

**SHROPSHIRE
COUNTY
PENSION
FUND**



**ANNUAL
REPORT
2011-2012**

ANNUAL **REPORT**



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WELCOME

TO THE 19TH ANNUAL REPORT & ACCOUNTS OF THE SHROPSHIRE COUNTY PENSION FUND

DURING THE YEAR THE SHROPSHIRE FUND INCREASED IN VALUE BY OVER £48 MILLION TO BE VALUED AT £1.087 BILLION AT THE END OF THE YEAR.

4.7% >
FUND VALUE INCREASE

1.2% >
OVER BENCHMARK

The Shropshire Fund benefited from positive investment returns in a number of markets. The strongest returns were experienced in Index Linked Bonds where the Fund's investments increased in value by 21.2% in the year. In the last year Fixed Income managers delivered a notable absolute return of 12.6% and Private Equity returned 5.9%. Equities, which saw a diverse range of results across geographic regions, achieved an absolute gain of 2.3% whilst achieving a relative outperformance of more than 3% compared to benchmark. Hedge Funds and Property were the only two asset classes which did not deliver positive returns over the last year.

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. The Committee is currently reviewing the existing strategic asset allocation with its investment consultant, 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. During the year Global Infrastructure Partners were appointed to manage a 3% allocation in Infrastructure. It will take a number of years to invest the full 3% allocation as the arrangement is similar to our Private Equity manager with capital calls made as and when investment opportunities are identified. 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. The next actuarial valuation will be undertaken in March 2013.

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.

In December 2011, local authority employers and trade unions reached an agreement on the way forward on implementing reforms to the Local Government Pension Scheme in 2014, a year earlier than other public sector schemes. The agreement is broadly in line with the 27 recommendations made in Lord Hutton's final report in March 2011.

Key elements of the agreement:

- Benefits are based on Career Average Earnings rather than Final Salary;
- Limited or no contribution rate increases for employees provided the Government's financial constraints are met;
- Elements of choice to encourage new members to join and existing members to remain in the Scheme;
- Scheme Normal Pension Age will match the rise in the State Pension Age for post 2014 service.

The Pension Administration Team will be communicating all proposals with regard to the Scheme to the membership as soon as the details are available.

SUMMARY

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.

FEEDBACK

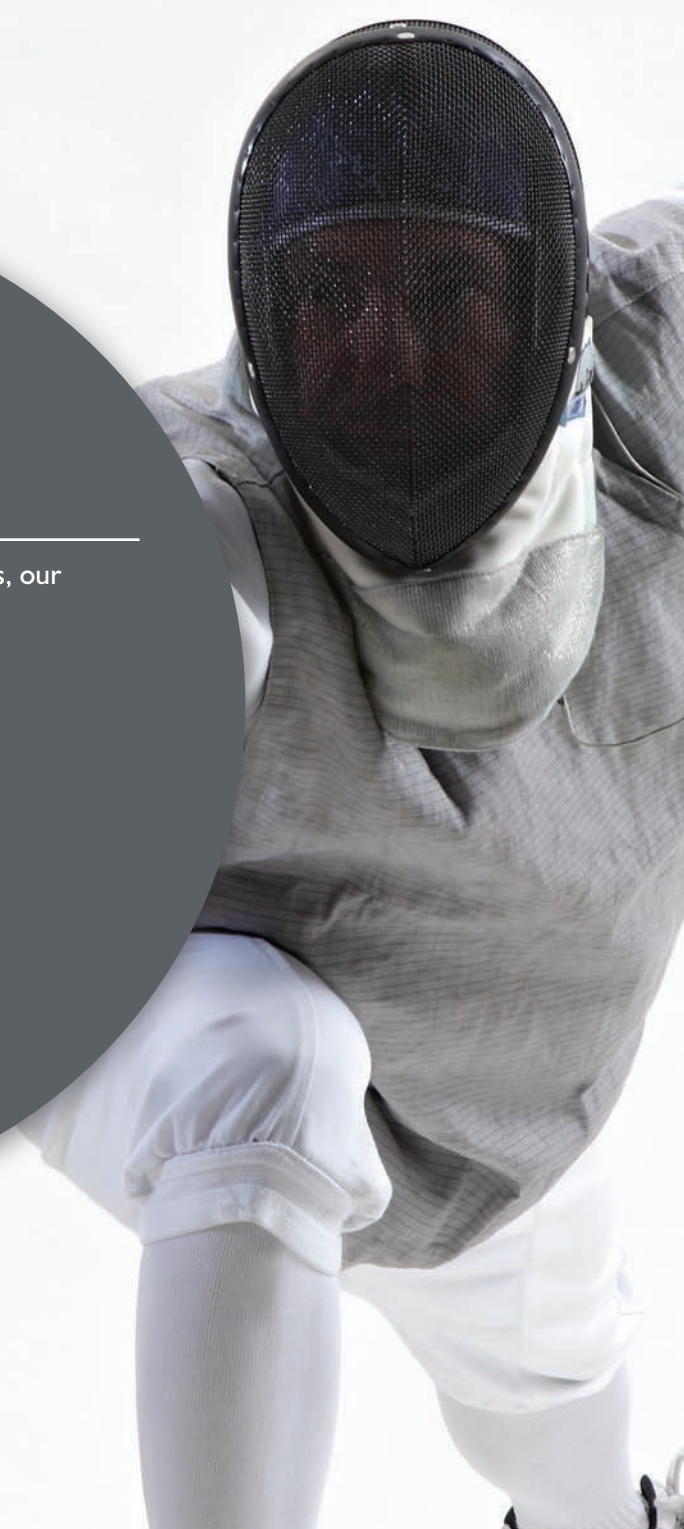
If you wish to make a comment or if you have any questions, our contact details are given on the back page of the report.



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



*Malcolm Smith
Chair of Pensions
Committee
Telford & Wrekin Council*



2011 2012

MEMBERS, MANAGERS & ADVISORS

THE COMMITTEE:



01



02



03



04



05



06



07

01. Malcolm Pate
(Chairman 11/12)
Shropshire Council

02. Malcolm Smith
(Vice Chairman 11/12)
Telford & Wrekin Council

03. Anne Chebsey
Shropshire Council

04. Andrew B Davies
Shropshire Council

05. Thomas Biggins
Shropshire Council

06. Bill McClements
Telford & Wrekin Council

07. Ron Pugh
Pensioner Representative



08



09

08. John Fox
Employee Representative

09. Charles Tranter
Employee Representative

* Employers with pensioner/deferred 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

Independent Advisors

Aon Hewitt Limited
Roger Bartley

Custodian

Northern Trust Company

Banker

Natwest Bank

Legal Advisor

Shropshire Council

Auditor

Audit Commission

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

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*
- Haberdashers' Adams' Federation Trust (*Adams Grammar School*)
- Blessed Robert Johnson College
- Bridgnorth District Council **
- Charlton School
- Corbet School *
- Corbet School Academy
- Ercall Wood School
- Greenacres Primary School
- Ludlow College
- Madeley Academy Trust Ltd
- Marches School & Technology Achademy
- Moorfield Primary School
- New College Wellington
- Newport Girls High School Academy
- North Shropshire District Council **
- North West Education Action Zone*
- Oswestry Borough Council **
- Priorslee Primary Academy
- Shrewsbury & Atcham Borough Council **
- Shrewsbury College of Arts & 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 & Technology
- Telford & Wrekin Education Action Zone *
- Telford & Wrekin Council

- Walford & North Shropshire College
- West Mercia Supplies

Admission Bodies

- Accord Housing Association
- Age UK Shropshire, Telford & Wrekin
- Association of Local Councils
- Care Quality Commission
- Connexions *
- Coverage Care Ltd
- Crime Reduction Initiatives (CRI)
- Fastrack Maintenance*
- Funeral Services LTD
- Harper Adams University College
- (The Hive) Belmont Arts Centre HMM Arts Ltd
- Initial Catering Services *
- Interserve (*Facilities Management*) Ltd
- Ironbridge Gorge Museum Trust
- Landau Consultants*
- Mencap
- Meres & Mosses Housing Association
- Relate Shropshire*
- Severnside Housing Association
- Severn Gorge Countryside Trust
- Shrewsbury, Telford & Wrekin Learning Hub*
- Shropshire Disability Consortium*
- South Shropshire Housing Association
- South Shropshire Leisure Ltd
- Taylor Shaw Ltd
- Telford & Wrekin Services Ltd
- 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
- Bishop Castle Town Council
- Bridgnorth Town Council
- Broseley Town Council
- Church Stretton Town Council
- Conover Parish Council
- Craven Arms Town Council*
- Dawley Hamlets Parish Council
- Ellesmere Town Council
- Gorge Parish Council
- Great Dawley Parish Council
- Great Hanwood Parish Council
- Hadley & Leegomery Parish Council
- Hollinswood & Randlay Parish Council
- Ketley Parish Council
- Lilleshall & 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
- Shifnal Town Council
- Shrewsbury Town Council
- Stirchley & Brookside Parish Council
- St Georges & Priorslee Parish Council*
- Wellington Town Council
- Wem Town Council
- Whitchurch Town Council
- Wrockwardine Parish Council

ADMINISTRATION

THE LGPS¹ IS A STATUTORY PENSION SCHEME & OPERATES ON A 'DEFINED BENEFITS BASIS'. SHROPSHIRE COUNCIL IS REQUIRED BY LAW TO ADMINISTER THE SCHEME WITHIN THE GEOGRAPHICAL AREA OF SHROPSHIRE.

NUMBER OF CURRENT EMPLOYERS SHROPSHIRE COUNTY PENSION FUND ADMINISTERS THE SCHEME FOR:

100

These employers include organisations such as local authorities, further education colleges and voluntary and charitable organisations.

IT IS A CONTRIBUTORY FINAL SALARY SCHEME, WHICH IS CONTRACTED-OUT OF THE SECOND STATE PENSION (S2P) AND IS EXEMPT APPROVED FOR TAX PURPOSES.

Since 1922 The Local Government Pension Scheme has developed from a scheme which just provided pensions for officers only, to today's Scheme which provides pensions and lump sums for all members, spouses, civil and nominated cohabiting partners and children's pensions. It also offers ill health, redundancy and death cover.

The scheme is constantly changing and adapting to the new needs and demands of both the government and the membership. It has proved to be a challenging twelve months for the Local Government Pension Scheme.

Some of the areas covered in Local Government Pensions Committee (LGPC) Bulletins which have been dealt with have included: Final Pay and pay freezes, the Pensions Bill 2011 and updated ill Health Retirement Guidance, not forgetting public sector pension review and auto-enrolment which is covered later.

