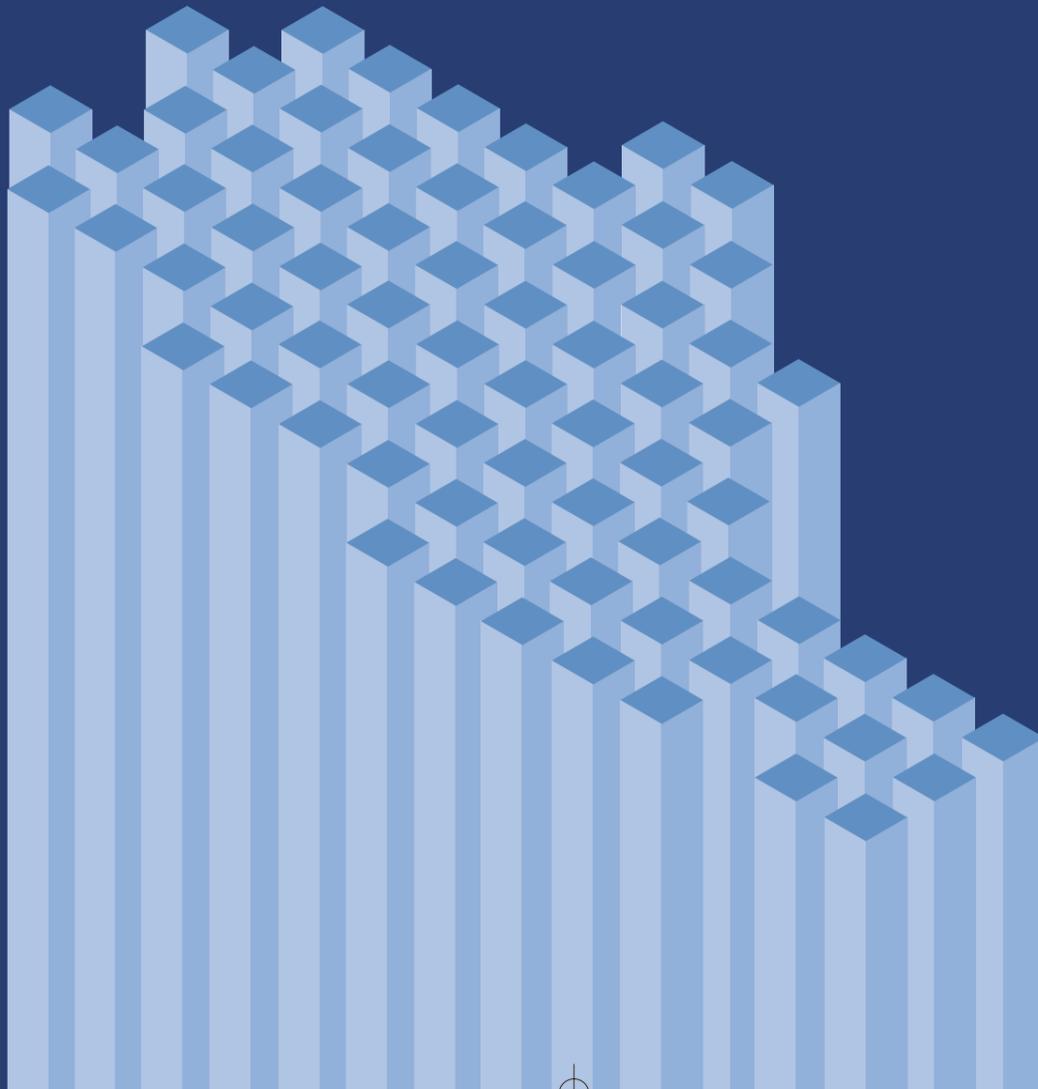




West Midlands Integrated Transport  
Authority (ITA) Pension Fund

# Annual Report 2009



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Pension Scheme Registry (OPRA) 10175688

## Chairman's Statement



**Councillor Gary Clarke**  
Chairman - West Midlands Integrated Transport Authority

Another year has passed for the West Midlands Integrated Transport Authority (ITA) Pension Fund. The market value of the Fund at the end of the 2008/09 year stood at £310m.

As you would expect due to recent events, investment issues are at the forefront of all pension fund managers' minds, and the Fund has maintained a cautious approach to investing during the recent difficulties within the financial markets.

The Local Government Pension Scheme (LGPS) funds across England and Wales are, in any event, backed by central and local government – with any pension benefits guaranteed, no matter what the financial markets bring.

Details of the exact benefits to be provided are set out within the relevant rules and regulations of the Scheme. The regulations themselves are formulated and written by The Department for Communities and Local Government (CLG).

To check the latest position of the LGPS or wish to view further Scheme literature, the administrator's website [wmpfonline.com](http://wmpfonline.com) has a wealth of information for members.

## Foreword

- 1) The following statements comprise the financial report for the **West Midlands Integrated Transport Authority (ITA) Pension Fund**. The accounts cover the financial year from **1 April 2008 to 31 March 2009**.
  - 2) This report has been prepared in accordance with the revised **Code of Practice on Local Authority Accounting in Great Britain** published by the Chartered Institute of Public Finance and Accountancy. For 2008/09 the report conforms with the revised **Statement of Recommended Practice on Financial Reports of Pension Schemes issued by the Pensions Research Accountants Group in 2007**. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.
  - 3) The report is set out in the following order:
    - **The Trustees' Report** which gives general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.
    - **The Investment Report** which gives investment managers and investment principles plus a review of investment performance at the year-end and custodial arrangements.
    - **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between 'Contributions and Benefits', and 'Returns on Investments'.
- **Net Assets Statement** which discloses the size and disposition of the net assets of the Scheme at the end of the year.
  - **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the accounting statements.
  - **The Compliance Statement** which gives the tax status of the scheme and pension increases during the year.
  - **Statement of Responsibilities for the Fund Accounts** which sets out the respective responsibilities of the Authority and the Treasurer for the Fund Accounts.

*James Aspinall*

**James Aspinall**  
Treasurer to the Integrated Transport Authority

Date: *23 November 2009*

*Geoff Inskip*

**Geoff Inskip**  
Clerk to the Integrated Transport Authority

Date: *23 November 2009*

# The Trustees' Report

## 1) General

The West Midlands Passenger Transport Authority Pension Fund was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English passenger transport authorities to integrated transport authorities. This was effective from the 9 February 2009 under Statutory Instrument 2009 No. 107 (C.08). The West Midlands Integrated Transport Authority is responsible for the administration of the Fund, but has appointed Wolverhampton City Council as agents to administer the Fund on its behalf. The West Midlands Integrated Transport Authority Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations 1997 (as amended).

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the Company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request. Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during the year, in return for a cash lump-sum payment. The four active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

Employees' contributions are payable at a variable rate of between 5.25% and 7.5% of pensionable pay depending on the level of pay, while employers' contributions are payable at the rate specified by the Fund's actuary, which for 2008/09 is 19.1% of pensionable pay.

## 2) Management of the Fund

The strategic management of the assets is fundamentally the responsibility of the Pension Fund Committee established by the ITA (the administering authority) which has representation from two admitted bodies.

The Committee determines the strategic management of the assets upon the professional advice it receives and the investment objectives set out.

During 2008/09, the members of the Committee were as follows:

- **Councillor Lines** (Chairman)
- **Councillor Choudhry**
- **Councillor Alden** (Vice-Chairman)
- **Councillor Cotterill**
- **Councillor Mattu**
- **Councillor Woodall**
- **Councillor Wilkes**

## 3) Membership

Membership of the West Midlands Integrated Transport Authority Fund at the year end was as follows:

	31 March	
	2009	2008
Active members	<b>982</b>	1,054
Pensioner members	<b>3,270</b>	3,182
Deferred members	<b>1,030</b>	1,058
<b>Total members</b>	<b>5,282</b>	5,294

#### 4) Advisors, Officers & Managers

Investments and pensions administration are complex areas and the Fund recognises the need for its Committee to receive appropriate and timely advice. The day-to-day oversight of the Fund is delegated to senior pension officers from the WMMAPF at Wolverhampton City Council. Against this background, its principal advisors are as follows:

Mercer Human Resource Consulting	Actuarial matters.
Mercer Investment Consulting	Policy and investment matters relative to liabilities.
West Midlands Pension Fund officers	General investment advice, oversight of cash-flows and pensions administration.
Audit Commission	Scheme auditors
HSBC Bank plc	Custodian
Prudential Assurance Ltd and Equitable Life	AVC providers
National Westminster Bank plc	Bankers
Legal & General Investment Management Ltd and Barclays Global Investors	Investment managers

#### 5) Trustee Training

Arrangements are made at each meeting for the relevant trustee members

The Fund develops its trustees through training and education using a variety of means which include presentations built into Committee meetings, ad hoc seminars and conferences, plus a comprehensive website.

At Committee meetings a wide range of topical investment issues are embraced and include socially responsible investing (SRI) and corporate governance, asset classes and investment products, the economy and market conditions. Delivery is by investment managers, consultants, investment specialists and senior officers.

Another area of trustee development and training is within the corporate governance and SRI arena. The Fund is a member of LAPFF, which is a body consisting of 49 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. LAPFF holds an annual two-day conference covering many different topics including those issues just cited. However, they also focus on other areas surrounding best practice and receive presentations from managers specialising in SRI and sustainable investments.

