

SHROPSHIRE COUNTY PENSION FUND



Annual Report

2001/2002

*You create your future now.
Your current actions
shape your future ...*

*One of uncertainty or one of fulfilment ...
Which one do you want to make?*

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Introduction by the Chair of the Pensions Committee and the Scheme Administrator

Shropshire County Pension Fund - Annual Report 2001/2002

Welcome to the 9th Annual Report of the Shropshire County Pension Fund for the year ending 31 March 2002.

It has been an eventful year for the pension scheme as this year saw the completion of the formal valuation of the Fund. This is undertaken by an independent actuary every three years. It compares the overall value of the Fund's assets (its investments) with the estimated cost of future pension benefits it is expecting to pay out of those assets. All local authority funds are valued in this way and an independent survey of the results of these valuations has revealed the Shropshire Fund to be the highest funded scheme in the country at 108%. This is a clear indication that we continue to manage the scheme and its investments responsibly and effectively to benefit your future income once you retire, a great achievement for the pension scheme.

Also during the year, the Government undertook a review of the Local Government Pension Scheme to assess whether it continued to provide value for money for local government and meet the needs of its employees. I am happy to report that the review concluded that it largely fulfilled these objectives.

Once again the issues surrounding pensions has dominated media headlines, with many companies moving away from schemes that provide pension benefits based on final salaries, to ones where benefits are totally dependant on investment returns. We are pleased to report that there are no such plans for the Local Government Pension Scheme.

For those of you who follow the stock market it will be of no surprise to hear that 2001/2002 has been another difficult year for pension schemes generally. They have seen the value of their investments fall as stock markets world-wide suffered negative investment returns. This deterioration has continued through 2002 and markets have lost a further 15-20% of their value. Whilst the Shropshire Fund has suffered this year in line with the fall in the stock market, our long term investment approach has helped us remain a highly funded scheme and on target to achieve our long term goal of stabilising future pension costs for employers.

These and other issues are examined further in the body of the report.

We trust you will find this year's report interesting and informative. As always, we would be delighted to receive any comments from you on the content or format of the report, or indeed any aspect regarding the administration of the pension scheme. See back page for details of how to contact us.

This year the Annual Meeting is being held on 14 November 2002. As last year there will be two sessions, one at Telford and one at Shrewsbury. We hope you will be able to attend one of them and look forward to seeing you there.

Thank you for reading.



A handwritten signature in blue ink, appearing to read 'Nigel Pursey'.

Nigel Pursey
*Scheme Administrator &
Chief Executive*



A handwritten signature in blue ink, appearing to read 'Derek Woodvine'.

Derek Woodvine
Chair, Pensions Committee

administration

The Pension Team has seen many positive changes this year. The results have been very successful, driving the team forward to provide you with a more comprehensive and efficient service.

The Pension Scheme

The Department for Transport, Local Government and the Regions (DTLR) undertook a “stocktaking review” of the Local Government Pension Scheme between September 2001 and January 2002. The aim of this exercise was to ensure that the scheme, which is operated nationally, continues to provide value for money for local government and meet the needs of its employees.

The main findings of the review indicated that the scheme continues to meet the needs of employers and employees. However, further discussions will be held to investigate some other issues raised by the exercise. These include:

- The scope for further simplification of the legal framework of the scheme
- The scope for developing a more flexible benefits package for new employees from a future date
- Enhancement of benefit administration capacity to ensure a quality, cost-effective service

Following Government reorganisation, the responsibility for the Local Government Pension Scheme moved from the DTLR to the Office of the Deputy Prime Minister (ODPM). The ODPM will be developing discussions on the issues which came out of the stocktaking review as well as other issues raised this year, such as ill health retirement provision.

The Pensions Team

The Pensions Team underwent major restructuring this year and the number of staff in the section increased. For operational purposes the Team works in five groups - Benefits, Membership, Systems, Communications and Investment Accounting and Administration. A Technical Officer provides advice on any technical and regulatory issues.