The administration team has personally been undergoing a considerable change, although hopefully it has not been noticed too much by our membership. Shropshire Council has developed a shared service. The programme has been a low risk move to a co-located, process based organisation based on shared service principles. The service scope covers four main corporate functions including the pension's administration team, and formally went live on the 2 April 2012, in a new home at the Guildhall in Shrewsbury.



SCHEME ADMINISTRATOR, PENSION MANAGER & TREASURY TEAM



PENSION ADMINISTRATION TEAM



PRECISION TIMING

PREPARATIONS

AUTOMATIC-ENROLMENT

You may well be aware that from October 2012, changes to pension's law will affect all employers in the UK.

Automatic - enrolment will mean workers will be automatically enrolled into their employer's qualifying pension scheme (*for scheme employers the Local Government Pension Scheme*) without any active decision on their part. At present, many workers even in Local Government fail to take up valuable pension benefits.

From 1 October 2012 (*subject to each employer's own introduction date*) all eligible workers have to be auto-enrolled into a qualifying pension scheme. The earliest date that it will affect any employers within the Shropshire Fund is February 2013. Training sessions have already commenced and more are set to follow.

PUBLIC SECTOR PENSION REVIEW

LORD HUTTON PUBLISHED HIS FINAL REPORT ON THE FUTURE OF PUBLIC SERVICE PENSIONS ON 10 MARCH 2011.

THE FINAL REPORT SET OUT A NUMBER OF RECOMMENDATIONS TO THE GOVERNMENT ON HOW PUBLIC SERVICE PENSIONS COULD BE MADE SUSTAINABLE AND AFFORDABLE IN THE FUTURE, WHILE PROVIDING AN ADEQUATE LEVEL OF RETIREMENT INCOME.

A project team consisting of Trade Unions, The Local Government Association (LGA) and the Department for Communities and Local Government (CLG) met weekly to work on the costing options and make recommendations to the project board. The aim of these meetings was to reach acceptable agreements for all parties concerned by April 2012, so that the new regulations could be drafted. The fine detail of the new scheme design needed to be agreed in time for the statutory consultation exercise which was due to start in autumn 2012.

THE PROPOSAL IS FOR IT TO COME INTO EFFECT FROM APRIL 2014

New regulations governing the scheme need to be in place by April 2013. This is so that the pension fund Actuary can take it into account as part of the 2013 scheme valuation. This will then enable adjustments to be made to the employer contribution rates from 2014.

Whether or not the benefits will be the same in the new Scheme will be decided by April 2013, but we do know that the benefits built up in the current scheme will be protected and will continue to be calculated as 1/60th of your final pensionable pay at retirement for each year of scheme membership to 31 March 2014.

AGES BENEFITS CAN BE TAKEN BETWEEN

55-75 YRS¹

THE FOLLOWING HAVE BEEN PROPOSED:

- Confirmation of the basis of the Scheme's design (e.g. CARE, being a scheme where benefits are based on career average revalued earnings, rather than final pensionable pay)
- The accrual rate for the scheme is 1/49th (the rate at which the pension is built up for each year of service in the Scheme e.g. currently 1/60th of pay for each year)
- The revaluation C.P.I (being the rate by which, during employment, each year's worth of pension is subsequently increased after it has been built up)
- Benefits will be reduced or increased if they are drawn before or after Normal Retirement Age
- Transitional protections for older scheme members within 10 years of retirement as at 1 April 2012
- Normal retirement age will be State Pension Age, however any existing benefits built up under the current scheme would be payable without reduction at 65.

1. The actual value of your benefits will be adjusted up or down according to how far from your normal retirement age you are when you choose to retire.

ADMINISTRATION STRATEGY

The Local Government Pension Scheme (LGPS) (Administration) Regulations 2008 enables Pension Fund Administering Authorities, such as Shropshire Council to introduce an Administration Strategy for the sole purpose of improving the administrative processes within the Fund.

Shropshire Council has been working on this document over the last 12 months and this was presented to the Pension Committee in July 2012.

THE FUND HAS DEVELOPED A STRATEGY WHICH RECOGNISES THAT BOTH EMPLOYING BODIES AND THE SHROPSHIRE COUNTY PENSION FUND HAVE A JOINT ROLE TO PLAY IN DELIVERING AN EFFICIENT SERVICE AND THAT ANY OVERALL IMPROVEMENTS CAN ONLY BE ACHIEVED IN PARTNERSHIP.

ACADEMIES

Academies become employing bodies in the LGPS and have done over a number of years. The Shropshire Pension Fund currently has 6 academies and this number continues to grow.

The Fund has made visits to these new employers as well as providing specific guides to directly meet their needs.

YEAR END PROCEDURES

At the end of each financial year all the Fund employers have to disclose details of the contributions paid by each of their employees who are members of the Local Government Pension Scheme (LGPS). The data is used to update records and will provide the basis of the information for the production of the Annual Benefit Illustrations.

HM REVENUE & CUSTOM CHANGES

The Annual Allowance (AA), which is the level of tax-exempt pension contribution that an individual can make, was reduced with effect from 6 April 2011 from £255,000 to £50,000.

The AA is the amount that individuals defined benefit pension arrangements can increase by tax free. This information was communicated to all our active members, with the use of newsletters and the website.

DURING THE LAST 12 MONTHS THE SCHEME HAS COMMENCED ITS COMMUNICATION WITH REGARD TO THE CHANGE IN THE VALUE OF THE LIFETIME ALLOWANCE (LTA). THIS IS THE MAXIMUM VALUE OF PENSION BENEFITS THAT AN INDIVIDUAL CAN BUILD UP OVER A LIFETIME WITHOUT INCURRING A TAX CHARGE. WITH EFFECT FROM APRIL 2012 IT WAS REDUCED

**£1.8-
£1.5M**

Anyone who anticipated that the value of their pension benefits would grow in the future to over £1.5m, were informed by the Fund that they could apply for Fixed Protection and therefore retain a personal LTA of £1.8m.

Fact sheets and individual letters were produced by the Fund for those members who were likely to be affected.

MEMBERSHIP

MEMBERSHIP WITH THE SHROPSHIRE COUNTY PENSION FUND CONTINUES TO GROW. AS AT THE 31ST MARCH 2012 THERE WERE:

14,811
ACTIVE CONTRIBUTORS

11,717
DEFERRED BENEFICIARIES¹

9,139
PENSIONERS & 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 the active membership split between 39% full-time members and 61% part-time members.

There has been a further increase during 2011-12 in the number of employers contributing to Fund. The main group of new employers is academies, which are designated in the scheme rules as "scheme employers" and therefore required to participate in the scheme. Admission agreements are made with some employers to allow existing scheme members who are outsourced by a local authority or other scheme employer to a private sector contractor to continue as members of the scheme.

Summaries of how the Fund membership has grown over the last 6 years and the age profile of the membership are shown in **GRAPHS 1-2** opposite.

BENCHMARKING

The Fund continues to participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) annual; benchmarking survey.

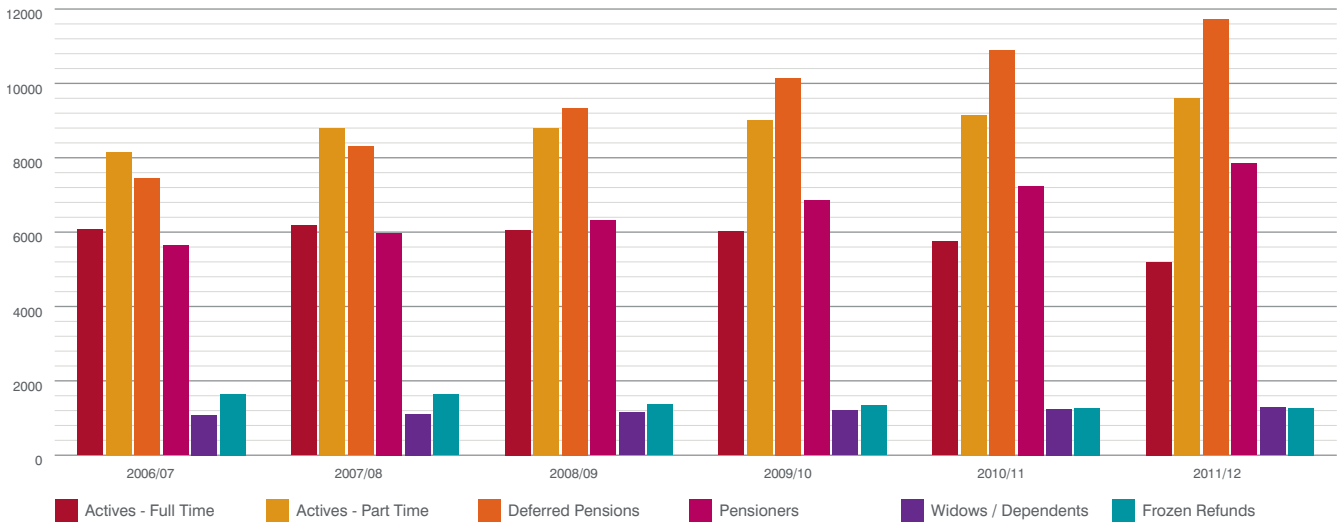
The results of the unit cost comparison for the most recent survey published are shown in **GRAPH 3** opposite.

The graph illustrates cost per member of providing a service to active, retired and deferred members. The Shropshire Fund has a cost per member of £21.77.