*Bruce Lines*

**Councillor Bruce Lines**

Date: *23 November 2009*

## Actuarial Valuation of the Fund

### Background

A full actuarial valuation of the West Midlands Passenger Transport Authority Pension Fund as at 31 March 2007 was made by Mercer Human Resource Consulting, the Fund's actuary. Contribution rates consist of a common rate, expressed as a percentage of employee's pensionable pay, payable by both employers together with a secondary rate which is assessed for each employer to reflect the individual circumstances of that employer.

The results of the valuation as at 31 March 2007 and the main actuarial assumptions used are shown below.

	31 March Valuation 2007	31 March Valuation 2004
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	19.1%	16.5%
Market value of the Fund	£374m	£300.7m
Actuarial value of the Fund	£402m	£340.4m
Funding level in relation to past service liabilities	93%	88.3%
Surplus (deficit) in relation to past service	(£28m)	(£39.7m)

### Valuation Assumptions

	2007 Funding Target	2007 Normal Cost	2004 Funding Target	2004 Normal Cost
Investment return pre-retirement	6.4% pa	6.4% pa	6.6% pa	6.5% pa
Investment return post-retirement	5.4% pa	5.4% pa	5.6% pa	6.5% pa
Salary increases+	4.6% pa	4.6% pa	4.3% pa	4.0% pa
Pension increases in payment	3.1% pa	3.1% pa	2.8% pa	2.5% pa
Non-retired members' mortality	2007 PA92 MC YoB tables + 1 year		2004 PA92 Base tables - 3 years	
Retired members' mortality	PA92 MC YoB tables + 1 year		PA92 Base tables - 3 years	

Following the 31 March 2007 valuation, employers' contribution rates for the period from 1 April 2008 to 31 March 2011 have been set at 19.1% plus £3,322,000 for the year 2008/09, £3,337,000 for the year 2009/10 and £3,353,000 for the year 2010/11 in respect of West Midlands Travel Ltd.

A rate of 0% plus £244,000 per annum was determined as the appropriate rate for Preston Bus Limited. This follows the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non-ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rates.

The next valuation is due at 31 March 2010.

The long-term obligations to pay benefits are dealt with in the actuary's statement (Rates and Adjustment Certificate issued in accordance with Regulation 77(7) & 77(3) of The Local Government Pension Scheme Regulations 1997 (as amended) and not in the accounts.

**Actuarial Valuation as at 31 March 2007**

## **Rates and Adjustments Certificate issued in accordance with Regulation 77**

**Name of Fund**

**West Midlands Passenger Transport Authority Pension Fund**

### **Regulation 77(3)**

We hereby certify that, in our opinion, the Common Rate of employers' contributions payable in each year of the period of three years beginning 1 April 2008 should be at the rate of 19.1 per cent of Pensionable Pay.

We hereby certify that, in our opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2008, as set out above, should be individually adjusted as set out in the attached Schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS Regulations for the calculation of employee contributions.

A further individual adjustment shall be applied in respect of each early retirement (including on the grounds of ill health) occurring in the period of the Rates and Adjustments Certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contribution rates set out in the attached Schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.

**Actuarial Valuation as at 31 March 2007**

**Regulation 77(7)**

No allowance for early retirements (including on the grounds of ill health) has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions.

**Signature**



**Name**

C R Hull

**Signature**



**Name**

Paul Middleman

**Date of signing**

31 March 2008

**Schedule to the Rates and Adjustment Certificate dated 31 March 2008**

Employer	2008/09		2009/10		2010/11	
	Individual Adjustment	Total Contribution Rate	Individual Adjustment	Total Contribution Rate	Individual Adjustment	Total Contribution Rate
West Midlands Travel Limited	£4,393,000	19.1% plus £4,393,000	£4,408,000	19.1% plus £4,408,000	£4,424,000	19.1% plus £4,424,000
Preston Bus Limited	-19.1% plus £244,000	£244,000	-19.1% plus £244,000	£244,000	-19.1% plus £244,000	£244,000

## The Statement of Responsibilities for the Fund Accounts

### The Integrated Transport Authority's Responsibilities

#### The Authority is required:

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

### The Treasurer's Responsibilities

The Treasurer to the authority is responsible for the preparation of the Fund accounts through its agents Wolverhampton City Council which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2009.

The Treasurer is satisfied that the accounts have been prepared on the basis that:

- suitable accounting policies have been selected and then applied consistently;
- judgements and estimates have been made which were reasonable and prudent;
- they comply with the Code of Practice.

#### The Treasurer has also secured that:

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

### Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of the West Midlands Integrated Transport Pension Fund at 31 March 2009 and the financial transactions for the year ended 31 March 2009.

*James Aspinall*

**James Aspinall**  
Treasurer of the Authority

Date: *23 November 2009*

### Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the West Midlands Integrated Transport Authority.

*Gary Clarke*

**Gary Clarke**  
Chairman to the Authority

Date: *23 November 2009*

# The Investment Report

## 1) Investment Manager

During 2008/09, the Scheme's investments have been managed by the following:

	Total Market Value £m
Legal and General Investment Management	233.4
Barclays Global Investors	74.6
	<b>308.0</b>

## 2) Investment Principles

As required by Section 35 of the Pensions Act 1995, a Statement of Investment Principles has been produced and is attached. This statement is reviewed no less frequently than every three years.

## 3) Review of Investment Performance

The gross returns achieved for the year ended 31 March 2009 are shown below:

Asset Classes	Legal and General		Barclays Global	
	Actual	Index	Actual	Index
<b>UK equities</b>	-29.6	-29.3	-	-
<b>Overseas equities</b>				
North America	-13.9	-14.0	-	-
Europe	-30.9	-31.4	-	-
Japan	-10.5	-10.8	-	-
Pacific Basin ex-Japan	-21.7	-22.4	-	-
Emerging markets	-25.7	-27.4	-	-
<b>UK gilts</b>	+10.3	+10.3	+7.4	+10.3
<b>Index-linked</b>	-1.4	-1.3	-	-
<b>Non-government bonds</b>	-5.9	-6.2	-6.7	-6.2
<b>Total</b>	<b>-14.5</b>	<b>-14.9</b>	<b>+0.4</b>	<b>+1.9</b>

Over the last five years, the Fund's returns, relative to the benchmark, are as follows:

	Year Ending 31 March				
	2005	2006	2007	2008	2009
Fund	10.6	20.8	4.2	1.7	-11.1
Benchmark	10.7	20.7	5.1	0.7	-11.2

The performance of the Fund is reviewed by an independent measurer, BNY Mellon Asset Servicing.

## 4) Custodial Arrangements

### Custodian: HSBC Bank plc

HSBC Securities Services, 8 Canada Square, London, E14 5HQ

Assets are held in the name of: HSBC Global Custody Nominee (UK) Ltd.

The Custodian is authorised and regulated by the Financial Services Authority and the Custodian shall take all reasonable steps to ensure the protection of the Client's assets in accordance with the FSA rules.

## Fund Account 2008/09

	Notes	2008/09 £000	2007/08 £000
<b>Contributions and Benefits</b>			
Contributions receivable	3	9,913	9,271
Transfers-in	4	0	0
<b>Total contributions and benefits income</b>		<b>9,913</b>	<b>9,271</b>
<b>Benefits payable</b>			
Benefits payable	5	21,756	21,541
Leavers	6	282	1,538
Other payments	7	11	9
Administration expenses	8	286	283
<b>Total contributions and benefits expenditure</b>		<b>22,335</b>	<b>23,371</b>
<b>Net withdrawals from dealings with members</b>		<b>(12,422)</b>	<b>(14,100)</b>
<b>Returns on Investments</b>			
Investment income	9	182	5,628
Change in market value of investments	10	(40,742)	520
Taxation		25	(219)
Investment management expenses	11	(360)	(694)
<b>Net return on investments</b>		<b>(40,895)</b>	<b>5,235</b>
<b>Net increase (decrease) in the Fund during the year</b>		<b>(53,317)</b>	<b>(8,865)</b>
<b>Net assets of the Fund at 1 April</b>		<b>365,069</b>	<b>373,934</b>
<b>Net assets of the Fund at 31 March</b>		<b>311,752</b>	<b>365,069</b>

### Net Assets Statement as at 31 March 2009

	Notes	2009 £000	2008 £000
Investment assets	10	309,950	363,564
Current assets	12	1,968	2,179
Current liabilities	12	(166)	(674)
<b>Net assets of the Scheme at 31 March</b>		<b>311,752</b>	<b>365,069</b>

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

# Notes to the Accounts

## 1) Basis of Preparation

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and Chapter 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007). The accounts were prepared on a going concern basis.

## 2) Statement of Accounting Policies

### a) Inclusion of Income and Expenditure

#### i) Fund account

In the Fund account, income and expenditure are accounted for in the year in which they arise by the creation of debtors and creditors at the year-end. However provision has not been made where the amount payable or receivable was not known at the year-end. (See Note 12).

#### ii) Contribution income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in note 5 of The Trustees' Report for basic contributions. Additional contributions as notified by employers for the period have also been included.

#### iii) Transfers to and from other schemes

Transfer values represent the amounts receivable and payable during the year for members who had either joined or left the Scheme as at 31 March 2009, calculated in accordance with the Local Government Pension Scheme Regulations. (See Notes 4 and 6). Transfers are accounted for on an accruals basis.

#### iv) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2009 relating to the financial year 2008/09.

#### v) Foreign currency transactions

Foreign currency transactions have been translated at the exchange rates ruling at the time of the transaction. End of year exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2009.