Membership looks after contributions income, transfers into the scheme, and the maintenance of members' records. Benefits is responsible for calculating and paying retirement and dependants benefits, refunds, transfers out of the scheme and deferred benefits. Systems maintains and develops the software used by the section. The fourth group is responsible for the administration and accounting procedures required to monitor the activities of the Fund's investment managers. They implement the Fund's Corporate Governance Policy, prepare Fund accounts and administer the quarterly committee meetings.

Perhaps the biggest change has been the creation of a Communications Team. The objective of this team is to communicate, in a comprehensive and effective manner, the relevant information to employers and employees. This has included the successful introduction of a Helpdesk facility, to deal with incoming enquiries.

Service Standards

Another change this year has been the introduction of increased performance measuring, setting timescales against every activity undertaken by the Pensions Team. The timescales have been determined with reference to statutory requirements and the "best practice" guidance issued by CIPFA and the Local Government Pensions Committee of the Employers Organisation for Local Government. Results will be reported to scheme members in future Annual Reports and to the Pensions Committee on a quarterly basis.

Employer Links

As part of our commitment to improve the service to our members, we are starting to provide direct links to the Pensions Administration System for Personnel and Payroll officers of employers in the scheme. This will allow confirmation of information and provide illustrations for their members when required. By the time of the Annual Meeting we should have our first employer "on-line" - The Borough of Telford & Wrekin.

It is the aim of the Pensions Team to ensure that we communicate to you the various choices you have concerning your pension benefits. The purpose of this report is to give you clear insight into the current status of the Pensions Scheme and Pensions Team, so that together we can achieve more for your future.

Our business is your future ...

*At the core of every action,
every decision, is your
best interest.
We continually strive
to create positive
results to give you
peace of mind ...*



review of the year

Fund Valuation

The year to March 2002 was again a busy and interesting one. The major event of the year for the Fund was the completion of the formal valuation. An independent actuary compares the value of the assets held by the Fund (its investments) with an estimate of the cost of future pensions to be paid out of those assets. The calculation produces a “funding level” and provides a strong indication as to the health of the Fund. Where assets equal liabilities a fund is said to have a funding level of 100%. If assets are greater than liabilities the funding level will be more than 100%. In Shropshire’s case, the funding level is 108%, making it the highest funded local government scheme in the country.

The largest part of a pension fund comes from its investment returns. In fact, it has been estimated that up to 80% of a fund’s total value comes from this source. It is therefore important that, in the long term, investment returns are maintained at high levels. Against this background, the year to March 2002 has been a disappointing year for investments with stock markets producing slightly negative returns, -0.8% for a second successive year. The Shropshire Fund failed to match the performance of the index, returning -0.9% for the year. Long term returns however, are more encouraging. More details of the performance of individual mandates are shown in the investment section of the report.

Best Value Review

The Best Value Review of the Fund’s investment activities was completed during the year as part of a programme of such reviews across all County Council services. The review examined in detail the way investment arrangements are structured and how current policies and practices compare with those of other similar funds that have alternative investment arrangements. The purpose of the review was to identify which arrangements would provide best value for all stakeholders. The review process involved senior officers, elected members and independent consultants and concluded that the existing arrangements were, in fact, close to best practice. There were no recommendations for major change.

Additional Voluntary Contributions

Scheme members are, in some circumstances, able to top up their pensions by the payment of Additional Voluntary Contributions (AVCs). The contributions are invested on members' behalf to provide additional pension benefits on retirement. The Fund has appointed a new company to take scheme members' AVCs and from 1 April 2001, the Prudential Assurance Company replaced the troubled Equitable Life Assurance Society as the Fund's AVC provider. The investment performance and financial standing of the company is monitored by the Pensions Committee throughout the year.

As at March 2002 there were 470 scheme members investing, in total, almost £1.4 million, mainly in the With-profits Fund managed by Prudential. Although the actual investment return on the Fund was affected by poor market conditions (returning -2.2% for the year) the performance compares favourably with that of other funds. The financial standing of the Prudential With-profits Fund is formally measured by the company at the end of each year. This is done by calculating a "Free Asset Ratio" i.e. the percentage by which the assets of the fund exceed estimated liabilities, in a similar way to which the Shropshire Pension Fund is valued. At December 2001, total assets were £77.4 billion, liabilities were £69 billion, giving an excess of £8.4 billion and a Free Asset Ratio of 12.2%. This measure is particularly important as the surplus provides a buffer for investors in times when market conditions are unfavourable. The With-profits Fund also continues to enjoy the highest credit rating available (AAA), as measured by Standard & Poor, an independent international rating agency.