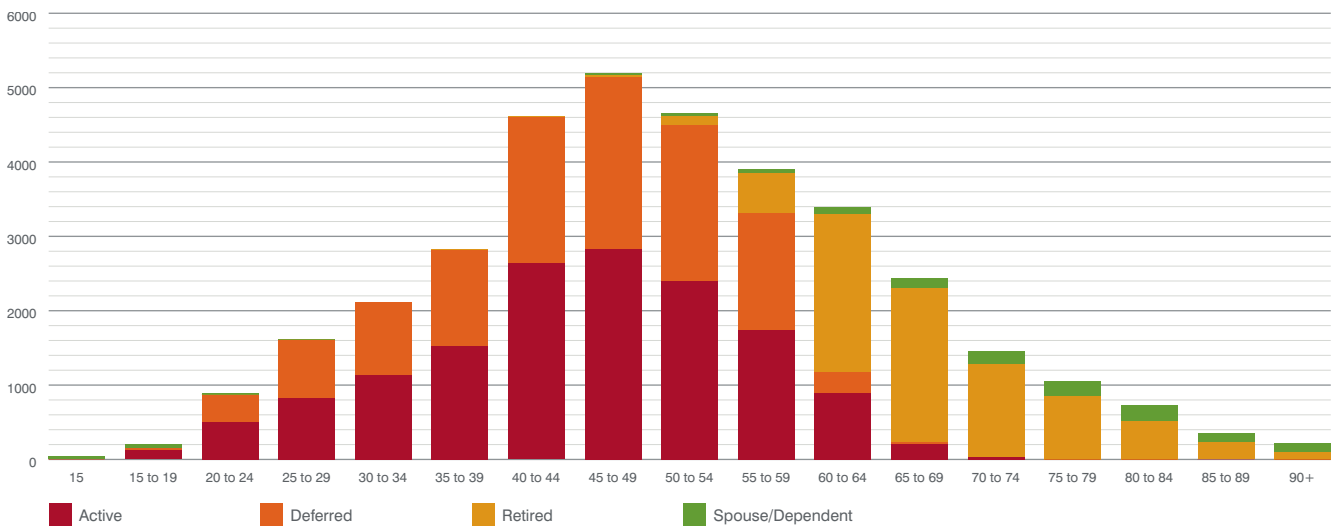
We use this data to target areas for improvement in our service plan, to understand the specific service pressures that the Shropshire Fund faces and to operate as efficiently and effectively as possible.

1. 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.

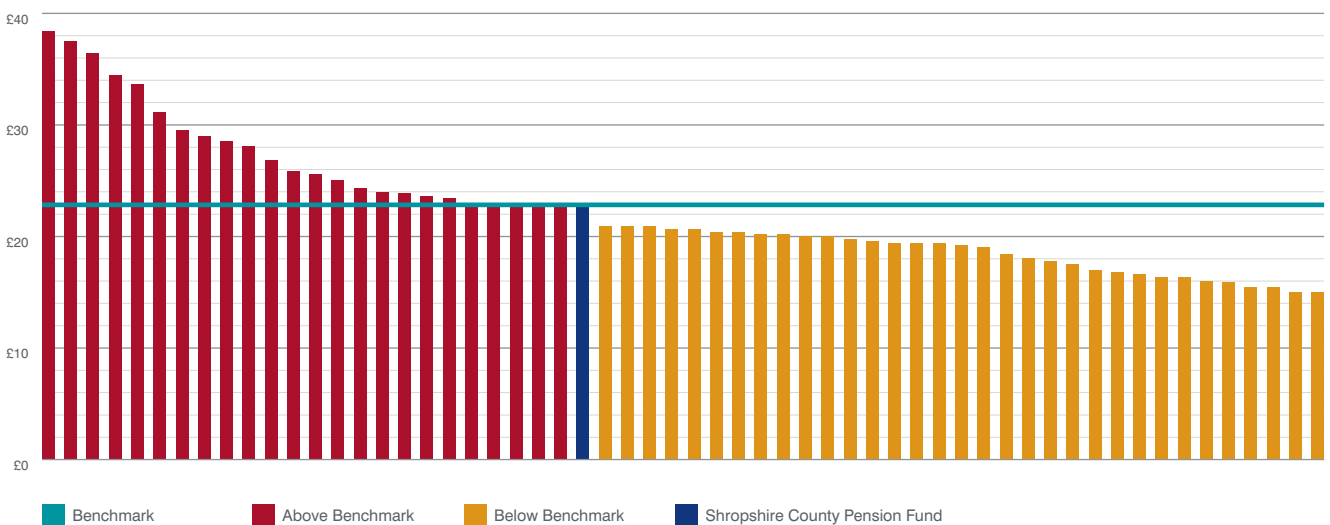
GRAPH 1: SCHEME MEMBERSHIP NUMBERS OVER LAST 6 YEARS



GRAPH 2: AGE PROFILE OF MEMBERSHIP 2011/12



GRAPH 3: BENCHMARKING





IN-DEPTH



FEEDBACK¹⁺²

“ I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU FOR YOUR HELP OVER THE LAST SIX MONTHS, ORGANISING THE PAYMENTS FOR BOTH MYSELF AND MY SON. IT HAS BEEN MUCH APPRECIATED AT A VERY DIFFICULT TIME.” **DEPENDANT.** “THE PENSION OFFICER WHO CAME TO YORK STREET DEPOT WAS VERY KNOWLEDGEABLE.” **ACTIVE MEMBER.** “AS YOU KNOW I AM RETIRING SHORTLY AND HAVE THEREFORE BEEN IN CONTACT WITH YOUR PENSION’S STAFF AND HAVE BEEN REGULARLY SEEKING INFORMATION. I WANTED TO SAY HOW BRILLIANT THEY HAVE BEEN.” **ACTIVE MEMBER.** “I WOULD JUST LIKE TO TAKE THIS OPPORTUNITY TO SAY THANK YOU TO THE TEAM FOR BEING VERY HELPFUL WHEN PROCESSING MY BENEFITS.” **RETIRED MEMBER.** “THANK YOU FOR DEALING WITH MY REDUNDANCY AND PENSION SO QUICKLY AND EFFICIENTLY.” **RETIRED MEMBER.** ”

PERFORMANCE STATISTICS

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

Process Commenced 2011/12	No. of Cases	% Within Target
Retirement Quotes	1256	80
Normal retirement (60+)	493	72
Early and Flexible Retirement	353	86
Deferred Benefits	1312	70
Transfer in Quotes	132	76
Deaths	196	81
Divorce	64	78
New Starters	1141	65

COMPLAINTS AND APPEALS

Despite our best efforts we do, sometimes, receive complaints from our members when they have not been satisfied with scheme decisions. Members have the right to ask for the decision to be looked at again under the formal complaint procedure and also has the right to use the procedure if a decision should but has not been made by their employer or the Fund. The complaint procedure’s official name is the Internal Dispute Resolution Procedure. The stage 1 and 2 cases are listed below.

INTERNAL DISPUTE RESOLUTION PROCEDURE 2011/12

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

1. Our membership regularly contacts us with their thoughts about the service that they receive and this something that we encourage.

We use this feedback to improve the service that we offer to our membership.

2. The Shropshire County Pension Fund like every organisation receives occasional complaints, but every effort is made to address any issues that do arise, quickly and efficiently.

COMMUNICATIONS

TO CONTRIBUTING, DEFERRED & RETIRED MEMBERS

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).

01. ANNUAL BENEFIT STATEMENTS

Once a year we send all current and deferred members a benefit illustration direct to their home address. This summarises the basic information we hold about them such as date of birth, hours of work, and pay for pension purposes and gives estimates of the current and future value if applicable. It also includes an estimate of the current value of survivors' pension benefits and death benefits.

Over the years we have worked hard to improve the Statements we produce. The positive feedback we have received, has demonstrated the success we have achieved.

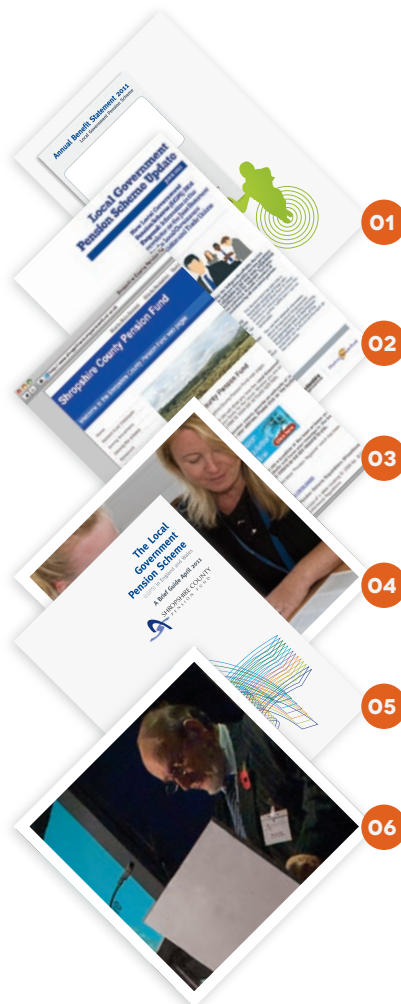
02. NEWSLETTERS

During the last twelve months we have produced a number of newsletters for our contributing members. The main purpose of which is to satisfy disclosure requirements, by informing contributing members about changes in the regulations of the LGPS. These publications were not produced at fixed times, but rather in response to changes in the regulations. To ensure delivery both paper and electronic versions were produced depending on the contact details held.

03. WEBSITE:

www.shropshirecountypensionfund.co.uk

The core information about the Scheme is held on our website. We also publish newsflashes and bulletins on the website as soon as is practical, which enable members with online access to gain advance notice of information in future printed newsletters. There is also an on-line facility where members can calculate their own benefits, after obtaining a secure password and log-in. Further developments have been made to this site in the last twelve months, but it is a work in progress.



04. WORK PLACE CONSULTATIONS

We have run a number of consultations in members' places of work. These are run on demand in conjunction with employers. We have run more specialist sessions for members affected by issues such as public services transferring to a private organisation.

The aim of these consultations is to reassure members about the benefits offered by the Scheme or to explain in greater detail the complex make-up of the benefit structure.

05. LITERATURE

The main point of reference for members to find out about the key aspects of the LGPS is our Brief Scheme Guide. This is supported by a range of other literature, which go into more detail on various topics.

The Fund's library of Scheme literature, which features a range of information for members, have been updated, if required, to reflect the changes in pension and tax legislation

The Fund's Annual Report 2010/11 was also produced during the last twelve months, updating members on Administration and Regulatory changes as well as Investment Performance in the Fund Accounts.

PAYSLIPS

We currently issue a monthly payslip to scheme members receiving their pensions. However, the Fund is currently looking towards the introduction of an online payslip facility.

06. MEETINGS

In June 2011 the Pension Fund, held its dedicated meeting for our retired members where both the National Trust and the Wenlock Olympian Society made presentations, along with contributions by other local groups and organisations.

In November the Annual Meeting was held, to which all our members and Fund Employers are invited. Three meetings were held around the county, to ensure as many people as possible were able to attend.

TO EMPLOYERS

EMPLOYER GUIDE

Our dedicated Employers Guide has been updated during the last twelve months to take into account regulatory changes that have an impact on how employers discharge their pension administration responsibilities.

EMPLOYER MEETINGS

Meetings were held to which all our employers were invited. At the last meeting Automatic Enrolment and the employers responsibilities were discussed. The Scheme Actuary also made a presentation on the proposals for the new LG pension scheme.

TO FUND STAFF & ELECTED MEMBERS

TEAM & MANAGEMENT MEETINGS

Team and Management meetings were held on a regular basis where information was exchanged with regard to workloads, and procedures as well as training and development.