#### vi) Investment income

Dividends and interest have been accrued for in the accounts where amounts were known to be due at the end of the accounting period. Income accrued in unitised funds has been reinvested within those funds together with any reclaimed tax, and this is reflected in the unit price of each fund.

### b) Valuation of Investments

The market values of the pooled investment vehicles as shown in the net assets statement is at the bid-point of the latest price quoted.

### c) Monitoring and Benchmarking of Investment Management Expenses

Investment management expenses are monitored, whether in-house or externally managed. In addition, the return on investments is assessed independently by external specialists against the Fund's benchmarks and the industry generally.

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**3) Contributions Receivable**

Contributions receivable are analysed below:

	2008/09 £000	2007/08 £000
<b>Employers</b>		
Normal contributions	4,456	4,115
Deficit funding	3,322	3,828
Augmented membership	37	-
Early retirement costs	843	70
<b>Total employers' contributions</b>	<b>8,658</b>	<b>8,013</b>
<b>Members</b>		
Normal contributions	1,230	1,231
Additional contributions	25	27
<b>Total members' contributions</b>	<b>1,255</b>	<b>1,258</b>
<b>Total contributions</b>	<b>9,913</b>	<b>9,271</b>

Preston Bus Limited, which forms part of this Fund, has made an additional payment of £244,000 which is reflected in the 'employer contributions' in 2008/09.

This reflected a desire by the Company to take early action to make adequate provision for anticipated increased future liabilities.

**4) Transfers In**

	2008/09 £000	2007/08 £000
Individual transfers in from other schemes	0	0

**5) Benefits Payable**

	2008/09 £000	2007/08 £000
<b>Pensions</b>		
Retirement pensions	17,397	16,344
Widows' pensions	946	841
Children's pensions	31	33
Widowers' pensions	9	8
<b>Total pensions</b>	<b>18,383</b>	<b>17,226</b>
<b>Commutations and lump-sum benefits payable</b>		
Retiring allowances	3,261	4,244
<b>Lump-sum death benefits</b>		
Death grants	112	84
<b>Benefits recharged</b>		
Compensatory added years	0	(13)
<b>Total benefits payable</b>	<b>21,756</b>	<b>21,541</b>

**6) Payment To and On Account of Leavers**

	2008/09 £000	2007/08 £000
<b>Transfers out</b>		
Individual transfers out to other schemes and personal pensions	282	1,538

**7) Other Payments**

	2008/09 £000	2007/08 £000
Interest on Late Payments	11	9

## 8) Administration Expenses

	2008/09 £000	2007/08 £000
<b>Administration - Wolverhampton City Council</b>		
SLA charges	21	21
Administration costs	205	213
	<b>226</b>	<b>234</b>
<b>Administration - West Midlands ITA</b>		
Actuarial fees	12	12
External audit fees	33	26
	15	11
	<b>286</b>	<b>283</b>

## 9) Investment Income

	2008/09 £000	2007/08 £000
Income from fixed interest securities	0	2,003
Dividends from equities	1	2,208
Income from index-linked securities	0	1,008
Income from managed or unitised funds	0	229
Interest on cash deposits	181	180
<b>Gross investment income</b>	<b>182</b>	<b>5,628</b>

## 10) Investments

The change in the value of investments during 2008/09 is set out below:

	Value at 31 March 2008 £000	Purchase Costs £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2009 £000
<b>Fixed interest securities</b>	35,163	0	(35,570)	407	<b>0</b>
<b>Equities</b>	75,194	0	(75,185)	(9)	<b>0</b>
<b>Index-linked securities</b>	49,195	0	(49,428)	233	<b>0</b>
<b>Pooled investment vehicles</b>					
UK – unit trust	38,423	0	0	(2,741)	<b>35,682</b>
UK – unitised insurance policies	89,233	160,942	(30,655)	(19,978)	<b>199,542</b>
Overseas – unitised insurance policies	56,035	55,814	(20,469)	(18,654)	<b>72,726</b>
<b>Total pooled investment vehicles</b>	<b>183,691</b>	<b>216,756</b>	<b>(51,124)</b>	<b>(41,373)</b>	<b>307,950</b>
<b>Total</b>	<b>343,243</b>	<b>216,756</b>	<b>(211,307)</b>	<b>(40,742)</b>	<b>307,950</b>
Cash deposits	2,932				<b>2,000</b>
Other investment balances	16,927				<b>0</b>
Outstanding dividend entitlement	462				<b>0</b>
<b>Total investments</b>	<b>363,564</b>				<b>309,950</b>

Purchases also include transfers in of investments, corporate actions, increases in cash deposits, increases in net settlements due and AVC contributions. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits, reductions in net settlements due and AVC benefits. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year and reinvested income.

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

	2009 £000	2008 £000
<b>Fixed interest securities</b>		
UK public sector quoted	0	35,163
<b>Equities</b>		
UK quoted	0	36,455
Overseas quoted	0	38,739
<b>Total equities</b>	<b>0</b>	<b>75,194</b>
<b>Index-linked securities</b>		
UK public sector quoted	0	49,195
<b>Pooled investment vehicles</b>		
UK	235,224	127,656
Overseas	72,726	56,035
<b>Total pooled investment vehicles</b>	<b>307,950</b>	<b>183,691</b>
<b>Cash deposits</b>		
Temporary loans		
UK other	2,000	2,087
<b>Cash at bank</b>		
UK other	0	845
Foreign currency	0	0
<b>Total cash deposits</b>	<b>2,000</b>	<b>2,932</b>
<b>Other investment balances</b>		
Sales settlements	0	37,706
Purchase settlements	0	(20,779)
<b>Total other investment balances</b>	<b>0</b>	<b>16,927</b>
<b>Outstanding dividend entitlement and recoverable withholding tax</b>	<b>0</b>	<b>462</b>

**11) Investment Management Expenses**

	2008/09 £000	2007/08 £000
External management of investments	316	635
In-house management of investments	29	28
Performance measurement service	7	7
Other investment advice	2	20
Bank charges and interest	6	4
	<b>360</b>	694

**12) Net Current Assets**

	31 March	
	2009	2008
<b>Current assets</b>		
Contributions – members	55	36
Contributions – employers	183	117
Tax recoverable	37	74
Cash and other debtors	1,693	1,952
Current assets	<b>1,968</b>	2,179
<b>Current liabilities</b>		
Unpaid benefits	(90)	(442)
Accrued expenses	(76)	(232)
Current liabilities	<b>(166)</b>	(674)
<b>Net current assets</b>	<b>1,802</b>	1,505

Provision has generally been made in the accounts for debtors and creditors known to be outstanding as at 31 March 2009. For transfers in and out of the Fund, provision has only been made where the amount was paid by the year end. All outstanding contributions at 31 March 2009 were paid in April 2009.

**13) Additional Voluntary Contributions**

The Fund Scheme provides an additional voluntary contributions (AVC) for Scheme members. In 2008/09, some members of the Scheme paid voluntary contributions and transfers in of £143,000 to the Prudential Assurance Company and Equitable Life to buy extra pensions benefits when they retire. Retirement benefits of £112,000 were purchased during the year. The contributions are paid directly from Scheme members to the AVC provider and are, therefore, not included in the Fund accounts. The combined value of the AVC funds at 31 March 2009 was £763,000. These accounts are not included in the Fund accounts in accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

**14) Taxation****i) Value Added Tax**

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

**ii) Income Tax**

The Fund was wholly exempt with all UK income tax recoverable from the Inland Revenue. However, in the Budget of 2 July 1997, the Chancellor of the Exchequer announced the abolition of tax credits paid to pension funds with immediate effect. The Fund can therefore no longer reclaim the advanced corporation tax suffered, although any UK tax on dividends paid by foreign companies can still be reclaimed. The investment income in the accounts is thus still shown gross of UK tax. No capital gains tax is chargeable.

# The Compliance Statement

## 1) Tax Status of the Scheme

The Scheme is a registered scheme and, to the trustee's knowledge, there is no reason why such registration should be prejudiced or withdrawn.

## 2) Pension Increases

The percentage increase made during the year was 3.9% and was applied from April 2008. This increase is in line with legislative requirements and no further discretionary increases were applied.

## 3) Calculation of Transfer

Transfer values quoted and subsequently paid by the Fund include a monetary amounts where relevant, to represent any discretionary benefits awarded by an employer or otherwise.

Where awarded, discretionary benefits are in the form of service which is included within the total service used to calculate a cash equivalent transfer value, which represent the monetary value of the member's pension rights.

## 4) Myners' Compliance

A commitment to compliance with the Myners' Principles is made in the Statement of Investment Principles.

Compliance against the six new principles, published by the Government in 2008, is considered to be in full as appropriate to the regulations and nature of the Fund – the principles being:

### Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skill, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

### Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the Scheme that takes account of the Scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

### Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

### Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to Scheme members.

### Principle 5: Responsible Ownership

Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the Scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

### Principle 6: Transparency and Reporting

Trustees should 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.

Trustees should provide regular communication to members in the form they consider most appropriate.

## Director of Pensions – West Midlands Pension Fund (Administrator's Commentary)



**Brian Bailey**  
Director of Pensions  
West Midlands Pension Fund  
Pension Administrators

There is no doubt that the recent turbulence experienced during the 2008/2009 investment markets is unprecedented. The press seems to have focused its attention on a number of issues, not least of which has been the cost of public sector pension provision.

On behalf of the Fund, I would like to take the opportunity to provide the following factual position statement in respect of the Fund and the LGPS.