Myners Principles

Pension funds are now required by the government to comply with the ten principles of good governance as set out in the Myners Review of Institutional Investment in the UK. Funds are also required to publish the details of their compliance with the principles and give justification where they have chosen not to comply.

The ten Principles cover the areas of:

Effective decision making	Activism
Clear objectives	Appropriate benchmarks
Focus on assets allocation	Performance measurements
Expert advice	Transparency
Explicit mandates	Regular reporting

A statement of Shropshire's compliance has been included in the revised Statement of Investment Principles (SIP), a copy of which is available from the Pensions Team.



*Housing your dreams
for a prosperous
future...*

pension fund account

Pension Fund Account for the year ended 31 March 2002

2000/01 £m		Notes pg11-13	2001/02 £m	
	Contributions & Benefits			
	Contributions Receivable			
10.799	Employers	3	11.405	
7.771	Employees	3	8.300	19.705
5.799	Transfers in			5.698
24.369	Total Income			25.403
	Benefits payable			
18.703	Pensions	3	19.788	
3.704	Lump sums	3	3.166	22.954
	Payment to and on account of leavers			
0.131	Return of contributions			0.111
2.305	Transfer to other Funds	14		11.669
0.471	Administrative expenses borne by the scheme			0.627
25.314	Total Expenditure			35.361
-0.945	Net withdrawals from dealings with scheme members			-9.958
	Returns on Investments			
19.086	Investment Income	2&9		18.181
-76.274	Change in Market Value of Investments	1		-24.982
-1.747	Less investment management expenses	4		-2.426
-58.935	Net returns on investments			-9.227
-59.880	Net Increase (decrease) in the Fund during the year	5		-19.185
705.572	Opening net assets of the scheme			645.692
645.692	Closing net assets of the scheme			626.507

net asset statement

Net Asset Statement as at 31 March 2002

31 March 2001 £m		Notes pg11-13	31 March 2002	
			£m	%
	Investment assets			
	Fixed Interest Securities			
29.891	Public Sector Bonds		25.469	4.07
41.634	Corporate Bonds		38.781	6.19
50.766	Index Linked Securities		56.006	8.94
409.292	Equities		384.899	61.43
28.078	Futures		18.639	2.98
16.481	Managed Funds		34.165	5.45
	Unit Trusts			
29.899	Property		33.890	5.41
30.375	Other		28.789	4.60
	Other Investments			
10.454	Cash		7.417	1.18
646.870	Net current assets and liabilities		628.055	
0.128	Debtors	11	0.839	0.13
-1.306	Creditors	11	-2.387	-0.38
645.692	Net Assets at 31 March	6	626.507	100.00

notes to the accounts

1. Purchases & Sales of Investments

The table right shows the values of Purchases and Sales made by the Fund over the year to 31 March 2002 and, for comparison, the 12 months to 31 March 2001.

The change in the strategic benchmark, moving assets from UK equities to overseas equities in March 2002, increased the value of trades in these two asset classes when compared to the previous year. Trading activity in bonds has fallen back to average levels following the change in benchmark in 2000/01.

2000/01			2001/02	
Purchases £m	Sales £m		Purchases £m	Sales £m
247.015	248.753	Fixed Interest	200.613	164.845
148.214	131.029	UK Equities	131.820	241.999
164.629	157.131	Overseas Equities	256.189	176.692
9.357	3.999	Property	4.594	0.655
569.215	540.912		593.216	584.191

2. Investment Income

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

	2000/01 £m	2001/02 £m
Fixed Interest - Index Linked	1.603	1.444
- Other	4.171	4.048
Equities	9.967	10.647
Unit Trust	3.323	1.983
Other	0.022	0.059
	19.086	18.181

3. Analysis of Main Revenue Account Transactions

The table analyses benefits and contributions between Shropshire County Council (administering authority), Scheduled Bodies (e.g. District Councils, Unitary Councils, Parish Councils) and Admitted Bodies (private bodies carrying out former Local Government functions).