TRAINING

The Pension Team received, regular in-house and external training. A number of staff are working towards nationally recognised qualifications.

Members of the Pension Committee also attend a training day with a number of Fund Officers, which included a detailed look at the advantages of investing in Infrastructure.

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 01 PAGE 55)

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 02 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 03 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 STATEMENT

(APPENDIX 04 PAGE 79)

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.

TRAINING POLICY STATEMENT

AS AN ADMINISTERING AUTHORITY OF THE LOCAL GOVERNMENT PENSION SCHEME, THE COUNCIL RECOGNISES THE IMPORTANCE OF ENSURING THAT ALL STAFF AND MEMBERS CHARGED WITH THE FINANCIAL MANAGEMENT AND DECISION MAKING WITH REGARD TO THE PENSION SCHEME ARE EQUIPPED WITH THE KNOWLEDGE AND SKILLS TO DISCHARGE THE DUTIES AND RESPONSIBILITIES ALLOCATED TO THEM.

The Pension Committee meets quarterly or more often if required. At these committee meetings a wide range of topical investment issues are embraced and include responsible engagement overlay and corporate governance, asset classes and investment products, the economy and market conditions and administration changes. Delivery is by investment managers, consultants and senior officers.

THE SCHEME ADMINISTRATOR IS RESPONSIBLE FOR ENSURING THAT POLICIES AND STRATEGIES ARE IMPLEMENTED.

The following training has been provided during the year:

- **Pensions Training Day:** Hutton Review update, Local Authority Pension Fund Forum (LAPFF) update, Governance & Strategy review, Review of investment management fees, Medium Term Asset Allocation.
- **Pensions AGM:** Actuarial Valuation, Review of Investment Performance, Presentation on Global Equities, Scheme Regulation changes.
- **Quarterly training at Committee:** Infrastructure, Equities, Hedge Funds, Investment Strategy Review.
- **Officer attendance at conferences, seminars & networking groups:** LGC Investment Symposium, LGC Investment Summit, Aon Hewitt seminar, NAPF conference, CIPFA Pension network seminars, North West & Wales Pension & Accounting Group.

As Corporate Head of Finance and Commerce and Scheme Administrator for Shropshire County Pension Fund I confirm that the officers and members charged with the financial management of and decision making for the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Rachel Musson
Corporate Head of Finance and
Commerce and Scheme Administrator

ACCOUNTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

2010/11 £m		Notes (pgs 22-37)	2011/12 £m
	Contributions & Benefits		
	Contributions		
40.618	Employers	8	42.794
15.305	Employees	8	14.205
8.381	Transfers In from other pension funds	3.8	3.869
64.304	Total Income		60.868
	Benefits Payable		
36.928	Pensions	8	40.424
8.638	Commutation of pensions and lump sum retirement benefits	8	12.765
1.048	Lump sum death benefits	8	1.151
	Payment to & account of leavers		
0.019	Refund of contributions	8	0.007
3.465	Transfer to other Funds	3.8	3.563
1.060	Administration Expenses	9	1.039
51.158	Total Expenditure		58.949
13.146	Net additions from dealings with scheme members		1.919
	Returns on Investments		
20.416	Investment Income	3.7,14,15	22.780
9.427	Gain/(loss) on cash and currency hedging	12,13	(1.513)
(0.197)	Taxes on Income	6	(0.156)
52.302	Profits and losses on disposal of investments and changes in value of investments	11	31.663
(7.247)	Less Investment Management Expenses	10	(6.219)
74.701	Net increase (decrease) in the net assets available for benefits during the year		46.555
87.847	Surplus / (deficit) on the pension fund for the year		48.474
950.706	Opening Net Assets of the Scheme		1038.553
1038.553	Closing Net Assets of the Scheme		1087.027

NET ASSETS STATEMENT AS AT 31 MARCH 2012

31/03/2011 £m		Notes (pgs 22-37)	31/03/2012 £m	%
	Investment Assets			
	Fixed Interest Securities			
33.373	Public Sector		40.821	3.76
0.000	Other		0.000	0.00
458.594	Equities		465.375	42.82
	Pooled Investment Vehicles			
86.258	Unitised Investment Vehicles		104.479	9.61
394.912	Other Managed Funds		408.363	37.57
	Derivative Contracts			
0.780	Futures	13	0.676	0.06
0.097	Forward Foreign Exchange	12	1.471	0.14
	Cash Deposits			
5.144	Margin Balances		5.450	0.50
57.042	Deposits		55.666	5.12
9.550	Temporary Investments	26	4.610	0.42
1045.750	Total Investment Assets		1086.911	100.00
	Investment Liabilities			
	Derivatives Contracts			
(0.412)	Futures	13	(0.609)	(0.06)
(5.470)	Forward Foreign Exchange	12	(0.392)	(0.04)
	Other Financial Liabilities			
(0.768)	Margin Balances		(1.957)	(0.18)
1039.100	Net Investment Assets		1083.953	99.72
	Current Assets			
2.171	Contributions due from Employers	19	2.551	0.23
1.828	Other Current Assets	19	3.755	0.35
0.024	Cash Balances	26	0.011	0.00
	Current Liabilities			
(0.128)	Unpaid Benefits	20	(0.085)	(0.01)
(4.442)	Other Current Liabilities	20	(3.158)	(0.29)
1038.553	Net Assets of the Scheme Available to Fund Benefits as at 31st March		1087.027	100.00

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

NOTE 1

DESCRIPTION OF FUND

THE SHROPSHIRE COUNTY PENSION FUND IS PART OF THE LOCAL GOVERNMENT PENSION SCHEME AND IS ADMINISTERED BY SHROPSHIRE COUNCIL. THE COUNCIL IS THE REPORTING ENTITY FOR THIS PENSION FUND.

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- The LGPS (*Benefits, Membership and Contributions*) Regulations 2007 (*as amended*).
- The LGPS (*administration*) Regulations 2008 (*as amended*).
- The LGPS (*Management and Investment of Funds*) Regulations 2009.

It is a contributory defined pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area.

The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of all participating employers in the Shropshire County Pension Fund can be found on page 7.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (*benefits,*

membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuation. The last valuation was as at 31 March 2010.

Pension benefits under the LGPS are based on final pensionable pay and Length of pensionable service as summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 X final pensionable salary	Each year worked is worth 1/60 X final pensionable salary
Lump sum	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

NOTE 2

BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its position at year end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (*IFRS*), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

NOTE 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUND ACCOUNT

Contribution Income

Normal contributions, both from the member and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers' augmentation and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset and amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 8). Individual transfers in/out are accounted for on a receipts and payments basis. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective rate of interest of the financial instrument as at the date of acquisition or origination. Income includes the difference between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net asset statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004

and is therefore exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises and in 2011/12 this figure is £155,511.

Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Shropshire Council's policy.

Investment management expenses

All investment managers expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in each of their mandates governing their appointment broadly based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

The cost of obtaining investment advice from consultants is also included in investment managers expenses.

NET ASSETS STATEMENT

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. The values of investments as shown in the net assets statement have been determined as follows:

- I. Market quoted investments are valued by the bid market price ruling on the final day of the accounting period.
- II. Fixed interest securities are recorded at net market value based on their current yields.
- III. Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the fund manager
- IV. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. If single priced valued at the single price.
- V. Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rate at the date of transaction.
- VI. The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. They are valued at fair value at bid prices and liabilities fair valued at offer prices. The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined

as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

- VII. Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.
- VIII. The Fund recognises financial liabilities at fair value as at the reporting date and is recognised in the net assets statement on the date the Fund becomes party to the liability.

NOTE 4 CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers set out by the British Venture Capital Association.

The pension fund liability is calculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

NOTE 5 ASSUMPTIONS MADE ABOUT ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates used.

The items in the net assets statement as at 31 March 2012 for which there is a risk that the assumption or estimate could be misstated are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £51.7 million. There is a risk that this investment may be under or overstated in the accounts.
Hedge Fund of Funds	The fund of funds is valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £89.76 million. There is a risk that these investments may be under- overstated in the accounts.

NOTE 6 TAXES ON INCOME

The table below breaks down the taxes on income by asset class:

2010/11 £m		2011/12 £m
0.000	Withholding tax - Fixed interest securities	0.000
0.197	Withholding tax - equities	0.133
0.000	Withholding tax - pooled	0.023
0.197		0.156

NOTE 7 INVESTMENT INCOME

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

2010/11 £m		2011/12 £m
1.086	Interest from Fixed Interest Securities	1.170
10.366	Dividends from equities	11.318
0.000	Income from index-linked securities	0.000
0.512	Income from pooled investment vehicles	1.127
0.058	Interest on cash deposits	0.054
8.394	Other	9.111
20.416		22.780

NOTE 8 ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

This table provides further analysis of contributions received and benefits paid between the Administering Authority (*Shropshire Council*), Designated Bodies and Scheme Employers (*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*).

	Administering Authority	Admission Bodies	Designation Bodies / Scheme Employers	Total
2011/12	Contributions Received			
Employees	6.961	1.768	5.476	14.205
Employers	21.417	5.199	16.178	42.794
Transfers In	1.911	0.358	1.600	3.869
Total Income	30.289	7.325	23.254	60.868
	Payments Made			
Pensions	25.730	4.594	10.100	40.424
Lump Sums	5.639	1.360	5.766	12.765
Death Benefits	0.561	0.081	0.509	1.151
Refunds	0.001	0.005	0.001	0.007
Transfers Out	1.931	0.187	1.445	3.563
Administration Fees	1.039	0.000	0.000	1.039
Total Expenditure	34.901	6.227	17.821	58.949
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

NOTE 9

ADMINISTRATION EXPENSES

The costs incurred by the Council in administering the Fund totalled £1.039 million for the year ended 31 March 2012. A breakdown of the significant items is shown below:

2010/11 £m		2011/12 £m
0.925	Employee costs	0.863
0.035	IT	0.075
0.015	Legal and Committee	0.015
0.032	External Audit Fees	0.035
0.008	Office Accomodation	0.008
0.016	Internal Audit	0.013
0.029	Other Costs	0.030
1.060		1.039

NOTE 10

INVESTMENT EXPENSES

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the funds 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 outperformance.