The LGPS is a national scheme for current and some former public sector workers not in the other main public sector schemes, such as the teachers and the uniformed police and fire schemes. It is a funded scheme; in other words, the contributions paid by employers and employees are put aside and invested for when resources are needed to meet pension payments.

The LGPS has been reviewed as recently as 2008 by Government in consultation with employers and employee representatives. The objective is to produce a scheme that is affordable, viable and fair to all interested parties. The outcome has been a new defined benefit scheme, operating from 1 April 2008, with tiered contribution rates for employees and cost-sharing arrangements that will share future cost increases between employees and employers. Cost-sharing arrangements will limit and cap future increases for employers. The Scheme retirement age remains at 65 and the arrangements for ill-health retirement have changed, introducing strict criteria.

The LGPS is different to other public sector pension schemes in that it has a fund set aside to meet its pension liabilities. There are a number of ways the fund can be valued. There is the standard actuarial valuation which is a regulatory requirement and is undertaken every three years. A number of assumptions are made in order to calculate, over the very long-term, what level of contributions are required to ensure the Fund is sufficient to meet all pension liabilities.

At the 2007 valuation, the actuary calculated that, at that point in time, the funding level for the WMITA was 93% and that in order to ensure the Fund grew sufficiently to meet the projected liabilities, employing body contribution rates would need to average 19.1% and employee contributions 6.5% of pensionable pay. The next valuation is due in 2010.

## Administration Report



**Nadine Perrins**  
Chief Pensions Service Manager - Operations  
West Midlands Pension Fund  
Pension Administrators

The Fund continues to work on the administration processes and procedures required to reflect the 2008 regulatory changes, with the majority of procedures having been reviewed or revised to take account of the new Scheme regulations.

The Fund, via its administrators, continues to strengthen its position in relation to staff knowledge and considerable work has been undertaken to broaden staff knowledge and the depth of that knowledge during the year. Staff have been actively engaged at all levels to review procedures and to seek, where possible, improvement or refinement to ensure the level of service for our members is improved. Work continues on this area and a compliance testing of the Fund administration system is due to be completed during the first quarter 2010/11 to ensure the Fund's processes are operating effectively.

Customer Services has been improved and resources have been realigned to ensure the support for employees is actively managed, where appropriate. New initiatives are being introduced following the development of the call-handling facility and it is expected that these will provide improved customer service to Fund member during 2009/10.

The priority over the year has been to prepare for the 2010 valuation. In this regard it should be noted that the contributions paid by employers in 2008/09 were set by the 2007 valuation. During recent years, there has been a movement on contribution rates from inflation and the well-documented improvements in longevity.

The 31 March 2010 valuation exercise will set employer contribution rates from 1 April 2011. The valuation process generates a significant workload for early 2010.

## Financial Services Report



**Phil Wild**  
 Head of Financial Services  
 West Midlands Pension Fund  
 Pension Administrators

The transition to the new UPM pensions payroll system was completed during the 2008/09 year and this system went live in order to run the April 2009 payroll. This was a major project for the Fund and the transfer of legacy information from the existing mainframe application across to the UPM application was made successfully, and without any delay or service impact to pensioner members.

Fund staff (West Midlands Pension Fund, Pension Administrators) worked in conjunction with Wolverhampton City Council ICTS staff and staff from the HMRC and Civica in order to obtain HMRC approval for the payroll system going forward. The revised arrangements will not only provide a more stable platform which is more efficient at data transfer from the main pension system, but one which has added flexibility and integrity.

During the year, the division was responsible for making pension payments in excess of £18m and aim to minimise the overpayment of pensions.

The majority of overpayments are made when the late notification of a death means that the pension payroll has already been processed for the month, or where the physical payment has been made to an account. Due regard is given to the amounts involved and the distress that could be caused to the member's relatives if the Fund pursued trivial overpayments.

Fund overpayments during the last five years:

Year	Overpayment	%
2004/05	£2,815	0.02
2005/06	£15,072	0.10
2006/07	£4,937	0.03
2007/08	£9,622	0.06
2008/09	£7,119	0.04

Percentage of the gross pension payable (£18m in 2008/09)

Contributions of over £9.913m were received during the year – this amounted to £8.658m in employers' contributions and £1.255m employee's contributions.

# Communication and Marketing Report



**Mark Crutchley**  
Head of Communication & Marketing  
West Midlands Pension Fund  
Pension Administrators

During the 2008/2009 year, the primary communication activity was to update the basic Scheme information available for members, bringing it in line with the new LGPS regulations from 1 April 2008.

A full suite of new Scheme guides were produced these have included:

- **The Short Guide**
- **All About Your Scheme**
- **All About Your Deferred Benefits**
- **All About Your Retirement Benefits**

The Fund continues to update information as it is required, retaining previous versions of some guides, as information from some employers is still being supplied in relation to pre-1 April 2008 leavers and joiners. It is anticipated that during the 2009/10 year, this will be come unnecessary and the older versions of booklets will be archived as required.

Due to the major changes to the Scheme from 1 April 2008, it was not possible to issue benefits statements in a timescale that it felt would have met members' expectations and, as such, individual members were notified via the Fund publication '*The Reliable Source*' on the issues affecting the Scheme. This document was used to satisfy disclosure of information requirements along with providing members with background information on the changes to the LGPS from 1 April 2008.

The Fund will be working over the next 12 months to develop further face-to-face communication and marketing activity.

During the 2008/2009, the Fund has kept employers up to date with development in the pensions arena and, specifically, the LGPS by using the employer publication '*The Brief*'. Employers are also sent regular email updates to ensure that they are kept informed of issues. Local Government Employers (LGE) bulletins and circulars are also distributed, as are details of any courses or training sessions run by the Fund for the benefit of employers.

Our Communications Policy Statement sets out:

- How we communicate with our stakeholders.
- The format, frequency and method of our communications.
- How we promote the Scheme to prospective members and employers.

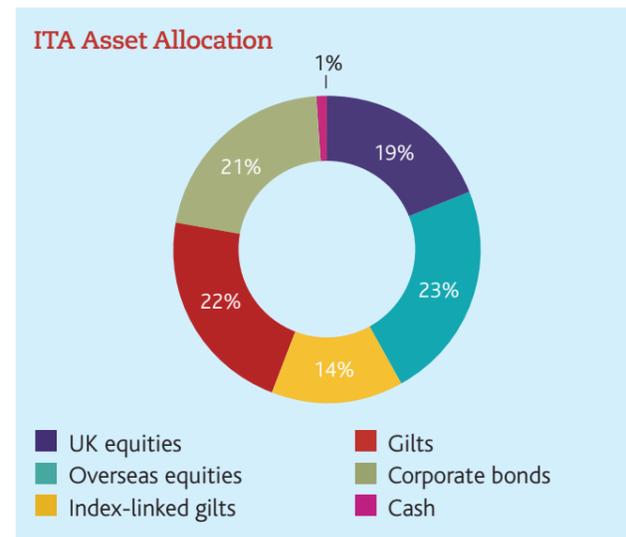
This policy is reviewed annually to ensure it reflects the wishes of the members and utilises advancements in technology.

## Investment Policy and Performance Report



**Judy Saunders**  
 Chief Investment Officer  
 West Midlands Pension Fund  
 Pension Administrators

The market value of the ITA Fund as at 31 March 2009 was £310m. The majority, which includes equities and bonds, is passively managed by Legal & General and is expected to produce market returns, while the balance, bonds only, is actively managed by Barclays Global Investors. The asset distribution as at 31 March 2009 is illustrated in the following chart:



The performance of the ITA Fund has over the years closely tracked the performance of the investment markets as illustrated in the table below:

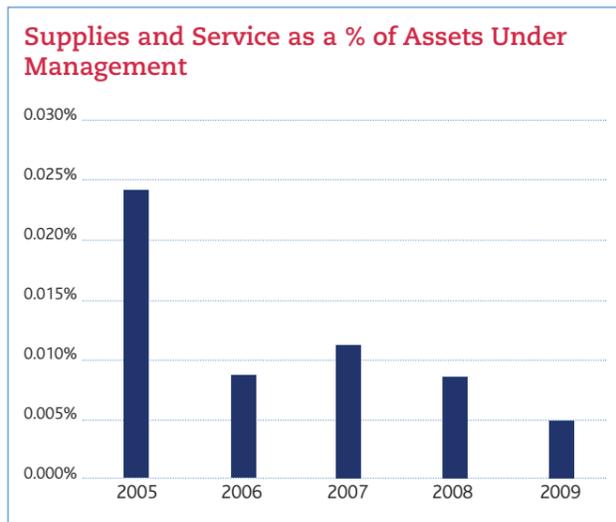
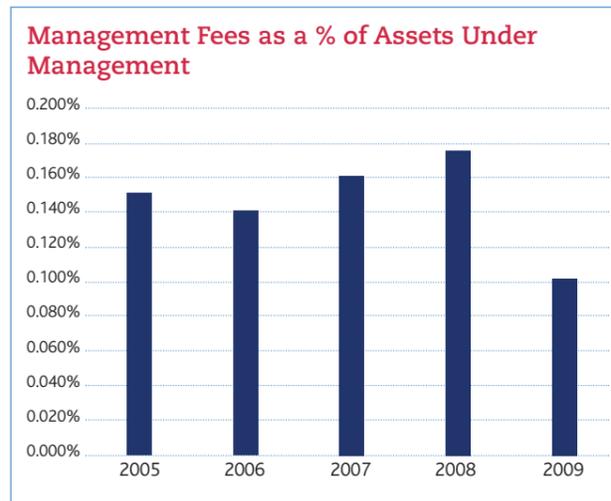
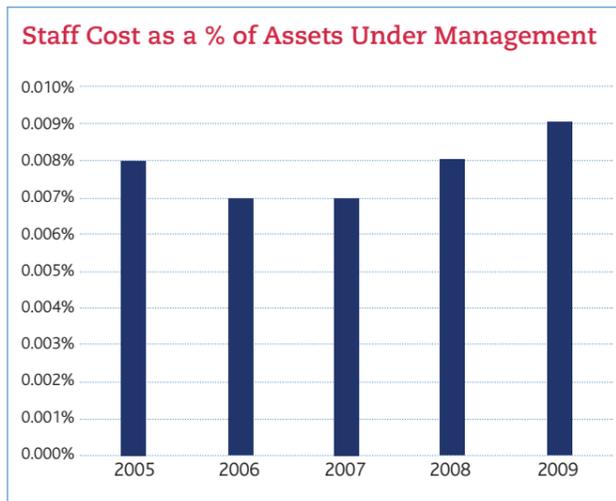
### Annualised Returns