	Administering Authority	Admitted Bodies	Scheduled Bodies	Total
	£m	£m	£m	£m
2000/01				
Contributions Received				
- Employees	2.474	0.827	4.470	7.771
- Employers	3.656	1.163	5.980	10.799
Payments Made				
- Pensions	8.858	1.646	8.199	18.703
- Lump Sum	1.195	0.269	2.240	3.704
2001/02				
Contributions Received				
- Employees	2.761	1.193	4.346	8.300
- Employers	3.704	1.916	5.785	11.405
Payments Made				
- Pensions	9.216	1.762	8.810	19.788
- Lump Sum	1.280	0.317	1.569	3.166

4. Investment Management Expenses

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

The table right analyses the figures included in the Pension Fund Account between Fund Manager's fees and investment administration charges (e.g. custodian and adviser fees).

5. Accounting Policies

The accounts have been prepared to meet the requirements of the Local Government Pension Fund Regulations 1998 (as amended), and to meet the requirements of the Statement of Recommended Practice Number 1 of the Accounting Standards Board of Professional Bodies of the United Kingdom. The accounts also meet the requirements of the Code of Practice on Local Authority Accounting for Great Britain issued in 1991 and comply with SoRP 2000 (financial reports of pension schemes).

Contributions, investment income, benefits and transfer values are on an accruals basis. Investment income is accrued to the extent that the dividend is due but unpaid at 31 March 2002. The accruals do not include the Fund's liabilities to pay pensions and other benefits in the future to all the present contributors to the Fund. These liabilities are taken into account in periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations. Transfers to and from other funds are included on an accruals basis.

6. Valuation of Investments

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

Dividends, interest, purchases and sales of investments have been accounted for at the spot market rates at the date of the transaction. Spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and transactions outstanding at 31 March 2002. Transaction costs (e.g. broker commission, stamp duty) are added to purchase cost and deducted from the proceeds received on sales at source.

7. Custody of Investments

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

2000/01 £m		2001/02 £m
1.407	Fees paid to Investment Managers	2.072*
0.340	Investment Administration, Custodian, Advisers & other costs	0.354
1.747	TOTAL	2.426

* includes late submission of fee invoice relating to previous year (£406,000)



8. Additional Voluntary Contributions

Since 1988, all funded pension schemes have been required to provide an Additional Voluntary Contributions (AVC) facility for scheme members. This enables scheme members to make voluntary contributions to top up their pensions if they are unable to achieve the maximum pension allowed by the Inland Revenue. Contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from the scheme member to an AVC provider and are therefore not represented in these accounts. At present there are around 470 employees with AVC policies. These policies are held by either Equitable Life Assurance Society or Prudential Assurance Company. During 2001/02 contributions to the schemes amounted to £198,000. The combined value of the AVC Funds at 31 March 2002 was £1,372,000.

9. Taxation

The Fund is an exempt Fund, and some UK income tax is recoverable from the Inland Revenue. The investment income in the accounts is mainly shown gross of UK tax. UK equity dividends are shown net as the Fund's ability to reclaim tax on this income was abolished from July 1997. No Capital Gains Tax is chargeable. The Fund also receives dividends on US equities without suffering deduction of US withholding tax. Tax deducted from income on other overseas investments is recovered wherever possible.

10. Value Added Tax

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

11. Debtors and Creditors

Provision has been made for debtors and creditors known to be outstanding at 31 March 2002. No provision has been made for transfer values and interfund adjustments where the amount was unknown.

12. Audit Certificate

District Audit have completed their audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards.

The Audit opinion and certificate will be published on the conclusion of the audit of Shropshire County Council's statement of accounts, which is due at the end of October 2002. However, it is understood that an unqualified opinion will be given in respect of the Pension Fund accounts.

13. Post Balance Sheet Events

Falls in the value of investments since the 31 March 2002 of 15-20% have adversely affected the funding level to the extent that in September 2002 an interim report from the actuary indicated that the Fund may be in deficit. Further work is being carried out to clarify the position and to determine a recovery strategy. This may include a review of assets allocation and/or the level of employers contribution rates.