2010/11 £m		2011/12 £m
6.680	Management Fees	5.675
0.377	Custody Fees	0.347
0.124	Investment Advisory Fees	0.175
0.066	Actuarial Fees - investment Consultancy	0.022
7.247		6.219

NOTE 11 RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

Investment type	Value as at 1 April 2011 £m	Purchases at cost & derivative payments £m	Sale proceeds & derivative receipts £m	Other cash transactions	Change in market value £m	Value as at 31 March 2012 £m
Fixed Interest Securities - Public Sector	33.373	76.664	(72.015)		2.799	40.821
Equities	458.594	219.144	(208.727)		(3.636)	465.375
Pooled Investment Vehicles - Unitised Investment Vehicles	86.258	0.000	0.000		18.221	104.479
Pooled Investment Vehicles - Other Managed Funds	394.912	7.663	(2.315)		8.103	408.363
Derivative contracts	(5.005)	0.000	(0.065)		6.216	1.146
	968.132	303.471	(283.122)	0.000	31.703	1020.184
Cash deposits - with Managers	57.042			(1.336)	(0.040)	55.666
Cash deposits - margin balances	4.376			(0.883)		3.493
Temporary Investments	9.550			(4.940)		4.610
TOTAL	1039.100	303.471	(283.122)	(7.159)	31.663	1083.953

NOTE 12 ANALYSIS OF DERIVATIVES

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 to 31 March 2012 currency hedges made a realised loss of £1.458 million which was offset by currency gains 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	Currency bought	Currency sold	Asset	Liability
			000's		
Forward OTC	3 months	British pound	178,008	Australian dollar	161
Forward OTC	3 months	British pound	167,483	Swiss franc	13
Forward OTC	3 months	British pound	1,004,577	Euro	152
Forward OTC	3 months	British pound	1,623,774	Hong Kong dollar	114
Forward OTC	3 months	British pound	41,115,307	Japanese Yen	(355)
Forward OTC	3 months	British pound	27,684	Singapore dollar	5
Forward OTC	3 months	British pound	2,777,522	US dollar	825
Forward OTC	3 months	British pound	217,895	South African Rand	19
Forward OTC	3 months	British pound	387,186	Swedish Krona	(25)
Forward OTC	3 months	British pound	125,365	Danish Krona	2
Forward OTC	3 months	British pound	51,218	Brazilian Real	8
Forward OTC	3 months	British pound	331,054,359	Indian Rupee	27
Forward OTC	3 months	British pound	2,490,565	Indonesian Rupiah	6
Forward OTC	3 months	British pound	70,668	Malaysian Ringgit	2
Forward OTC	3 months	British pound	1,897,823	New Taiwan Dollar	30
Forward OTC	3 months	British pound	147,633,032	South Korean Won	83
Forward OTC	3 months	British pound	8,144	Canadian Dollar	(5)
Forward OTC	3 months	British pound	53,505.92	Mexican Peso	(8)
Forward OTC	3 months	British pound	122,237	Norwegian Krona	7
Forward OTC	3 months	British pound	70,708	New Zealand Dollar	17
TOTAL				1,471	(393)

NOTE 13 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 £0.055 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's	Asset £000's	Liability £000's
Equity Derivatives					
Future	3 months	Australia	(1,931)		(39)
Future	3 months	France	4,699		(110)
Future	3 months	Germany	16,415		(309)
Future	3 months	Hong Kong	(1,098)	22	
Future	3 months	Japan	12,534	518	
Future	3 months	Singapore	(415)	2	
Future	3 months	Switzerland	4,840		(23)
Future	3 months	UK	(3,620)	68	
Future	3 months	US	1,409	22	
Fixed Income Derivatives					
Future	3 months	Canada	84		
Future	3 months	Germany	2,863		(21)
Future	3 months	Japan	7,730	1	(9)
Future	3 months	UK	3,852	42	
Future	3 months	US	10,615	1	(98)
Cash Derivatives					
Future	21 months	US	2,403		
TOTAL				676	(609)

NOTE 14 SECURITIES LENDING

In February 2011 the Fund reactivated its arrangement with its Custodian (*Northern Trust*) to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (*the highest rated collateral available*). Collateralised lending generated income of £53,455 in 2011/12 and this is included within investment income in the Pension Fund Account.

As at 31 March 2012 £19,375,391 worth of stock (*approx. 2% of the Fund*) was on loan, for which the Fund was in receipt of £20,406,054 worth of collateral.

NOTE 15 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 2011/12 was £1,164.



**CLOSING
DOWN ON
RISK**

NOTE 16 FINANCIAL INSTRUMENTS

NOTE 16A Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (*excluding cash*) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2011			31 March 2012		
Fair value through profit & loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
£m	£m	£m	£m	£m	£m
Financial Assets					
33.373			40.821		
458.594			465.375		
86.258			104.479		
394.912			408.363		
0.877			2.147		
	70.992			63.780	
	3.999			6.306	
974.014	74.991	0.00	1021.185	70.086	0.00
Financial liabilities					
(5.882)			(1.001)		
		(4.570)			(3.243)
(5.882)	0.00	(4.570)	(1.001)	0.000	(3.243)
968.132	74.991	(4.570)	1020.184	70.086	(3.243)

NOTE 16B Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken quarterly. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Asset Type	Investment Manager	Investment Type	Market Value £m	Level 1 £m	Level 2 £m	Level 3 £m
2011/12						
Fixed Interest Securities	Strategic Fixed Income	Global Government Bonds	40.821	40.821		
Equities	Majedie Asset Management	UK Equities	152.097	152.097		
	Legal & General	European Equities	78.228	78.228		
	F&C Management Ltd	Emerging Market Equities	47.386	47.386		
	Martin Currie Ltd	Pacific Equities	48.808	48.808		
	Baillie Gifford & Co	Japanese Equities	46.207	46.207		
	Goldman Sachs Asset Management	US Equities	107.488	107.488		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	104.479	104.479		
	Pimco Europe Ltd	Global Aggregate Bonds	110.333	110.333		
	MFS	Global Equities	106.881	106.881		
	Man Investment Ltd	Hedge Fund	54.974			54.974
	HarbourVest Partners Ltd	Private Equity	51.367			51.367
	Aberdeen Property Investors	Property Unit Trusts	35.182		35.182	
	Blackrock	Hedge Fund	34.783			34.783
Cash and cash equivalents			66.848	66.848		
Net derivative assets			1.145	1.145		
			1087.027	910.721	35.182	141.124
2010/11						
Fixed Interest Securities	Strategic Fixed Income	Global Government Bonds	33.372	33.372		
Equities	Majedie Asset Management	UK Equities	144.077	144.077		
	Legal & General	European Equities	88.165	88.165		
	F&C Management Ltd	Emerging Market Equities	51.853	51.853		
	Martin Currie Ltd	Pacific Equities	47.189	47.189		
	Baillie Gifford & Co	Japanese Equities	44.319	44.319		
	Goldman Sachs Asset Management	US Equities	97.562	97.562		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	86.258	86.258		
	Pimco Europe Ltd	Global Aggregate Bonds	102.790	102.790		
	MFS	Global Equities	100.591	100.591		
	Man Investment Ltd	Hedge Fund	57.823			57.823
	HarbourVest Partners Ltd	Private Equity	48.080			48.080
	Aberdeen Property Investors	Property Unit Trusts	36.527		36.527	
	Blackrock	Hedge Fund	34.522			34.522
Cash and cash equivalents			70.430	70.430		
Net derivative assets			(5.005)	(5.005)		
			1038.553	861.601	36.527	140.425

NOTE 17

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (*i.e. promised benefits to pay members*). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (*price, currency and interest rate risk*) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Market Risk

The risk that the value of a portfolio will decrease due to the change in value of market risk factors. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

Excessive volatility in market risk is managed through the diversity of the portfolio of geographical and industry sectors and individual securities. To mitigate market risk the Pension Fund Officers and the Fund investment

advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	15.2%
Global Equities	14.2%
Global Aggregate Bonds	2.3%
Property	5.8%
Private Equity	10.4%
Hedge Funds	3.9%
Global Government Bonds	2.8%
UK ILG Over 5yrs	7.6%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (*the prior year comparator is shown below*):

Asset Type	Value as at 31 March 2012 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
2011/12				
Cash & cash equivalents	66.854	0.0	66.854	66.854
Investment Portfolio Assets				
UK Equities	164.457	15.2	189.454	139.460
Overseas Equities	422.637	14.2	482.651	362.623
Corporate Bonds	110.332	2.3	112.870	107.794
Property	35.182	5.8	37.223	33.141
Private Equity	51.367	10.4	56.709	46.025
Hedge Funds	89.753	3.9	93.253	86.253
Global Government Bonds	40.821	2.8	41.964	39.678
UK Index linked Gilts over 5 years	104.479	7.6	112.419	96.539
Net derivative assets	1.145	0.0	1.145	1.145
Total assets available to pay benefits	1,087.027		1,194.543	979.511

Asset Type	Value as at 31 March 2011 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
2010/11				
Cash & cash equivalents	70.430	0.0	70.430	70.430
Investment Portfolio Assets				
UK Equities	155.483	15.2	179.116	131.850
Overseas Equities	418.273	14.2	477.668	358.878
Corporate Bonds	102.790	2.3	105.154	100.426
Property	36.527	5.8	38.646	34.408
Private Equity	48.080	10.4	53.080	43.080
Hedge Funds	92.345	3.9	95.946	88.744
Global Government Bonds	33.372	2.8	34.306	32.438
UK Index linked Gilts over 5 years	86.258	7.6	92.814	79.702
Net derivative assets	(5.005)	0.0	(5.005)	(5.005)
Total assets available to pay benefits	1,038.553		1,142.156	934.950

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- one percent change in interest rates assuming all variables remain constant.

Asset Type	Carrying amount £	Change in year in the net assets available to pay benefits	
		+1% £	-1% £
As at 31 March 2012			
Cash deposits	55,666,054	556,661	(556,661)
Cash balances	11,393	110	(110)
Total change in assets available	55,677,447	556,771	(556,771)
As at 31 March 2011			
Cash deposits	57,042,044	570,420	(570,420)
Cash balances	24,140	241	(241)
Total change in assets available	57,066,184	570,661	(570,661)

As at 31 March 2012 the Fund also had £4.610 million of Pension Fund revenue cash invested. £2.610 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 £2,610. Similarly, the impact of a 1% fall in interest rates would be a £2,610 reduction in interest received. The Fund also had £2,000,000 invested in fixed term deposits and the fair value of this as at 31 March 2012 would have been £2,000,298.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than £ sterling.

The following table summarises the Fund's currency exposure as at 31 March 2012 and as at the previous year end :

Currency exposure - Asset type	Asset value as at 31 March 2012 £m	Asset value as at 31 March 2011 £m
Overseas Equities	425.341	421.854
Overseas Private Equity	51.725	49.141
Overseas Pooled Property	22.519	23.857
Overseas Government Bonds	38.203	31.087
Total overseas assets	537.788	525.939

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation). A 10% fluctuation in the currency is considered reasonable based on historical movements in the month end exchange rates over a rolling 36 month period assuming all other variables remain constant.