Period to 31 March 2009	WMITAPF % pa	Bespoke Benchmark % pa
One year	-11.1	-11.2
Three years	-2.0	-2.1
Ten years	+2.5	+2.6

The UK and overseas equity markets fell sharply during the year as a result of the global financial crisis and the weakening world economy. Banking and financial stocks suffered particularly sharp falls following news that investment bank Lehman Brothers had filed for bankruptcy. Governments around the world stepped in to stabilise the financial system, introducing a series of fiscal measures in an attempt to support economic growth, referred to as quantitative easing.

A period of global risk aversion saw gilts rallying at the expense of corporate bonds and falling inflation expectations impacted negatively on index-linked bonds. Interest rates were reduced drastically to 0.5% in an attempt to kick start the economy.

Investment management costs have been carefully controlled as shown by the following charts:



### Asset Allocation Benchmark and Actual

31 March 2008	Benchmark		Actual	31 March 2009	Benchmark		Actual
	%	%			%	%	
UK equities		21.0	20.5	UK equities		21.0	19.3
Overseas equities		24.0	23.6	Overseas equities		24.0	23.3
Europe	10.0		10.0	Europe	10.0		9.8
North America	7.0		6.9	North America	7.0		6.7
Japan	2.7		2.7	Japan	2.7		2.5
Pacific Basin	1.7		1.7	Pacific Basin	1.7		1.9
Emerging markets	2.5		2.3	Emerging markets	2.5		2.4
<b>Total equities</b>		<b>45.0</b>	<b>44.1</b>	<b>Total equities</b>		<b>45.0</b>	<b>42.6</b>
Index-linked gilts		15.0	13.5	Index-linked gilts		15.0	14.0
Gilts		20.0	20.0	Gilts		20.0	21.8
Non-government bonds		20.0	20.1	Non-government bonds		20.0	20.5
Cash		0.0	2.3	Cash		0.0	1.1
<b>Total bonds</b>		<b>55.0</b>	<b>55.9</b>	<b>Total bonds</b>		<b>55.0</b>	<b>57.4</b>
<b>Total assets</b>		<b>100.0</b>	<b>100.0</b>	<b>Total assets</b>		<b>100.0</b>	<b>100.0</b>

### Largest Holdings

The Fund, as part of its risk management arrangements, now uses pooled vehicles and has no direct shareholdings in companies (see note 10 of the accounts).

### Shareholder Voting

The Fund has regular meetings with Legal and General to review their governance activity and voting of shares held in the unit trusts in which the Fund has invested.

## Administration and Operation Key Data

The following data for 2008/09 illustrates performance information and background for the pensions organisation.

Average Cases per Member of Staff		Membership Movement Analysis	
Total 'member-related' processes completed in 2008/09	2,022	Withdrawals from the Fund:	
Average completed cases per member of staff	2,022	Members entitled to deferred benefits etc.	17
Total 'member-related' processes completed in 2008/09 and outstanding as at 31 March 2009	2,173	Benefits awarded following a member's death in service	2
Average total cases per member of staff (includes outstanding processes as at 31 March 2009)	2,173	Members awarded immediate retirement benefits	66
Numbers of Complaints/Numbers as Percentage of Workload		Staff/Fund Member Ratios	
Number of complaints processes started in 2008/09 of which, completed in 2008/09	2 2	Membership at 31 March 2009:	
Total complaints completed in 2008/09	2	Active	982
Total 'member-related' processes completed in 2008/09	2,022	Deferred	1,030
Percentage of workload in 2008/09	0.099%	Pensioner	3270
There have been no IDRPs during the reported period		<b>Total</b>	<b>5,282</b>
		Staff	1
		Ratio (Fund members per member of staff)	5,282
		The allocation of staff resources supporting the benefit administration is equivalent to one full-time staff post.	

### Recoveries and Non-Recoveries of Overpayment

	Non-Recoveries	Recoveries	Total Overpayments	Gross Pension	Overpayment * as %
<b>2004/05</b>	£189.85	£2,625.49	£2,815.34	£14,081,006.78	0.02%
<b>Number</b>	1	10	11		
<b>2005/06</b>	£10,362.20	£4,710.20	£15,072.40	£15,128,415.00	0.10%
<b>Number</b>	2	19	21		
<b>2006/07</b>	£310.93	£4,626.39	£4,937.32	£16,164,521.35	0.03%
<b>Number</b>	2	21	23		
<b>2007/08</b>	£979.86	£8,642.78	£9,622.64	£17,225,980.43	0.06%
<b>Number</b>	3	15	18		
<b>2008/09</b>	£2,345.66	£4,774.25	£7,119.91	£18,383,269.15	0.04%
<b>Number</b>	1	22	23		

\*Overpayment as a percentage of gross pensions paid.

### Membership Data 2005 – 2009

	Active	Deferred	Preserved Refunds	Pensioner	Beneficiary	Totals
<b>2004/05</b>	1,455	1,059	19	2,578	264	5,375
<b>2005/06</b>	1,284	1,089	19	2,657	295	5,344
<b>2006/07</b>	1,147	1,068	19	2,768	313	5,315
<b>2007/08</b>	1,054	1,039	19	2,846	336	5,294
<b>2008/09</b>	982	1,011	19	2,905	365	5,282

#### Active Members

The Fund has a total active membership of 982. Since 31 March 2008, the number of contributing employees in membership has decreased by 72.

#### Deferred Members

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

#### Pensioner Members

Pensions and other benefits amounting to over £18 million each year are paid to retired members.

### ITA Cash Flow Statement

The ITA is a mature, closed Fund and as such its cash outflows are greater than inflows. A summary of the quarterly current account cash flows and funding during the reporting period is shown below:

2008/2009	Q1 £000	Q2 £000	Q3 £000	Q4 £000
Opening balance	1,516	1,227	1,173	1,393
Contributions and income received	2,743	2,287	2,023	2,404
Net pension and miscellaneous payments out	-5,902	-5,788	-5,260	-5,386
Quarterly net cash outflow	-3,159	-3,501	-3,237	-2,982
Funded by:				
Sale of investments	870	1,947	1,957	3,864
Net redemption/investment of temporary loans	2,000	1,500	1,500	-1,000
<b>Closing balance</b>	<b>1,227</b>	<b>1,173</b>	<b>1,393</b>	<b>1,275</b>

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## Five Year Detail

Financial Year	Employer Name	Active	Deferred	Preserved Refund	Pensioners	Beneficiary Pensioners	Totals
2005	West Midlands Travel Ltd	1,395	1,050	19	2,505	251	5,220
	Preston Borough Transport	0	0	0	2	0	2
	Preston Bus Ltd	60	9	0	71	13	153
	<b>Total</b>	<b>1,455</b>	<b>1,059</b>	<b>19</b>	<b>2,578</b>	<b>264</b>	<b>5,375</b>
2006	West Midlands Travel Ltd	1,280	1,030	19	2,584	279	5,192
	Preston Borough Transport	0	0	0	2	0	2
	Preston Bus Ltd	4	59	0	71	16	150
	<b>Total</b>	<b>1,284</b>	<b>1,089</b>	<b>19</b>	<b>2,657</b>	<b>295</b>	<b>5,344</b>
2007	West Midlands Travel Ltd	1,147	1,012	19	2,689	298	5,165
	Preston Borough Transport	0	0	0	2	0	2
	Preston Bus Ltd	0	56	0	77	15	148
	<b>Total</b>	<b>1,147</b>	<b>1,068</b>	<b>19</b>	<b>2,768</b>	<b>313</b>	<b>5,315</b>
2008	West Midlands Travel Ltd	1,054	988	19	2,763	320	5,144
	Preston Borough Transport	0	0	0	2	0	2
	Preston Bus Ltd	0	51	0	81	16	148
	<b>Total</b>	<b>1,054</b>	<b>1,039</b>	<b>19</b>	<b>2,846</b>	<b>336</b>	<b>5,294</b>
2009	West Midlands Travel Ltd	982	965	19	2,818	348	5,132
	Preston Borough Transport	0	1	0	2	0	3
	Preston Bus Ltd	0	45	0	85	17	147
	<b>Total</b>	<b>982</b>	<b>1,011</b>	<b>19</b>	<b>2,905</b>	<b>365</b>	<b>5,282</b>