14. Transfer to Worcestershire County Pension Fund

During 2001/2002 the staff employed by Shropshire Magistrates Courts and Probation Committees were transferred to Worcestershire County Council. As part of this arrangement a one off transfer of pensions entitlements was required and on the 25 March 2002 a transfer payment of just over £8.6 million was made to the Worcestershire Pension Fund.



*Working together
we achieve more ...*

investment of funds

Following the three yearly actuarial valuation, consultants undertook a review to identify the most appropriate mix of investments to achieve the overall objective of continuing to be able to meet future pension costs whilst seeking to keep employers' contribution rates stable (and where possible to reduce them). As a result of this exercise some minor changes were made to the investment structure.

The Fund continues to hold a wide variety of investments and this has been further diversified during the year in order to spread investment risk. The primary allocation of assets is between bonds (mainly fixed interest loans to governments and large companies) equities (shares in companies) and other investments (e.g. property). Bonds are generally considered to be less risky as returns are less volatile but are usually lower than equity investments. In addition, bonds are deemed to match liabilities more closely as both are valued on the same basis. Equity investments however, have historically provided higher returns over the long term but are more volatile. Holding equities should, over the long term, add value to the Fund and help keep the level of employers' contributions down. In the current investment climate, this has not been the case as bonds have out-performed equities for the last two years.

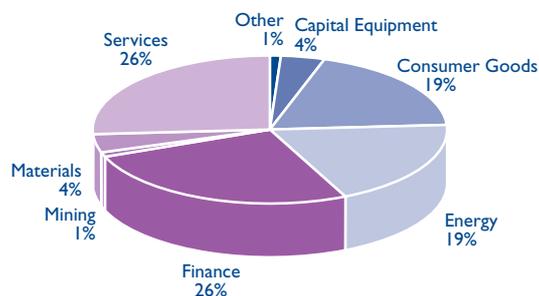
The equity/bond allocation remains at 80%/20%, but the spread of equity investment into overseas markets has been increased. The strategic benchmark allocation at the end of the year is shown in the following table:-

Asset class		% of Fund
Bonds		20
Equities:	UK	40
	US	10
	Europe	10
	Japan	6
	Pacific Basin ex Japan	4
	Emerging Markets	5
Property Unit Trusts		5
Total Fund		100

In addition, the Fund has taken the decision to commit a small proportion of the Fund (up to 3%) to investment in Private Equity. Private Equity is the term used to describe investments in companies which are not quoted on public stock markets and includes investment in small start-up enterprises, management buy-outs and developing companies. Investment will be spread widely over a large number of enterprises and through a variety of Fund Managers.

Analysis of UK Equities by Industrial Sector

The following charts show the managers responsible for individual portfolios, the value of the Funds they manage and an analysis of UK company investments over industrial sectors.