A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - Asset type	Asset value £	Change to net assets available to pay benefits*	
		5%	-5%
As at 31 March 2012			
Overseas Equities	425.341	446.608	404.074
Overseas Private Equity	51.725	54.311	49.139
Overseas Pooled Property	22.519	23.645	21.393
Overseas Government Bonds	38.203	40.113	36.293
Total change in assets available	537.788	564.677	510.899
As at 31 March 2011			
Overseas Equities	421.854	442.947	400.761
Overseas Private Equity	49.141	51.598	46.684
Overseas Pooled Property	23.857	25.050	22.664
Overseas Government Bonds	31.087	32.641	29.533
Total change in assets available	525.939	552.236	499.642

*Shropshire County Pension Fund has an overall 10% currency risk based on holdings, however, as 50% of all foreign currency is passively hedged, the figures above show a 5% risk.

Credit Risk

Credit risk is the risk that the counterparty to a transaction will fail to discharge an obligation and the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and therefore the risk of loss is provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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 of 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 counterparties 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 continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

	Rating	Balances as at 31 March 2012 £	Balances as at 31 March 2011 £
NatWest Instant Access Account	A	2,610,000	3,870,000
Birmingham City Council	N/A		3,100,000
City of Leeds Council	N/A		2,000,000
Lloyds TSB	A	1,000,000	580,000
Barclays	A	1,000,000	
TOTAL		4,610,000	9,550,000

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that there is adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also to meet investment commitments.

The Fund has immediate access to cash through the instant access account which at any one time could have up to £4 million available. The Fund does not have access to an overdraft facility.

NOTE 18 FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (*Administration*) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation was undertaken as at 31 March 2010. The next valuation will take place as at 31 March 2013.

The key elements of the funding policy are :

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible

The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The Funding strategy statement specifies a target period for achieving full funding of 19 years (*22 years as at the 2007 valuation*). For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2010 actuarial valuation, the Fund was assessed as 81% funded (*85% at the March 2007 valuation*). This corresponded to a deficit of £226 million (*2007 valuation was £156 million*) at that time. Revised contributions set by the 2010 valuation were introduced in 2011/12 and the common contribution rate (*i.e. the average employer contribution rate in respect of future service only*) is 11.6% of pensionable pay. The valuation of the Fund has been undertaken by the projected unit method under which the salary increases assumed for each member are projected until the member is assumed to leave active service.

NOTE 19 ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2012. An analysis of debtors is shown below:

2010/11 £m		2011/12 £m
0.000	Central Government bodies	0.007
1.391	Other Local Authorities	3.702
0.000	NHS Bodies	0.000
1.844	Public Corporations	0.000
0.764	Other entities and individuals	2.597
3.999		6.306

NOTE 20 ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2012. An analysis of creditors is shown below:

2010/11 £m		2011/12 £m
0.106	Central Government bodies	0.288
2.268	Other Local Authorities	1.795
0.000	NHS Bodies	0.000
0.000	Public Corporations	0.000
2.196	Other entities and individuals	1.160
4.570		3.243

NOTE 21 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 503 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2011/12 contributions to the schemes amounted to £889,120. The combined value of the AVC funds as at 31 March 2012 was £4,440,991.

NOTE 22 VALUE ADDED TAX

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



**STEPPING
UP**

NOTE 23

CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by 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.

NOTE 24

CONTRACTUAL COMMITMENTS

The Fund has a 5% (£54 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 2012 £79.356m 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 2012 the funds Private Equity investments totalled £51.73m.

NOTE 25

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. The Audit Certificate is published within this report.

NOTE 26

PENSION FUND BANK ACCOUNT

In March 2010 a separate bank account was opened for the Shropshire County Pension Fund and from the 1 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 31 March 2012 £4.610 million was invested. The cash balance in the Pension Fund account as at the same date was £11,393. 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.

NOTE 27

RELATED PARTY TRANSACTIONS

The Shropshire County Pension Fund is administered by Shropshire Council. Consequently there is a strong relationship between the Council and the Pension Fund. Shropshire Council incurred costs of £969,405 (2010/11 £1,016,447) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

Shropshire Council is also the single largest employer of members of the pension fund and contributed £19 million (2010/11 £18.972 million). All monies owing to the Fund were paid across in the year. The Scheme Administrator of the Shropshire County Pension Fund is also the Head of Finance and Commerce for Shropshire Council.

Several employees of Shropshire Council have responsibilities in relation to the financial management of the Shropshire County Pension Fund. The Corporate Head of Finance and Commerce, the Treasury and Pensions Service Manager, the Treasury Accountant, the Investment Officer and the Pensions Manager are all active members of the Fund. Further information regarding these costs are detailed in note 9.

Under legislation, introduced in 2003/04, Councillors are entitled to join the scheme and three Members of the Pension Fund Committee are Members of the Fund. These are Thomas Biggins, Malcolm Pate and Andrew B Davies.

Charles Tranter and John Fox, employee representatives are also both scheme members as is Ron Pugh, Pensioner representative.

NOTE 28

CONTINGENT ASSETS

6 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

NOTE 29

EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2012, and up to date when these accounts were authorised, that require any adjustments to these accounts.

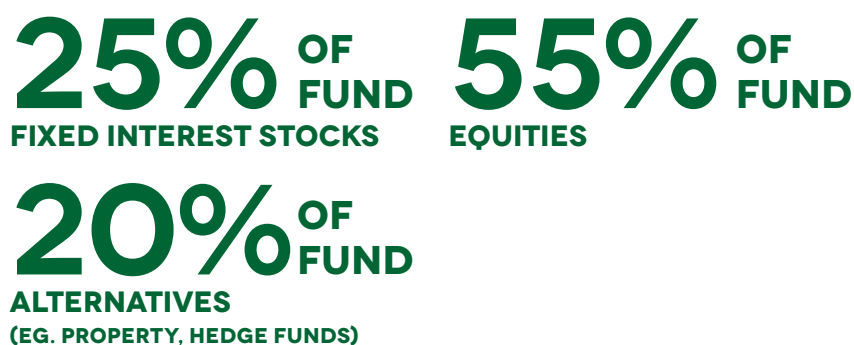
INVESTMENTS

INVESTMENT OF FUNDS

THE FUND PURSUES A POLICY OF MANAGING RISK BY DIVERSIFYING BOTH INVESTMENTS AND INVESTMENT MANAGERS.

The Fund's 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. Assets are held by the Fund in order to achieve returns consistent with the cost of future pension liabilities as assessed by the actuary. Actuarial valuations are undertaken every three years with the next valuation due in 2013.

FOR 2011/12 THE FUND'S STRATEGIC ALLOCATION WAS:



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.

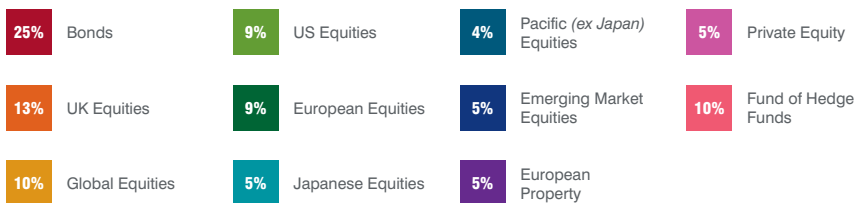
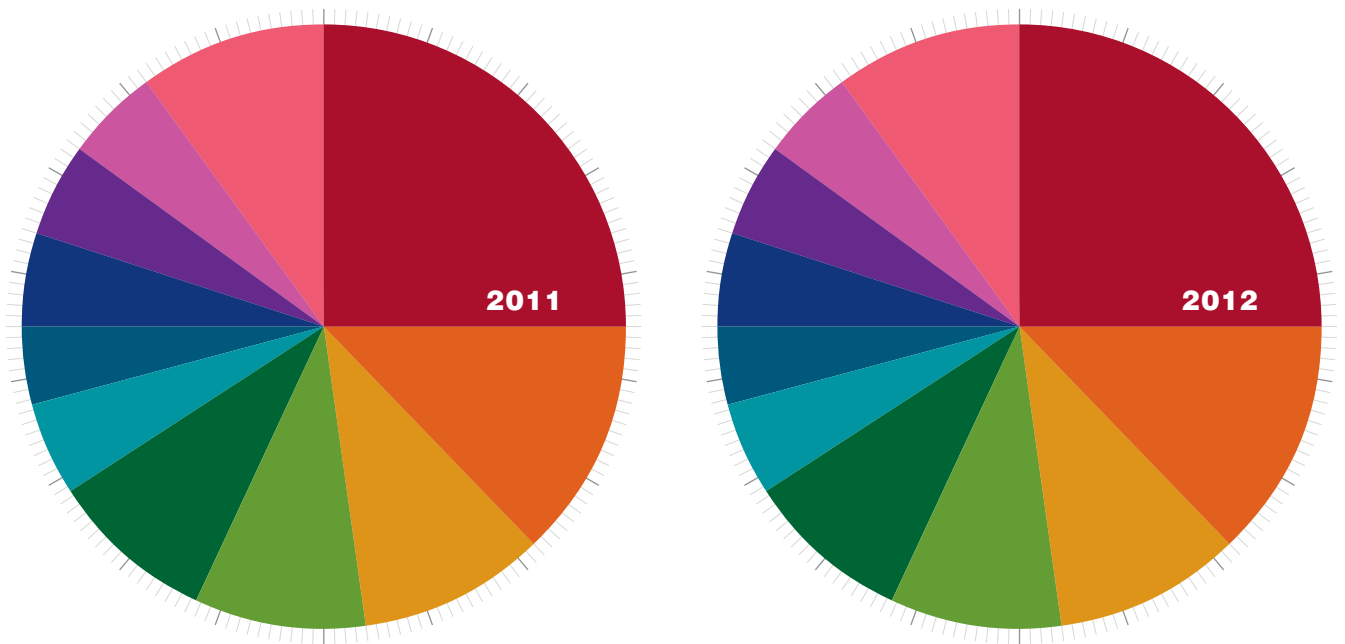
In April 2011 the Fund appointed an Infrastructure Manager, Global Infrastructure Partners, to manage a 3% allocation of the Fund following a tender process. It will take a number of years to invest the full 3% allocation as the arrangement is similar to our Private Equity manager with capital calls made as and when investment opportunities are identified. It is expected that this appointment will help maintain the high standards expected from Shropshire's investment managers.

