manager and Team Leaders. A similar monthly meeting is held between investment staff. Any items raised from such meetings can be escalated to the Scheme Administrator.

Team Meetings

Team Meetings involving all staff are held on a monthly basis. Notes of all meetings and items arising from such meetings are passed through to the Treasury and Pensions service manager and to the Scheme administrator if necessary.

Training

The Fund seeks to continually improve the ability of staff to communicate effectively and to understand the importance of good communication. Both general and pension-specific training is provided to all staff as part of the Fund's commitment to staff development. The Fund conducts performance appraisals for its entire staff.

Intranet and E-Mail

Each member of staff has access to e-mail and the Fund's Intranet which contains electronic copies of many of the Key documents, manuals, minutes and circulars.

4.6 Communication with Other Bodies

Mercer (Pension Fund Actuary)

The Fund performs an Actuarial Valuation every three years as required by the Regulations. Mercer also deal with Interim valuations when required and information and advice on a range of issues affecting the Fund, such as new employers, bulk transfers and regulatory changes.

Legal Advice

The Fund obtains legal advice from Shropshire Council as appropriate on benefits administration and investment matters. External legal advice is also obtained as and when required.

DCLG

The Fund communicates with the Department of Communities and Local Government (*DCLG*) while in consultation on proposals for change to the scheme and with regard to providing information under disclosure regulations.

Trade Unions

Trade Unions are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiations under TUPE, in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Press & Media

The Fund in conjunction with the Council's Communications Unit, actively engages with the press and other media organisations in order to ensure clarity, facts and fair representation.

National Information Forum (NIF)

Representatives of the Fund attend regular meetings of the National Information Forum, which was the main force in establishing best practice in Communications with members.

Shrewsbury Regional Pension Officers' Group (SPOG)

The Shropshire County Pension Fund (*SCPF*) hosts

the Shrewsbury Pension Officers' Group which meets on a quarterly basis. The group which comprises a number of local authority funds discuss technical queries and legislation matters of common interest.

Investment Practitioner Group

The Fund has an active involvement in the Investment Practitioner Group for the region where common investment issues between Funds are discussed.

Software Provider Group

Members of the team attend meetings with the pension's administration software provider, to ensure the computerised administration system is able to deal with regulation changes when they occur.

4.7 Measure of Successful Communication

Service Quality Questionnaire

A questionnaire is issued to members with various correspondences, including retirements and benefit quotes. This allows the fund to evaluate the service provided. Survey responses are collated and reviewed twice a year.

Employer Satisfaction Survey

A survey is issued to employers, periodically to allow the fund to evaluate the service and methods of communication provided to employers. The responses are collated and used to identify any employer requirements and possible areas for improvement.

Compliments, Complaints and Comments

Any compliments, complaints or comments made in letter, e-mail or verbal format are recorded on a monthly basis. The fund aims to always learn from the feedback received and continue to make improvements to the service provided.

5. Confidentiality

5.1 To protect any personal information held on computer the Administering Authority is registered under the data Protection Act 1988. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund.

5.2 Members who wish to apply to access their data on Data Protection Grounds should contact the Data Protection Officer on (01743) 252774.

6. Further Information

Further information can be obtained from:

Pensions Helpline: (01743) 252130

Email: pensions@shropshire.gov.uk

Website: www.shropshirecountypensionfund.co.uk

Fund Publications and Communications

Communication Document/Tool	When Issued	Available To	Format	When Reviewed
Pension Scheme Booklet	Upon commencing employment/ when requested	Prospective/ Active/Deferred/Retired Members	Paper/Website/Intranet	As regulations change
Brief Pension Scheme Booklet	Upon commencing employment/ when requested	Prospective/ Active/Deferred/Retired Members	Paper/Website/Intranet	As regulations change
Short Guide Information Sheet	Upon commencing employment/ when requested	Prospective/ Active/Deferred/Retired Members	Paper/Website/Intranet	As regulations change
F.A.Q Leaflets	Upon request	Active/Deferred/ Retired Members	Paper/Website/Intranet	As regulations change/ new leaflets introduced regularly
Benefit Statements	Annually (rolling programme)	Active/Deferred Members	Paper	Annually
Encouraging New Members Literature	Annually	Prospective Members	Paper-Flyer	Annually
Members Newsletter	As Required	Active/Deferred Members	Paper/Website	As regulations change/as required
Pension Consultations	As Required	Active Members	Face to face/Paper	As required
Induction and Retirement Packs	As Required	Prospective/Active Deferred/Retired Members	Paper	As regulations change/as required
Service Quality Survey	Continually	Active/Deferred/ Retired Members	Paper	As required
CD ROMs and DVD Presentations	As Required	Prospective/Active Deferred/Retired Members	CD Rom/DVD/ Presentation	As regulations change/as required
Presentations/ Road shows	As Required	Prospective/ Active Members	Presentation/ Face to face	As required
Induction Courses	Upon commencing employment/ when requested	Prospective/ Active Members	Face to face	As required
Membership Certificate	Upon commencing employment/ when requested	Active Members	Paper	As regulations change/as required
Retirement Courses	When Requested	Retiring Members	Face to face	As required

Communication Document/Tool	When Issued	Available To	Format	When Reviewed
Internet and Intranet	Continually	All Members/ Employers/ Fund Managers/Non Scheme Members	Website/ Intranet	Monthly
Annual Meeting	Annually (November)	All Members/ Employers/Fund Managers	Presentation/ Face to face	Annually
Annual Report	Annually	All Members/ Employers/Fund Managers	Paper/Website/Intranet	Annually
Helpdesk	Continually (within Office Hours)	All Members/ Employers/Fund Managers	Face to face/ Telephone / Paper/ E-mail	As required
Correspondence	Continually (within Office Hours)	All Members/ Employers/Fund Managers	Face to face/ Telephone/ Paper/E-mail	As required
Pay Advice	Monthly	Pensioner Members	Paper/ Resource Link	Annually
P60s	Annually (April)	Pensioner Members	Paper/ Resource Link	Annually
Pensioner Newsletter	Biannually (April/October)	Pensioner Members	Paper/Website	Biannually
Retired Members Meeting and invitations	Annually (June)	Pensioner Members	Paper/Face to face/ Website	Annually
Pensions Increase Correspondence	Annually (April)	Pensioner Members	Paper/Official Booklet	Annually
Age 100 Pensioners	As Required	Pensioner Members	Paper/Gift	As required
Pensioners Living Abroad	Annually	Pensioner Members	Paper	Annually
Employers Guide	As Required	Employing Authorities	Paper	As regulations change/as required
Employers Bulletin	As Required	Employing Authorities	Paper/Website	As regulations change/as required

Communication Document/Tool	When Issued	Available To	Format	When Reviewed
Employer Meetings and Training	As Required	Employing Authorities	Face to face/ Paper	As regulations change/as required
Service Level Agreement	Annually (February/March)	Employing Authorities	Paper	Annually
Employer Satisfaction Survey	As Required	Employing Authorities	Paper	Annually
Online Access to Pensions Administration	As Required	Employing Authorities	Electronic	As required
Data Transmission	As Required	Employing Authorities	Electronic	As required
Abridged Reports and Accounts	Annually (October)	All Members	Paper/Website/Intranet	Annually
Valuation Report	Tri-Annually	Employing Authorities	Paper/Website	Triennially
Statement of Investment Principles	Annually	All Members	Website / Intranet	Annually
Corporate Governance & Responsible Engagement Reports	Quarterly	All Members	Website / Intranet	Quarterly
Pension Committee Training Day	Annually	Committee Members/ Fund Staff	Face to face/ Paper	Annually
Fund Staff Training and Meetings	Monthly/ as required	Fund Staff	Face to face/ Paper	As regulations change/as required
Other Body Communications inc. SPOG, NIF, Media/Press, Trade Unions	As Required	All Relevant Bodies	Paper/Website/Intranet/ Face to face	As required



Shropshire plain
Between Leighton and
Buildwas.

If you can read this but know someone who can't, please contact the Pensions Helpline so we can provide this information in a more suitable format.

Administered by: Pension Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND

Pensions Helpline: (01743) 252130 | **e-mail:** pensions@shropshire.gov.uk