Total value of UK Equity holdings at 31 March 2002 = £247 million

Spread of Assets between Fund Managers

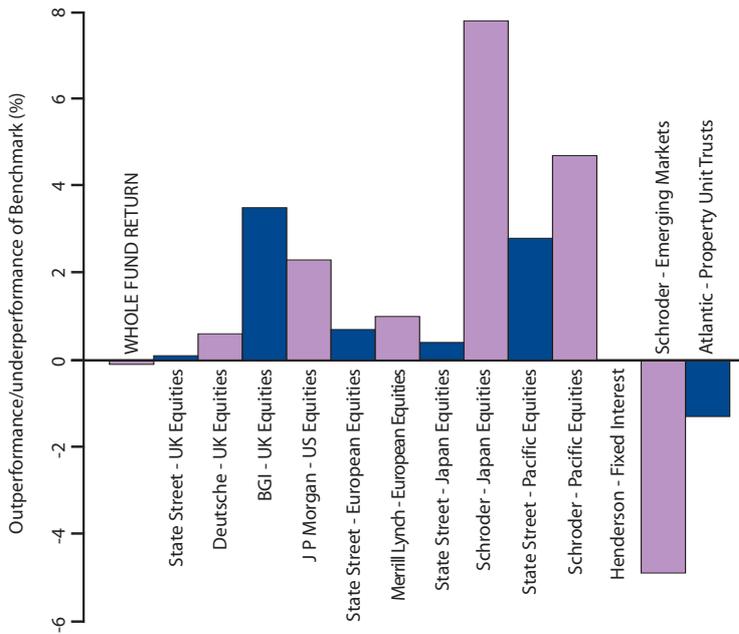
Fund Manager	Percentage of Fund (%)	Value of Funds Held (£m)	Portfolios Held
Atlantic Fund Management	5.44	34.138	Property Unit Trust
Barclays Global Investors	12.53	78.677	UK Equities
Deutsche Asset Management	13.68	85.904	UK Equities
Henderson Global Investors	19.37	121.688	Fixed Interest Stocks
JP Morgan Fleming Asset Management	7.50	47.128	US Equities
Merrill Lynch Investment Managers	8.25	51.859	European Equities
Schroder Investment Management	10.63	66.741	Emerging Markets Equities
			Japanese Equities
			Pacific Basin (Excl. Jap) Eq.
State Street Global Advisors	22.49	141.231	Overseas Equities (Indexed)
			UK Equities (Indexed)
Cash held by SCC	0.11	0.689	
Total	100.00	628.055	

Major Shareholdings at 31 March 2002

UK Equities	Sector	Value £m	% of Fund
BP	Energy	24.408	3.90
Glaxo Smithkline	Consumer Goods	18.113	2.89
Vodafone Group	Services	15.600	2.49
HSBC	Finance	11.988	1.91
Astra Zeneca	Consumer Goods	10.664	1.70
Royal Bank of Scotland	Finance	10.273	1.64
Shell	Energy	9.946	1.59
Lloyds TSB	Finance	6.924	1.11
Barclays	Finance	6.081	0.97
Diageo	Consumer Goods	6.036	0.96
Overseas Equities	Country	Value £m	% of Fund
Total Fina Elf	France	2.323	0.37
Royal Dutch Petroleum	Netherlands	2.207	0.35
Nestle	Switzerland	2.062	0.33
Citigroup	USA	2.038	0.33
General Electric	USA	1.862	0.30

investment performance

Individual Fund Manager Performance 2001/02



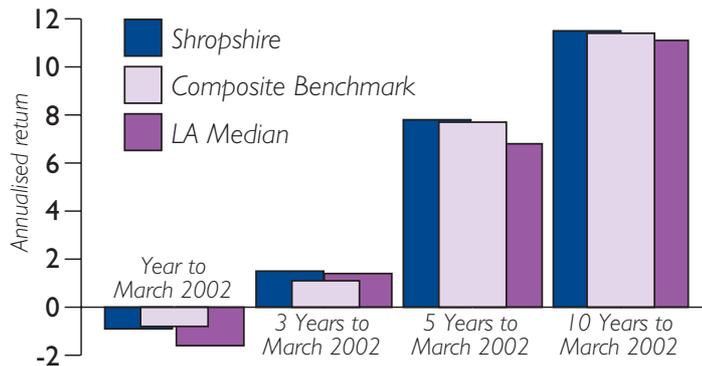
Individual portfolio managers are given performance benchmarks related to the indices of the assets in which they invest. Their performance relating to their benchmark for the year is shown in the chart left.

The columns above the zero line are those Fund Managers who have outperformed their benchmark. Those below the line have underperformed. The column at the left of the chart shows the performance of the whole Fund compared to its composite benchmark.

The Fund's investment performance, whilst disappointing in the short term, is still ahead of its benchmark over the longer periods of up to 10 years, as the table right shows.

All performance data used in this report is provided by CAPS Limited who provide independent confirmation of the investment performance of individual managers on the Fund's behalf.

Whole Fund Performance



*What we put in the
pot today ...*

*... enhances our
future tomorrow*



*Shropshire
County Pension Fund
2001 / 2002*

members, managers and advisors



Administering Authority

Shropshire County Council,
Shirehall, Abbey Foregate,
Shrewsbury, SY2 6ND

Administrator

Nigel Pursey, Chief Executive

Independent Advisors

Frank Russell Company
Roger Bartley - Gartmore
Investment Management Ltd

Custodian

Northern Trust Company

Banker

National Westminster Bank Plc.