### Age Profile of Membership

Status (age in years)	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active						1	30	119	186	199
Deferred						6	77	177	274	233
Preserved refund							12	2	4	
Pensioner							1	15	29	71
Beneficiary	2	4	9	5	1	1		4	11	17

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89
Active	262	143	12				
Deferred	203	22					
Preserved refund		1					
Pensioner	205	307	332	230	221	46	
Beneficiary	30	76	79	76	44	11	1

### Contribution Analysis

Standard Employee Contributions									
	5.50	5.80	5.90	6.50	6.80	7.20	7.50	5.25	Ee's adj
Monthly paid	0.00	1,245.21	7,956.30	167,705.38	61,653.69	67,902.84	18,166.50	815.25	188.14
Weekly paid	0.00	0.00	0.00	4,651.95	0.00	0.00	0.00	899,665.27	0.00
Total	0.00	1,245.21	7,956.30	172,357.33	61,653.69	67,902.84	18,166.50	900,480.52	188.14

	Additional Contributions		Ee's total	Ers	Er's adj	Er's total	Total Payments
	Add'n	ARC					
Monthly paid	2,156.42	0.00	327,789.73	925,185.13	204.35	925,389.48	£1,253,179.21
Weekly paid	13,908.72	0.00	918,225.94	3,286,680.60	0.00	3,286,680.60	£4,204,906.54
Total	16,065.14	0.00	1,246,015.67	4,211,865.73	204.35	4,212,070.08	£5,458,085.75

## Risk Management

The Fund has to manage a range of risks in the context of being effectively closed and mature with regular cash outflows.

Investment risk is recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). The structure of the investment strategy reflects this and is designed with the support of external expert advice. Details are contained in the Statement of Investment Principles and the Funding Strategy Statement. Managing risk is reduced to a relatively low level in the approach adopted, a reflection of the maturity of the Fund. The two employing bodies have views on investment risk that are considered and reflected to a degree in the investment strategy.

The investment performance against the benchmark is monitored closely by the Pensions Committee at each quarterly meeting, and over many years returns have matched the benchmark.

The risks associated with the operational payment of benefits and recording of pensioner records produces a potentially complex set of issues for a small fund. These are mitigated through the arrangement it has with the much larger West Midland Pension Fund which can invest in the use of an IT system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by experienced pension staff. The Fund subjected this whole area to an extensive review by an external specialist in 2009, who found no significant problems. The Fund continues to receive satisfactory external audit reports for its pensions services.

The Fund arranges for a regular internal audit of a sample of the operational transactions each year to test the system used by the Fund.

The Fund's accounts and arrangements are subject to annual audit by the Audit Commission who spend some time with the administering body, the West Midlands Pension Fund.

# Appendices



**Note:** The WMPTA has become the WMITA, and the name change will be reflected in updates to these documents at a future date.

# Funding Strategy Statement

## 1) Introduction

- 1.1 The LGPS Regulations require funds to produce a Funding Strategy Statement (FSS) having regard to the guidance produced by CIPFA. This statement has been drawn up by the West Midlands PTA Pension Fund in accordance with the regulations and following consultation.
- 1.2 The FSS complements and adds to the Statement of Investment Principles (SIP). The SIP is a supporting document.
- 1.3 The statements relate as follows:



- 1.4 The Fund's actuary takes account of the FSS in his actuarial work for the Fund, most notably the actuarial valuation process. This has been done in respect of the 2007 valuation.
- 1.5 The FSS reflects the statutory nature of the Local Government Pension Scheme (LGPS), particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long-term through an accountable, transparent process with full disclosure of relevant details and assumptions.

- 1.6 The Fund, like all similar public and private sector funded schemes, has seen a gap open up between its assets and pension liabilities.
- 1.7 A number of factors have contributed to the funding gap and rise in contribution rate:
  - a) investment returns relative to the movement in liabilities;
  - b) liabilities are valued by reference to index-linked gilt yields. These have fallen substantially, thus raising the value of liabilities and increasing the likely fund deficit;
  - c) increases in longevity of pensioners.

Against this background, the key considerations in determining the funding strategy, taking advice from the actuary, are:

- a) the appropriate time period for targeting funding recovery taking into account the closed nature of the Scheme, but also the ongoing nature of the sponsoring organisations;
  - b) the strength of covenant of the sponsoring organisations, their funding sources, and any guarantee arrangements in place;
  - c) changes being made to the benefit and contribution terms of the Scheme (the 'LGPS2008' proposals), including changes to retirement rules affecting some members (for example, retirement at aged 65, and no early retirements before 55).
- 1.8 Since the fund was established in 1989, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy and balanced management of the risks. The current arrangements continue this approach. The critical element is securing investment market returns from the world markets. The Fund has a long record of achieving solid returns for all of its portfolios. The approach adopted is to ensure a priority is given to achieving at least a

market return and as recommended best practice indicates, use asset allocation to deliver the overall investment target.

## 2) Purpose of the Funding Strategy Statement in Policy Terms

### 2.1 The purpose of this FSS is:

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

**2.2** The Fund currently has a net cash outflow. The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. The LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the West Midlands PTA acting on expert advice and following consultation.

**2.3** The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme and funding of the benefits now and in the future.

## 3) Aims and Purposes of the Fund

### 3.1 The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the admitted bodies having regard to the liabilities.
- Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.

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

### 3.2 The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses.

The Local Government Pension Scheme Regulations and in particular the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 define these purposes.

## 4) Responsibilities of the Key Parties

**4.1** The LGPS regulations set out the responsibilities of the key parties which are summarised below.

### 4.2 The administering authority (West Midlands PTA):

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains a FSS and a SIP, both after consultation with interested parties.
- Monitors all aspects of the Fund's performance and funding. Amends the FSS and SIP as appropriate.

The administering authority discharges its responsibilities in consultation with the two employers and working through a pension fund committee.

**4.3** The individual employers:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Scheme benefits and early retirement strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharge their responsibility for compensatory added years.

**4.4** The Fund's actuary:

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

**5) Solvency Issues and Target Funding Levels**

**5.1** The Fund currently is mature and has a strong cash outflow and funding gap. It therefore takes an appropriate cautious view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this view. It aims to allow short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.

**5.2** The LGPS Regulations require the long-term funding objectives to achieve and maintain assets sufficient to meet 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation process and key assumptions used at each three yearly valuation are consulted upon and the 2007 valuation forms part of the consultation undertaken with the FSS.

**Determination of the Funding Target and Recovery Period**

**5.3** The principle method and assumptions to be used in the calculation of the funding target are set out in Appendix A.

**5.4** Underlying these assumptions are the following two tenets:

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

**5.5** As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer, a pro-rata principle is adopted. The general approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

**5.6** The administering authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- Deficit recovery periods of eight years will apply for WMTL and 17 years for Preston Bus.
- The deficit recovery period for WMTL will be extended to 12 years subject to a suitable financial guarantee being obtained to the satisfaction of the administering authority.
- With effect from 1 April 2008, all early retirements (including those on the grounds of ill-health) from the Fund will give rise to an additional charge to the employer, calculated on a case-by-case basis for each retirement. This change in approach reflects the very high incidence of ill-health retirements occurring.
- Employer contributions payable to the Fund include an element to cover the expected administrative costs involved, incurred by the administering authority. This expenses allowance will, from 1 April 2008, be expressed as annual £s amounts, allocated to each employer by reference to total membership.
- Deficit contributions will continue to be assessed and expressed as annual £s amounts.
- In addition to any deficit contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal' cost). The method and assumptions for assessing these contributions are also set out in Appendix A.
- For both employers, the total annual amount of contributions over 2008/11 will not be lower than the annual level of contributions payable under the 2004 valuation certificate.

In determining the above objectives, the administering authority has had regard to:

- the responses made to the consultation with employers on the FSS principles,
- relevant guidance issued by the CIPFA Pensions Panel,
- the administering authority's views on the strength of the participating employers' covenants in achieving the objective.

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

**6.1** The Fund has, for many years after each actuarial valuation, used an asset study or some other form of stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcome from the last exercise is reflected in the SIP. The exercise has been repeated as part of the 2007 valuation exercise and has been part of the consultation on its and the FSS. A revised SIP has been produced to reflect the FSS and Investment Strategy Review.

## 7) The Identification of Risks and Countermeasures

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

**7.2** Some of the key risks taken into account and responses are:

### Financial

- Unexpected market-driven events.
- Investment markets fail to perform in line with expectations.
- Market yields move at variance with assumptions.
- Investment fund managers fail to achieve performance targets over the longer term.
- Asset reallocations in volatile markets may lock in past losses.
- Pay and price inflation significantly more or less than anticipated.
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general.

The Fund undertakes a three yearly review of its investment strategy taking into account investment risk and future benefit payments to determine a bespoke investment strategy that for a variety of future economic outcomes gives a high degree of certainty that the investment objectives will be achieved. Short-term investment

management decision to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark. Investment management briefs reflect the importance of capturing at least a market rate of return and minimising the risk of significantly underperforming an investment market. Further information is available in the SIP and on the Fund's website.

#### Demographic

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

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

#### Regulatory

- Changes to regulations, for example, more favourable benefits package, potential new entrants to Scheme.
- Changes to national pension requirements and/or Inland Revenue.

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

Employing bodies are required to make contributions to the Fund as cases are approved for early retirement and other employing body discretions that when exercised alter future liabilities.

#### Governance

- Administering authority unaware of structural changes in an employer's membership (for example, large fall in employee members, large number of retirements).
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in the level of covenant or guarantee arrangements provided by the employers to the Fund.