The Fund's strategic asset allocation did not change during the year as illustrated in the pie charts opposite.

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 2011 & 31 MARCH 2012



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	14.65	159.316	UK Equities
PIMCO Europe Ltd	10.15	110.333	Global Aggregate Bonds
Goldman Sachs Asset Management	10.01	108.832	US Equities
MFS	9.83	106.881	Global Equities
Legal & General Investment Managers	9.61	104.479	UK Index Linked Bonds
Legal & General Investment Managers	7.20	78.228	European Equities
Man Investment Ltd	5.06	54.974	Hedge Fund
HarbourVest Partners Ltd	4.76	51.725	Private Equity
Martin Currie Investment Management Ltd	4.56	49.565	Pacific Equities
F&C Management Ltd	4.41	47.929	Emerging Markets
Baillie Gifford & Co	4.31	46.852	Japanese Equities
Strategic Fixed Income	4.20	45.630	Global Bonds
Aberdeen Property Investors	3.44	37.402	Property Unit Trusts
Russells Investment Group	3.42	37.156	Futures
Blackrock	3.20	34.783	Hedge Fund
Other	0.48	5.258	Other
Total Assets Held by Fund Managers	99.29	1,079.343	
Net Current Assets	0.71	7.684	Net Current Assets
Total Fund	100.00	1,087.027	

MAJOR SHAREHOLDINGS AT 31 MARCH 2012

Value held £m

% of fund

UK

01. BP Ord
02. Vodafone Group
03. GlaxoSmithKline
04. Royal Dutch Shell
05. BAE Systems
06. AstraZeneca
07. HSBC Holdings
08. BT Group
09. Barclays Ord
10. Pearson

Overseas

11. Nestle SA
12. Samsung Electronic
13. Apple Inc
14. Linde AG
15. Exxon Mobil Corp
16. Walt Disney Co
17. Heineken NV*
18. Taiwan Semicon
19. Microsoft Corp
20. China Construction

UK Equities



Overseas Equities



INVESTMENT PERFORMANCE

THE LAST YEAR HAS SEEN MODEST RETURNS IN STOCK MARKETS AROUND THE WORLD.

IN 2011/12 FINANCIAL MARKETS WERE APPREHENSIVE AND FEARFUL OF ANOTHER FINANCIAL CRISIS PROMPTED BY A GREEK GOVERNMENT DEBT DEFAULT.

Despite the European Central Bank (ECB) calming market concerns of a liquidity crisis among European Union banks by making available loans totalling close to €1 trillion at 1%, the Greek Government agreeing another major austerity package and private creditors agreeing to take a discount on the value of Greek debt they held, major concerns remain that these measures were merely a postponement of the debt crisis rather than a solution.

DESPITE THIS, DURING THE YEAR THE SHROPSHIRE FUND INCREASED IN VALUE BY OVER £48 MILLION TO BE VALUED AT £1.087 BILLION AT THE END OF THE YEAR.

4.7% >
FUND VALUE INCREASE

|

1.2% >
OVER BENCHMARK

THE FUND INVESTS IN A RANGE OF ASSET CLASSES SO AS TO DIVERSIFY RISK AND PROVIDE MORE STABLE RETURNS. THE FUND DOES NOT TYPICALLY EXPECT ALL OF ITS INVESTMENTS TO PERFORM WELL AT THE SAME TIME, THIS WAS HIGHLIGHTED DURING THE LAST YEAR.

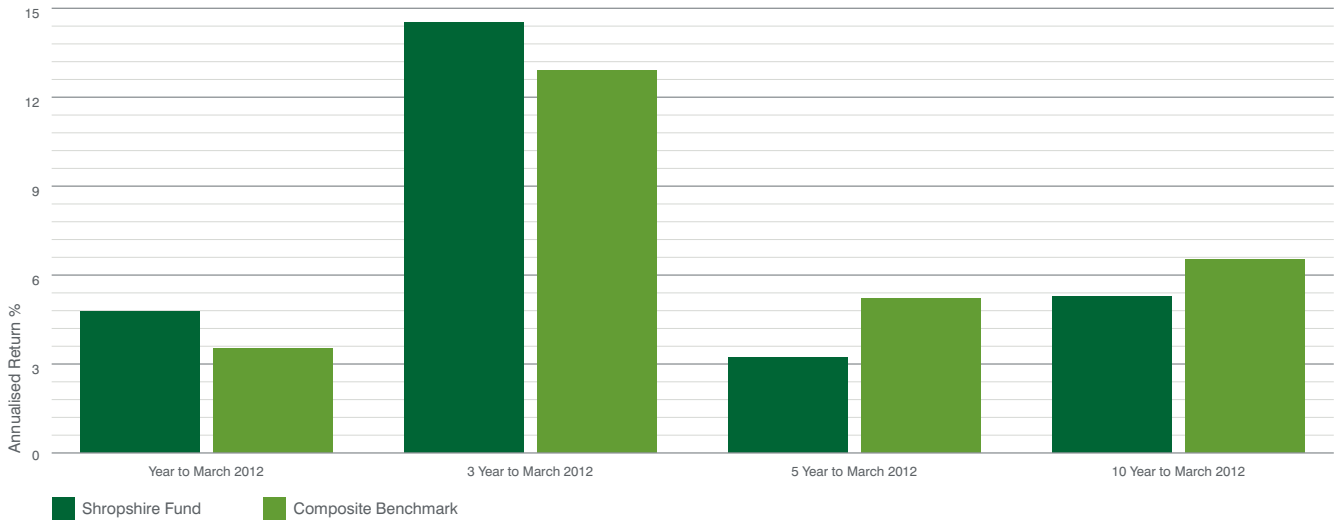
The Shropshire Fund benefited from strong investment returns in a number of markets including Index Linked Bonds where the Fund's investments increased in value by over 21% in the year. The Funds Global Government Bond portfolio achieved a return of 8% with Global Aggregate Bonds achieving a return of over 7% in the year. The Fund has also achieved strong returns in US Equities which delivered an investment return of over 10% and UK Equities which achieved a return of over 6% in the year. Returns in Private Equity were also positive, earning just below 6%.

The asset classes which produced negative returns during the financial year were Europe (ex UK) Equities, Emerging Market Equities, Fund of Hedge Funds and Property. The Fund's European Equities portfolio fell by over 11% in line with its benchmark and was impacted by the continued Eurozone debt crisis. The MSCI Emerging Market Index also fell by over 8% during the year which impacted on the performance of the Fund's Emerging Market Equities portfolio.

GRAPH 1: WHOLE FUND PERFORMANCE

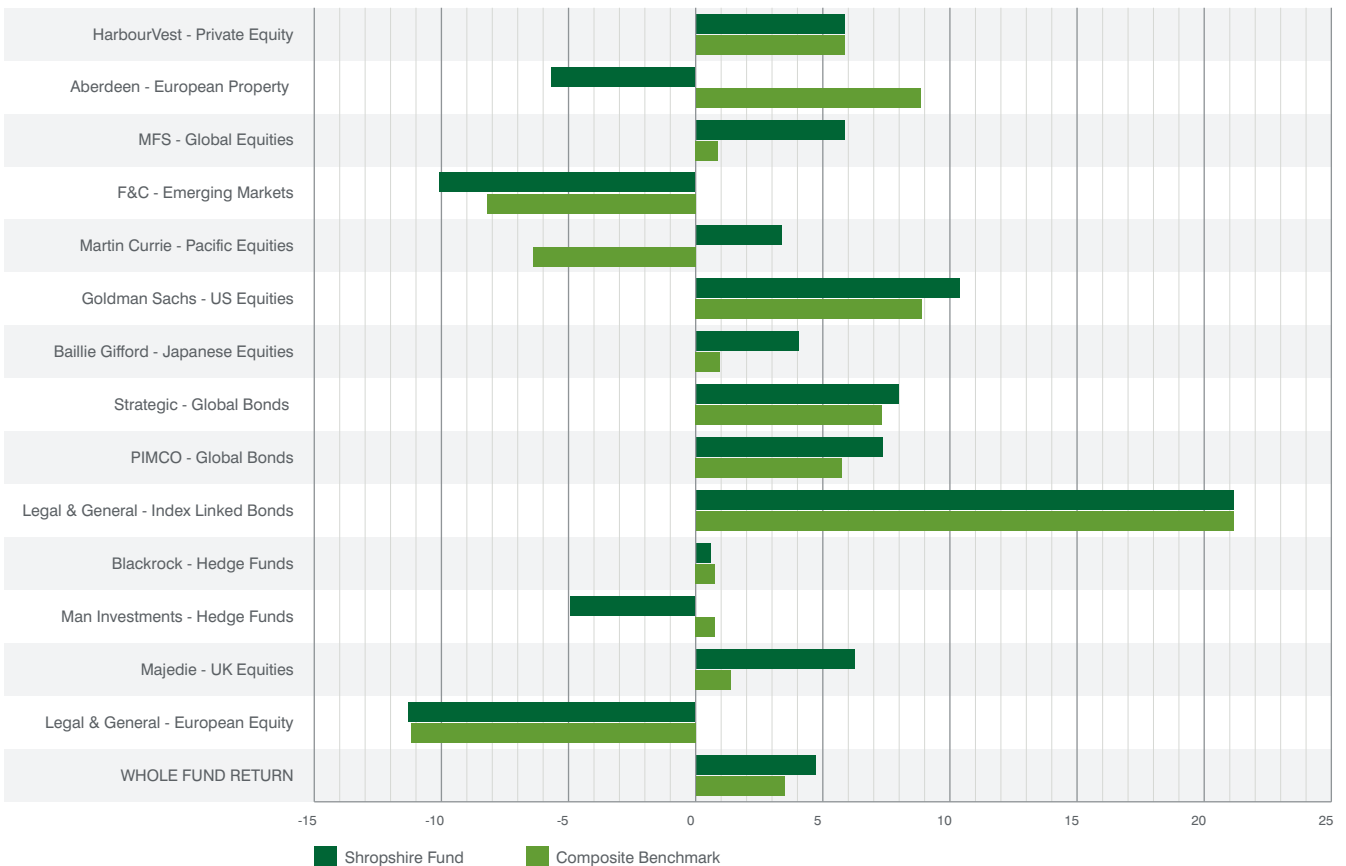
The chart below shows total fund investment returns compared with the benchmark. The stock markets that make up the benchmark showed positive returns in 2011/12 of 3.5%. The Fund increased in value by 4.7% over the year outperforming its benchmark by 1.2%. Overall the Fund has increased in value by an average of 5.2% 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 2: INDIVIDUAL FUND MANAGER PERFORMANCE

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. Manager performance compared to their benchmark for the year is shown in the table below



CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE ENGAGEMENT

THE SHROPSHIRE COUNTY PENSION FUND TAKES CORPORATE GOVERNANCE & 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 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 80 UK and 169 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 the 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 portfolios. 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: In 2011 F&C joined a small group of independent experts, think tanks and activist groups to meet with senior executives at BP to advise on emerging issues. F&C participated for the second time in this high-level stakeholder forum addressing the lessons learned and next steps following the 2010 Gulf of Mexico disaster. F&C urged BP to widen the scope of the forum's agenda to tackle the challenge caused by climate change, by developing a coherent strategy over the next 20-30 years to reposition the company for a low-carbon economy, as well as adopting a more proactive public policy stance.