Fund Managers

Atlantic Fund Management Ltd
Barclays Global Investors
Deutsche Asset Management Ltd
Henderson Global Investors
J P Morgan Fleming Asset
Management
Merrill Lynch Investment
Managers
Schroder Investment
Management Ltd
State Street Global Advisors

Actuary

Mercer Human Resource
Consulting

Auditor

District Audit

AVC Providers

Prudential Assurance Company Ltd
Equitable Life Assurance
Society

Corporate Governance

Pensions Investment Research
Consultants Ltd (PIRC)

**Performance
Measurement**

Combined Actuarial
Performance Services Ltd
(CAPS)

participating employers

Employees of the County, District, Unitary Councils and Foundation Schools have the right to join the scheme and are automatically admitted to the Fund unless they indicate in writing that they do not wish to participate. Employees of Parish and Town Councils and other Admitted Bodies must be nominated by their employer before they are admitted to the scheme.

Scheduled Bodies

Albrighton Parish Council	Shropshire County Training Ltd	Mencap
Alveley Parish Council	Shropshire Magistrates Courts Committee	Relate Shropshire
Bridgnorth District Council	Shropshire Probation Committee	Sevenside Housing Association
Bridgnorth Town Council	South Shropshire District Council	Severn Gorge Countryside Trust
Broseley Parish Council	Stirchley & Brookside Parish Council	Shropshire Adult College*
Church Stretton Town Council	St Georges & Priorslee Parish Council	Shropshire Disability Consortium
Hadley & Leegomery Parish Council	Telford College of Arts & Technology	South Shropshire Housing Association
Hollinswood and Randlay Parish Council	The Borough of Telford & Wrekin	Telford & Wrekin Education Action Zone
Lilleshall & Donnington Parish Council	Walford & North Shropshire College	Telford & Wrekin National Care Standards
Ludlow College	Wellington Town Council	Telford Development Corporation*
Ludlow Town Council	Wem Town Council	Telford Trust
Madeley Parish Council	West Mercia Supplies	Wrekin Housing Trust
Market Drayton Town Council	Whitchurch Town Council	<i>*Employers with pensioner liability but no current employees.</i>
Much Wenlock Town Council		
New College, Wellington		
North Shropshire District Council		
Oswestry Borough Council		
Oswestry Town Council		
Shrewsbury & Atcham Borough Council		
Shrewsbury College of Arts & Technology		
Shrewsbury Sixth Form College		
Shropshire & Wrekin Fire Authority		
Shropshire County Council		

Admitted Bodies

Accord Housing Association
 Age Concern
 Connexions
 Coverage Care Ltd
 Drayton in Hales Burial Joint Committee*
 Harper Adams University College
 Ironbridge Gorge Museum Trust
 Landau Consultants*
 North West Education Action Zone

Foundation Schools

Abraham Darby School
 Adams Grammar School
 Blessed Robert Johnson School
 Charlton School
 Corbet School
 Ercall Wood School
 Grange Junior School
 Greenacres Primary School
 Holy Cross CE School
 Moorfield Primary School

corporate governance

Shropshire County Pension Fund has been actively voting at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests for the last seven years. Over the last 12 months the Fund has voted at over 700 UK company meetings using independent 'best practice' advice from Pensions Investment Research Consultants Ltd (PIRC) to influence the way in which these companies are managed in the future.

As well as raising concerns with companies over their Directors' contracts and pay, political donations, staff incentive schemes, human rights and environmental policy, Shropshire has long been of the belief that auditors should be completely independent of any company they audit. Many companies now employ auditors for non audit work (e.g. taxation, consultancy) and where the fees for this work are significant in relation to the fees they receive for audit work, the independence of the auditor may be open to question.

Unfortunately these fears have been realised in corporate America over the last few months with the well documented collapse of Enron and Worldcom following alleged accounting scandals and allegations over the independence of their auditors. In the wake of these events the EU has issued a new company law directive, the principles of which attempt to limit the scope of work that auditors can undertake on behalf of companies. The directive also recommends that fees paid to auditors are fully disclosed and displayed in company annual reports.