The Fund has established inter-valuation monitoring and working relations with its two employers to ensure changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, and the assessment of the financial standing of employers and any guarantee arrangements in place.

The Fund's approach to the outcome of the 2007 valuation has had regard to balancing the needs of funding the liabilities and the cost to the employers.

- provision of any financial guarantees
- financial standing of the body
- known activities and working activities
- term of the admission agreement
- maturity of workforce

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

## Appendix A

### Actuarial Valuation as at 31 March 2007

#### Method and Assumptions Used in Calculating the Funding Target

##### 1) Method

The actuarial method to be used in the calculation of the funding target is the 'attained age' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

##### 2) Financial Assumptions

###### 2.1 Investment Return (Discount Rate)

A yield based on market returns on government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an asset outperformance assumption (AOA) of 2.0% pa for the period pre-retirement and 1.0% pa post-retirement.

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

# Statement of Investment Principles

## 1) Introduction

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

**1.2** Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pension Fund Committee established by the PTA (the administering authority) which has open representation from the admitted bodies. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in Section 2 below. The remaining elements of policy are part of the day-to-day management of the assets which is delegated to the external managers and the director responsible for the West Midlands Pension Fund at Wolverhampton City Council and described in Section 3.

**1.3** The roles of the members and Committee are:

### Role Of Pensions Committee

- 1) To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations for the West Midlands PTA.
- 2) To put in place and monitor the administration of contributions and payments of benefits as required by the regulations and the proper management and investment of monies held for the purpose of paying benefits.

- 3) To determine and review the provision of resources made available for the discharge of the function of administering authority.
- 4) To monitor compliance with legislation and best practice.
- 5) To determine and recommend investment policy:
  - (a) benchmark (medium-term)
  - (b) monitor policy.
- 6) To appoint committee advisors.
- 7) To monitor investment management arrangements.
- 8) To review strategic investment opportunities.
- 9) To appoint and dismiss segregated managers.
- 10) To monitor implementation of investment policy.

## 2. Investment Objectives and Risk

### 2.1. Investment Objectives

The Authority has set the following objectives:

- i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- ii) Emphasise markets that over time are likely to give better returns having regard to the risks relative to the maturity of the Fund's liabilities.
- iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.
- iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided.

## 2.2 Risk

There are various risks to which any pension scheme is exposed. The Authority has considered the following risks and believe that they do not exceed an acceptable level:

- i) The risk of a deterioration in the funding level of the Fund due to investment markets not responding as forecast. The diversification of the investments balances this risk against the objective of seeking the better performing markets in which there is relatively good liquidity.
- ii) The risk that the investment managers, in their day to day management of the assets, will not achieve the rate of investment return expected by the Authority. The Authority recognises that the use of active investment managers involves such a risk and does not use active equity managers. To limit their exposure to the risk of significantly underperforming, the Authority invests approximately 80% of the Fund's investments in highly diversified core holdings, a mixture of equities and bonds, producing a high level of probability of achieving near market rates of return at a relatively low cost. 20% of the Fund is invested and actively managed in fixed interest. It is divided between non-government bonds (10%) and gilts (10%).

- iii) Any investment decision carries with it risks of different types (for example risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognises these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers, seeking advice from the actuary on the suitability of the assets with regard to the Fund's liabilities, regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.

## 2.3 Investment Strategy

The Authority sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives set out above. This is reviewed at least every three years, after each actuarial valuation. From 1 April 2005, due to the changing nature of the Fund and revised investment strategy, asset allocation was reviewed on an annual basis unless significant issues arose that suggest an in year review. The Authority believes that the investment strategy is currently appropriate for controlling the risks identified in 2.2. given the liability profile of the Fund and its financial position. It will not make tactical asset allocation decisions unless market movements or related issues suggest otherwise. The only movement between asset classes will be as a result if re-balancing control ranges are breached.

### 3) Day-to-Day Management of the Assets

#### 3.1 Main Assets

The Authority invests the main assets of the Fund in portfolios operated by two external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

The managers used are listed below.

Asset Class		Manager
<b>Equities</b>		
UK	} Passive	Legal and General
Overseas		
<b>Fixed interest</b>		
UK gilts	} Passive	Legal and General
UK index-linked		
Non-government bonds		
Non-government bonds active		Barclays Global Investors
UK gilts active		Barclays Global Investors
Cash		Wolverhampton City Council

#### 3.1.1 Investment Performance Benchmark

The benchmark from April 2008 is as set out below with risk bands applied either side of the benchmark that, if breached, will trigger rebalancing.

Asset Class		%
UK equities		21.0
Overseas equities		24.0
Europe	10.0	
North America	7.0	
Japan	2.75	
Pacific Basin	1.75	
Emerging markets	2.5	
<b>Total equities</b>		<b>45.0</b>
Index-linked		15.0
UK gilts		20.0
UK corporate bonds		20.0
<b>Total bonds</b>		<b>55.0</b>
		<b>100.0</b>

#### 3.1.2 Expected Return on the Investments

Over the long term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios should match or exceed the specific market benchmarks set for each portfolio over time.

#### 3.1.3 Investment Restrictions

The investment managers are prohibited from holding investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

**3.2 Additional Assets**

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

**3.3 Realisation of Investments**

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund is mature in terms of benefit liabilities and has a strong cash outflow on a regular basis. The current policy on realising investments to meet benefit outgoings, etc is reviewed quarterly and cash realisations are usually taken to assist in balancing to the asset allocation benchmark.

**3.4 Monitoring the Investment Manager**

The performance of the internally managed assets and of the external investment managers is independently measured. In addition, officers of the Fund meet the investment managers regularly to review their management of the portfolio together with the reasons for the background behind the investment performance.

The Investment Advisory Sub-Committee meets at least quarterly to review markets and managers.

**3.5 Advisers**

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

<b>Mercer</b>	Actuarial matters, selection of investment managers, policy and investment matters relative to liabilities
<b>Wolverhampton City Council</b> Officers of the West Midlands Pension Fund	General investment advice, management of cashflows, and pension administration

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

**4) Corporate Governance and Socially Responsible Investment (SRI)**

- i) The Authority recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Authority considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.
- ii) The Fund supports good corporate governance in the companies in which it invests and the challenging of companies who do not meet the standards or reasonable expectations set by their peers.
- iii) Socially responsible investment is taken as giving consideration to issues that give risk to social concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards. This links to, and covers, the issues around sustainability that have a rapidly growing significance for companies from a legislative, reputational and practical operational standpoint.

- iv) Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.
- v) The Fund is also a member of the Local Authority Pension Fund Forum. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

### 5) Compliance with this Statement

The Authority will monitor compliance with this statement. In particular it will obtain confirmation from the investment managers that they exercised their powers of investment with a view to giving effect to the principles contained in the statement so far as is reasonably practicable. The Authority undertakes to advise the investment managers promptly and in writing of any material change to this statement.

### 6) Compliance with Myners

- 6.1** Following from the Myners' Report into Institutional Investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations and identified ten investment principles to apply to pension schemes. These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting. The Fund supports the principles as it represents industry 'best practice'. The Fund has evaluated its position in relation to the Myners' Principles and believes that it is Myners' compliant.

### 7) Review of this Statement

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

# Governance Compliance Statement

## Governance of the Fund

The Fund's governance arrangement has four elements:



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

### Pensions Committee

The strategic management of the assets is fundamentally the responsibility of the Fund Committee established by the Passenger Transport Authority (PTA) – the administering authority – which has representation from the major admitted body. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out. The roles of the members and the Committee are as follows:

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

- 4 To monitor compliance with legislation and best practice.
- 5 To determine and recommend investment policy over the medium- to long-term.
- 6 To monitor the implementation of investment policy.
- 7 To appoint committee advisors.
- 8 To review strategic investment opportunities.
- 9 To monitor investment management arrangements.
- 10 To appoint and dismiss external investment managers.

The PTA delegation to Pensions Committee is there to exercise the functions of the PTA, in relation to the administration of the West Midlands Passenger Transport Authority Pension Fund, arising by virtue of the Local Government Pension Scheme Regulations 1997 and any subsequent related legislation.

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

### Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Committee to receive appropriate and timely advice. This day-to-day support for the Fund is acquired from senior pension officers from the WMMAPF at Wolverhampton City Council.

Against this background, its principal advisors are as follows:

Senior officers of the PTA	Oversight of the arrangements.
Mercer Human Resource Consulting	Actuarial matters.
Mercer Investment Consulting	Selection of investment managers, policy and investment matters relative to liabilities.
Wolverhampton City Council (officers of the WMMAPF)	General investment advice, oversight of cashflows and pension arrangements.

Other specialist advisors are used as and when needed.

### Role of PTA Members

The PTA is responsible for administering and discharging the functions as administering authority for the West Midlands Passenger Transport Authority Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc, the PTA is also responsible for the investment of the Fund monies.

Investments are a special area for members to consider as it is different to normal PTA business.

When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are to manage the Fund in accordance with the regulations and to do so prudently and impartially

on behalf of all the beneficiaries. This sometimes means that they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisors is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibilities that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisors and be sure that it is relevant to the needs of the Fund and within their powers.