LOCAL AUTHORITY PENSION FUND FORUM

Shropshire remains a committed and active member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF brings together 55 public sector pension funds (as at 31 March 2012) 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:

NEWS CORP AND BSKYB

Due to poor corporate governance practices, News Corp has been on LAPFF's global focus list for two years, with engagement ongoing since 2010. The Forum had increased its engagement with the company in response to the phone-hacking scandal and issued a public statement opposing the election of Rupert & James Murdoch. A resolution which sought the appointment of an independent chair was also supported by LAPFF. LAPFF continues to push News Corp to reform its board in the wake of key results at October's AGM

ROYAL DUTCH SHELL

A complaint has been filed against Royal Dutch Shell, by Amnesty International and Friends of the Earth, over alleged breaches of basic standards for responsible business set out by the Organisation for Economic Co-operation and Development (OECD) guidelines for Multinational Enterprises. LAPFF has a long history of engagement with Shell over its human rights performance in Nigeria beginning in June 1995. Around this time the Forum became concerned about the extent of alleged human rights violations and environmental damage in the Niger Delta. In 1997 LAPFF brought a joint shareholder resolution to the AGM calling on the company to allocate responsibility at board level for social and environmental issues. A few months after the AGM, LAPFF considered that Shell had met most of the resolution's criteria. Since 2005, LAPFF have continued to engage with Shell on issues ranging from climate change and environmental performance and linking executive remuneration to these issues. Engagement with the company will continue to focus on ensuring procedures are rigorously followed.

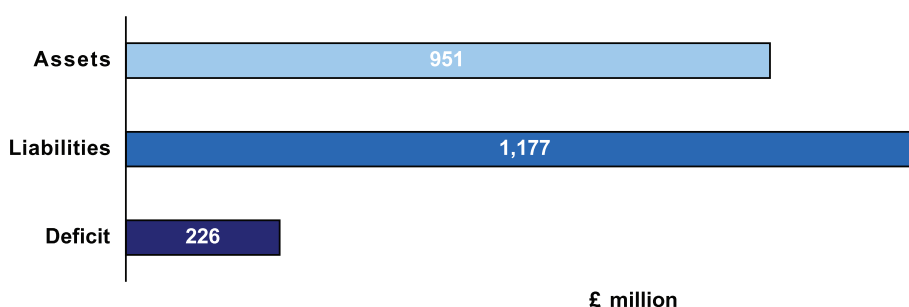
INDEPENDENT OPINIONS MERCER

STATEMENT BY THE CONSULTING ACTUARY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

THIS STATEMENT HAS BEEN PROVIDED TO MEET THE REQUIREMENTS 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.

On the basis of the assumptions adopted, the Fund's assets of £951 million represented 81% of the Fund's past service liabilities of £1,177 million (*the "Funding Target"*) 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.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. 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). 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 (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
• pre retirement	7.5% per annum	6.75% per annum
• post retirement	5.5% per annum	6.75% per annum
Rate of pay increases¹	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value. 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. To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases²	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the present value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £1,413 million and £1,540 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £52 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2012

1. Allowance was also made for short-term public sector pay restraint over a 2 year period, as announced in 2010 by the Government

2. A corresponding allowance to that made in the actuarial valuation has been made for short-term public sector pay restraint.

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 Corporate Head of Finance and Commerce and 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 13 September 2012.

Malcolm Pate
Vice Chair of Pensions Committee
13 September 2012

RESPONSIBILITIES OF CORPORATE HEAD OF FINANCE & COMMERCE & SCHEME ADMINISTRATOR AS CHIEF FINANCIAL OFFICER

The Corporate Head of Finance and Commerce and 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 Corporate Head of Finance and Commerce and Scheme Administrator:

- 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 Corporate Head of Finance and Commerce and 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 2012 and also that the Statement of Accounts complies with the requirements of the Accounts and Audit Regulations 2003, as Amended 2011.

Rachel Musson
Corporate Head of Finance and
Commerce and Scheme Administrator
13 September 2012



**SETTING THE
PACE**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

OPINION ON THE PENSION FUND ACCOUNTING STATEMENTS

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Shropshire Council 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 CORPORATE HEAD OF FINANCE & COMMERCE AND SCHEME ADMINISTRATOR AND AUDITOR

As explained more fully in the Responsibilities of Corporate Head of Finance & Commerce and Scheme Administrator as Chief Financial Officer, the Corporate Head of Finance & Commerce and Scheme Administrator is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Corporate Head of Finance & Commerce and Scheme Administrator; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

OPINION ON FINANCIAL STATEMENTS

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

OPINION ON OTHER MATTERS

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

MATTERS ON WHICH I REPORT BY EXCEPTION

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

Grant Patterson
District Auditor
Audit Commission
Opus House
Priestley Court
Staffordshire Technology Park
Beaconside
Staffordshire ST18 0LQ
24 September 2012

GLOSSARY

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.

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.



APPENDIX 01
GOVERNANCE COMPLIANCE STATEMENT

APPENDIX 02
FUNDING STRATEGY STATEMENT

APPENDIX 03
STATEMENT OF INVESTMENT PRINCIPLES

APPENDIX 04
COMMUNICATIONS POLICY STATEMENT

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. Myners' 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.

1. 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 (above CPI)	1.5%	1.5%
Discount rate (pre retirement)	7.5%	6.75%
Discount rate (post retirement)	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:

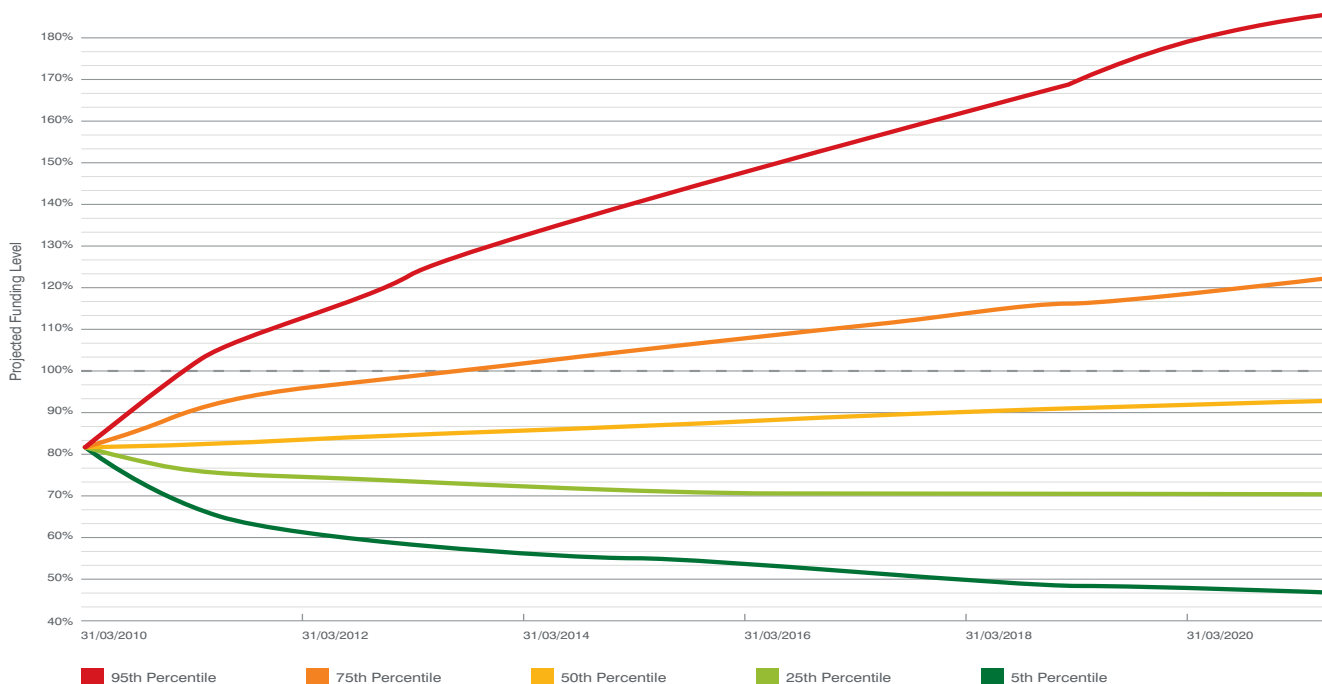
Asset class	Strategic allocation %
Matching Assets	
UK Index Linked Bonds	10
Global Aggregate Bonds	10
Global Aggregate Bonds	5
Total Matching Assets	25
Growth Assets	
UK Equities	10
Global Equity	10
US Equities	9
Europe (ex UK) Equities	9
Japan Equities	5
Pacific (ex Japan) Equities	4
Emerging Markets 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.



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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 Myers 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 Adminstrating 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.

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-Securitized)	+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	Comment/Examples	Development needs
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	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.	
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	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.	
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	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.	
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	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
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	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	
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	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.	



APPENDIX 01
GOVERNANCE COMPLIANCE STATEMENT

APPENDIX 02
FUNDING STRATEGY STATEMENT

APPENDIX 03
STATEMENT OF INVESTMENT PRINCIPLES

APPENDIX 04
COMMUNICATIONS POLICY STATEMENT

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

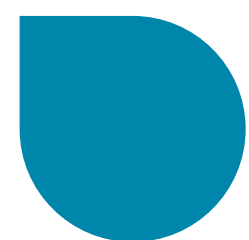
Website: www.shropshirecountypensionfund.co.uk

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

Communication Document/Tool	When Issued	Available To	Format	When Reviewed
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
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
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

ANNUAL **REPORT**



FURTHER INFORMATION

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, Guildhall, Frankwell Quay,
Shrewsbury, Shropshire. SY3 8HQ

Pensions Helpline: (01743) 252130
E-mail: pensions@shropshire.gov.uk