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

In addition to encouraging best practice through voting, Shropshire is also a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF now represents over £20bn in assets spread over 25 public sector pension funds and exists to promote the investment interests of these funds. The Forum's primary aims is to maximise its influence as a shareholder and to promote corporate social responsibility and high standards of corporate governance amongst the companies in which it invests.

Over the last 12 months work with the Forum has focused on the following areas:-

- **Overseas employment standards** - Surveys show that codes of conduct for employment of overseas labour by companies are unsystematic and weak. Through the LAPFF, Shropshire is pressing major companies to extend the coverage of their codes and to demonstrate effective implementation. This is an important risk management issue. Dialogue with companies is already paying off and five major UK companies have adopted far reaching codes of conduct on treatment of overseas labour.
- **Environmental policies** - Over 90% of the companies contacted by the LAPFF now include a report on their environmental policies as part of their annual report. This level of positive response to shareholder concerns is encouraging. As long term investors, we need to know that companies have policies in place to manage their environmental impact. The Forum is currently in discussion with companies regarding their compliance with DEFRA guidance on greenhouse gas emissions.
- **Directors' pay** - Following pressure from action groups such as the LAPFF, the Department of Trade & Industry has proposed that quoted companies will in future have to publish a report on individual directors' pay packages and company performance as part of the Annual General Meeting. Shareholders will, for the first time, have the opportunity to vote on individual remuneration packages.

LAPFF continue to increase its influence by forging relationships and cross-border initiatives with similar groups in both Europe and the US. Through this work it is hoped that the Forum will soon have a truly global impact by encouraging adoption of best practice management within companies throughout the world.



statement by the consulting actuary

SHROPSHIRE COUNTY PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

The levels of contribution paid into the Fund in 2001/2002 were governed by the 1998 actuarial valuation of the Fund. Employers paid the contribution rates certified in our contribution certificate dated 15 March 1999. These rates were determined with regard to the circumstances of each employer and included employer-specific allowances for expected early retirement costs.

The principal financial assumptions used for the 1998 actuarial valuation were as follows:

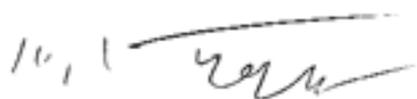
	<i>For past service liabilities</i>	<i>For future service liabilities</i>
Investment return	6.3 per cent per annum	7.0 per cent per annum
Earnings growth *	4.2 per cent per annum	4.5 per cent per annum
Price inflation	2.7 per cent per annum	3.0 per cent per annum

* *plus salary scale where appropriate to allow for incremental increases.*

The actuarial method used was the projected unit method.

The results of the 1998 valuation showed that, at the valuation date of 31 March 1998, the Fund's assets (market value: £560m) were sufficient to cover 111 per cent of its liabilities. The funding policy on which contribution rates are based is to target a funding level (i.e. the ratio of assets to liabilities) of 100 per cent for each employer. The actuarial surplus disclosed by the 1998 valuation has therefore been spread over the average future working lifetime of Fund members in determining the contribution rates.

A further actuarial valuation was completed as at 31 March 2001, with a funding level of 108 per cent being declared. The results are shown in our Report and Rates and Adjustments Certificate dated 27 March 2002. The Rates and Adjustments Certificate confirms the revised employer contribution rates which will be effective from 1 April 2002.



Stephen Jacquest
Fellow of the Institute of Actuaries
 September 2002

glossary of terms

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

Additional Voluntary Contributions (AVC)

- An option available to individuals to secure additional pension benefits by making regular payments in addition to the 6% or 5% of basic earnings payable.

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

Benchmark - A "yardstick" against which the investment policy or performance of a Fund manager can be compared, usually the index relating to the particular assets held.

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

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

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

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

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

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

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

Scheduled Bodies - Local Authorities and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Stakeholders - Members who have a financial interest in the Funds investments.

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

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



Annual Report

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contact:

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A summary version of this publication is available in large print, Braille or audio cassette. If you would like a copy in one of these formats or if you need more information, help or advice regarding the Fund, please call the Pensions Helpline on (01743) 252130.