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

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

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

### The Duty of Trustees

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

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

### Standard Required of a Trustee

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

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

### View of Secretary of State

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

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

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

The scope of the knowledge required is as follows:

#### 1) The Law Relating to Trusts

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

#### 2) The Law Relating to Pensions

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

#### 3) Investment

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

#### 4) Funding

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

#### 5) Contributions

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

#### 6) Strategic Asset Allocation

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

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

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

#### 8) Investment Choices

This includes the principles relating to the choice of investments.

#### 9) Fund Management

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

### Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all West Midlands council employees were members of the West Midlands County Council Superannuation Fund with the county council as administering body. The 1986 reorganisation led to Wolverhampton Council becoming the administering body for the Fund (now known as the West Midlands Metropolitan Authorities Pension Fund - WMMAPF). This included the local government employees in the West Midlands, PTE staff and the then West Midlands bus company which was a public sector company. In 1991, West Midlands Travel Ltd became a private sector company which, because of the potential US withholding tax implications for the WMMAPF, led to the need for the Company's membership of the WMMAPF to cease. However, the then Secretary of State agreed to a new administering authority for West Midlands Travel being created – the WMPTA Fund. Bus company employees were transferred to this pension fund, but no new employees of the company are admitted and all other employees of the councils remain in the WMMAPF. This is a unique arrangement in the country.

The PTA Fund has subsequently entered into an admission agreement with the Preston Bus Ltd when a similar problem arose in that local area. The Preston Bus Ltd has since moved to only having deferred beneficiaries and pensioner members.

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

### Administration of the Fund

Wolverhampton City Council, on behalf of the administering authority (the PTA), carries out the administration function on an agency basis. The City Council carries out the following functions:

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains an FSS (Funding Strategy Statement) and an SIP (Statement of Investment Principles), both after consultation with interested parties.
- Monitors all aspects of the Fund's activities and funding.
- Receives contributions from employees' pay.
- Pays all contributions as determined by the actuary, promptly by the due date.
- Exercises discretions agreed by the PTA within the regulatory framework.
- Collects additional contributions in accordance with agreed arrangements in respect of, for example, early retirement funding strain.
- Notifies the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharges the responsibility for compensatory added years which the Fund (Wolverhampton City Council) pays on behalf of the PTA. The PTA is subsequently recharged for these appropriate amounts.



The Fund's actuary:

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

**Provision of Information to Interested Parties**

Further details of the publications available in respect of the West Midlands Passenger Transport Authority Pension Fund are available at the following address:  
[wmpfonline.com/pta](http://wmpfonline.com/pta)



# Communications Policy Statement

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

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

- Trustees/advisors and officers
- Scheme members
- Scheme employers
- Fund staff
- Other bodies

Set out in this document are the mechanisms which are used to meet those communication needs.

The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

## Trustees/Role of PTA Members

Investments and pensions administration are complex areas and the Fund recognises the need for its Committee to receive appropriate and timely advice. This day-to-day support for the Fund is acquired from senior pension officers from the WMMAPF at Wolverhampton City Council.

The PTA is responsible for administering and discharging the functions as administering authority for the West Midlands Passenger Transport Authority Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc, the PTA is also responsible for the investment of the Fund monies.

When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are to manage the Fund in accordance with the regulations and to do so prudently and impartially on behalf of all the beneficiaries.

## Scheme Members

### Internet

The Fund has established an extensive website [wmpfonline.com/pta](http://wmpfonline.com/pta) containing Scheme details, Scheme leaflets, etc. There are also links to other organisations relevant to Scheme members, eg, employers, AVC providers, employers' organisations, etc.

### Abridged Report and Accounts

An abridged copy of the Fund's Report and Accounts is circulated to all Scheme members on an annual basis.

### Annual Newsletter

We will issue an annual newsletter to members of the Fund, the contents of which will cover current pension topics within the LGPS and the pensions industry in general.

### Benefits Statements

An annual benefits statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year-end.

Benefit statements are sent direct to the home address of deferred members where a current address is known.

### Scheme Literature

An extensive range of Scheme literature is produced by the administering authority and is supplied to employing bodies and Scheme members directly. Copies of this Scheme literature form part of the Fund's website at [wmpfonline.com/pta](http://wmpfonline.com/pta)

### Pay Advices

The Fund continues to issue monthly pay advices to Scheme pensioners. This is used as a communication mechanism, since messages are included on the back of each one. These may reinforce the need for pensioners to ensure that in the event of their demise or change of address, the Fund is notified promptly. On other occasions, it is used to convey specific messages – for example, the need to protect from hypothermia.

Pensions increase and P60 information is communicated using this medium on an annual basis.

### Correspondence

The Fund uses both surface mail and email to receive and send correspondence.

**Telephone Helpline**

A dedicated low call rate telephone helpline is provided for Scheme members and is widely publicised in Scheme literature.

A password security system has been implemented which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

**Pensions Roadshow**

The Fund stages a biennial pensions roadshow where it visits the civic buildings of the seven district councils in membership of the Fund. Additionally, satellite roadshows and surgeries are held at outlying sites, particularly when there may be organisational changes occurring which have pensions implications.

**Superlink**

The Fund issues a quarterly newsletter, 'Superlink' to its pensioners, which is edited by a group of Fund pensioners. Its contents are, in the main, authored by Fund pensioners, but it is used as a vehicle to inform pensioners not only on pensions matters, but of other items in which they may be interested.

**Existence Validation - Pensioners Living Abroad**

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

**Miscellaneous**

The Fund sends Christmas cards to pensioners aged 90 years and over and pensioners achieving their 100th birthday are, wherever possible, visited by the Director of Pensions.

**Scheme Employers****Dialogue Meetings**

These meetings act as a vehicle for passing information between the Scheme employer and the administering authority, and for identifying and resolving difficult or outstanding cases.

Notes of meetings and their agendas and minutes are widely circulated within the service.

**Technical Newsletter**

A technical newsletter, entitled *'The Brief'*, is issued periodically to all employers.

This medium is also used to communicate any issues that are currently under debate.

Changes to the regulations which impact upon the employer's function or their employees are also covered.

**Employers' Manual**

An employers' manual is issued to assist the smaller employers in discharging their pensions administration responsibilities.

This is supplemented by the allocation of a Principal Pensions Liaison Officer to each employer who is available by telephone or personal visit to assist whenever necessary.

**Ill-Health Retirements**

*'A Guidance Manual for Approved Doctors'* has been circulated to appropriate employers within the Fund. This has been supplemented by organising, in conjunction with the Department for Communities and Local Government, seminars for occupational health advisors.

**Internet**

A microsite for employers has been established. All manuals and Scheme literature are available on this site.

**All Employer Meetings**

Periodically meetings are arranged for employers. Specifically, this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

**Access to Computerised Pensions Administration System**

Each major employer has access through the internet to the pension records of their current employees, together with a calculation suite for the provision of estimates direct to employees.

It is intended, through development of a second generation version of our current computerised pensions administration system to achieve greater web compatibility and the transmission of data electronically.

**Fund Staff****Service Management Team**

The Fund is managed by the Pensions Administration and Investment Services whose chief officers report to the Director of Pensions.

The Pensions Administration Service Management Team comprises the Director of Pensions, divisional managers and other senior service staff.

It meets on a monthly basis and discusses items of a strategic nature.

The notes of that meeting are circulated in the form of a core briefing by the Director of Pensions and this is placed on the service's intranet.

The Investment Management Team is the Chief Investment Officer and senior investment staff.

#### **Team Meetings**

Office and/or team meetings are held on a regular basis. Any items arising from such meetings can be escalated through senior managers to chief officers.

#### **Issues Meetings**

Monthly issues meetings take place between the Director for Pensions and senior managers. These meetings review progress being made against annual service plans.

The issues meeting gives an opportunity to review the work of each division and any other matters requiring discussion. The notes of the meeting are distributed to the participants.

#### **Intranet**

Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars, etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

#### **Induction**

All new member of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Fund has introduced a performance appraisal scheme for staff which is backed by a balanced scorecard approach. There is, therefore, a responsibility on all staff to ensure effective communication at all levels across the service.

#### **Internet**

Appropriate staff have been enabled to use the corporate network in order to access the internet.

#### **Emails**

All Fund staff have been given access to an email facility.

#### **Best Value Review Groups**

All major developments within the Fund are achieved through the formation of best value review groups, who represent the individual groups within the service and staff whose work is affected by such developments.

This ensures a shared understanding of the issues and ensures service-wide involvement in their solutions.

The Investment Division complies with FSA requirements in order to benchmark its work and authorities.

#### **Chief Investment Officer**

The Chief Investment Officer maintains an open-door policy and attempts to make herself available to all staff by regular visits within the service.

#### **Website**

The Fund has maintained a website for several years.

- The Fund website: [wmpfonline.com/pta](http://wmpfonline.com/pta)

While this is intended primarily as a means of external communication, access to the site is helpful to staff. Where necessary information is also made available on the intranet.

#### **Other Bodies**

##### **Trade Unions**

Trade unions in the West Midlands 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 transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

##### **National Information Forum**

The Fund's administrators host the National Information Forum to which all administering authorities are invited. These meetings provide an opportunity to discuss issues of common interest and share best practice. The Department for Communities and Local Government and the Local Government Pensions Committee are represented at each meeting.

##### **Shrewsbury Pensions Officers' Group**

Pensions officers from administering authorities in the region meet regularly in order to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

##### **The Press**

The Fund has developed a national profile through its success in pension industry award ceremonies and articles authored by senior Fund officers.

##### **Seminars**

Fund officers regularly participate at seminars and conferences.

## Media Matrix

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

Intranet  
for Staff

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

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