

2017 / 2018



Annual Pension Fund Report and Statement of Accounts

Worcestershire County Council

DRAFT / Unaudited



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Pension Committee Advisers and Officers as at 31st March 2018

Administering Authority

Worcestershire County Council
County Hall, Spetchley Road
Worcester WR5 2NP.

Fund Administrator

Michael Hudson LLB (Hons), LLM, CPFA
Chief Finance Officer
Worcestershire County Council
County Hall, Spetchley Road
Worcester WR5 2NP.

Pension Committee

Councillor B Banks (Chair)
Councillor R Lunn
Councillor P Middlebrough (16 June 2017 onwards)
Councillor A Hardman
Councillor P Tuthill
Councillor R Phillips (Herefordshire Council)
Adrian Becker - Unison (Employee Representative)
Vic Allison (Employer Representative)

Pension Investment Advisory Committee

Councillor A I Hardman (Chair)

Councillor R W Banks

Councillor L Mallet

Mrs D Duggan – Unison

Mrs J Bennet – Unison

Michael Hudson LLB (Hons), LLM, CPFA Chief Finance Officer

Rob Wilson (Pensions Investment, Treasury Management Manager – Pension Fund)

Fund Managers

JP Morgan Asset Management
60 Victoria Embankment,
London, EC4Y 0JP.

Nomura Asset Management U.K. Ltd
1 Angel Lane,
London, EC4R 3AB

Legal & General Investment Management
One Coleman Street,
London, EC2R 5AA

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Venn Partners
13 George Street,
London W1U 3QJ

Hermes Investment Management
1 Portsoken Street
London, E1 8HZ

Invesco Real Estate
Portman Square House
43-45 Portman Square
London W1H 6HN

UK Green Investment Bank
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Fund Managers continued

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Chicago, IL 60611

First State Investments
23 St Andrew Square
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Stonepeak Infrastructure partners
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New York NY 10022

AEW
33 Jermyn Street
London
SW1Y 6DN

Global Custodian

BNY Mellon
BNY Mellon Asset Servicing
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London, E14 5AL
BNY Mellon Asset Servicing B.V.

Independent Financial Adviser

Philip Hebson
Allenbridge Epic Investment Advisers Limited
26th Floor, 125 Old Broad Street
London
EC2N 1AR

Actuary to the Fund

Mercer Human Resource Consulting,
Mercury Court, Tithebarn Street,
Liverpool L2 2QH

Auditors to the Fund

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Foreword by the Chief Finance Officer

Welcome to the Worcestershire County Council Pension Fund 2017/18 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

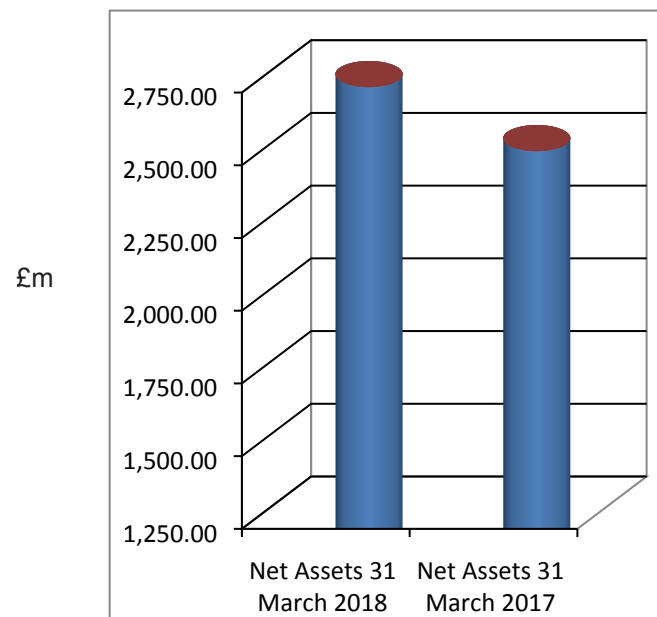
Table 1 aim and Purpose of the Scheme

Aims and purpose of the Scheme	
The aims of the Scheme are to:	
•	enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies
•	manage employers' liabilities effectively
•	ensure that sufficient resources are available to meet all liabilities as they fall due, and
•	maximise the returns from investments within reasonable risk parameters.
The purpose of the Scheme 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.

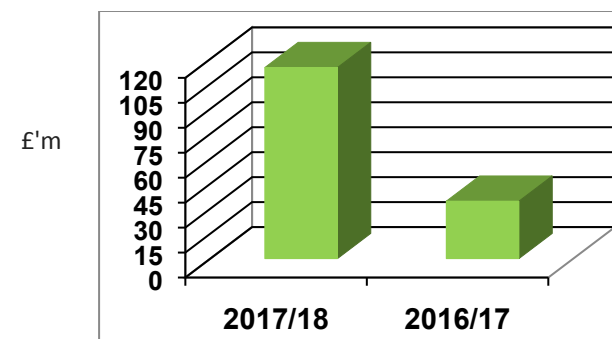
Key headlines

- The value of the Fund's net assets increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018:
- Income from contributions increased by 70 %,(£195 million from £115 million) due mainly to some employers paying their 3 year pension contributions upfront. This equated to 66% of the total contributions received in 2017/18.
- Contributions from staff and employers exceeded benefits paid and management expenses in 2017/18 by £79.0million due again largely as a result of the upfront payments.
- The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.
- During the year a surplus resulted on the Pension Fund account totalling for 2017/18 £114.8 million, an increase of £80.3 million from the surplus of £34.5 million for 2016/17. Again this is mainly due to 3 years upfront contributions (£71.2m.)

Fund's Net Asset Value £'m



Surplus on the pension fund account £'m



An analysis of changes within the fund's membership profile is displayed in Table 2 below:

Table 2 analysis of changes within the fund's membership profile

	31 March 2017		31 March 2018	Change	Change %
Contributors to the fund	22,308		22,478	170	0.8
Pensions paid	16,918		17,507	589	3.5
Deferred members	19,970		20,351	381	1.9
	59,196		60,336	1,140	1.9

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire County Council Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively The Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel.

The Council has also established a Pension Board, which has been operational since July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to: (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and; (b) to ensure the effective and efficient governance and administration of the Scheme.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance.

Management of the fund's assets

The management of the fund's assets is operated through twelve specialist external managers with thirteen mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser.

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2017/18:

- a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.
- b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.
- c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

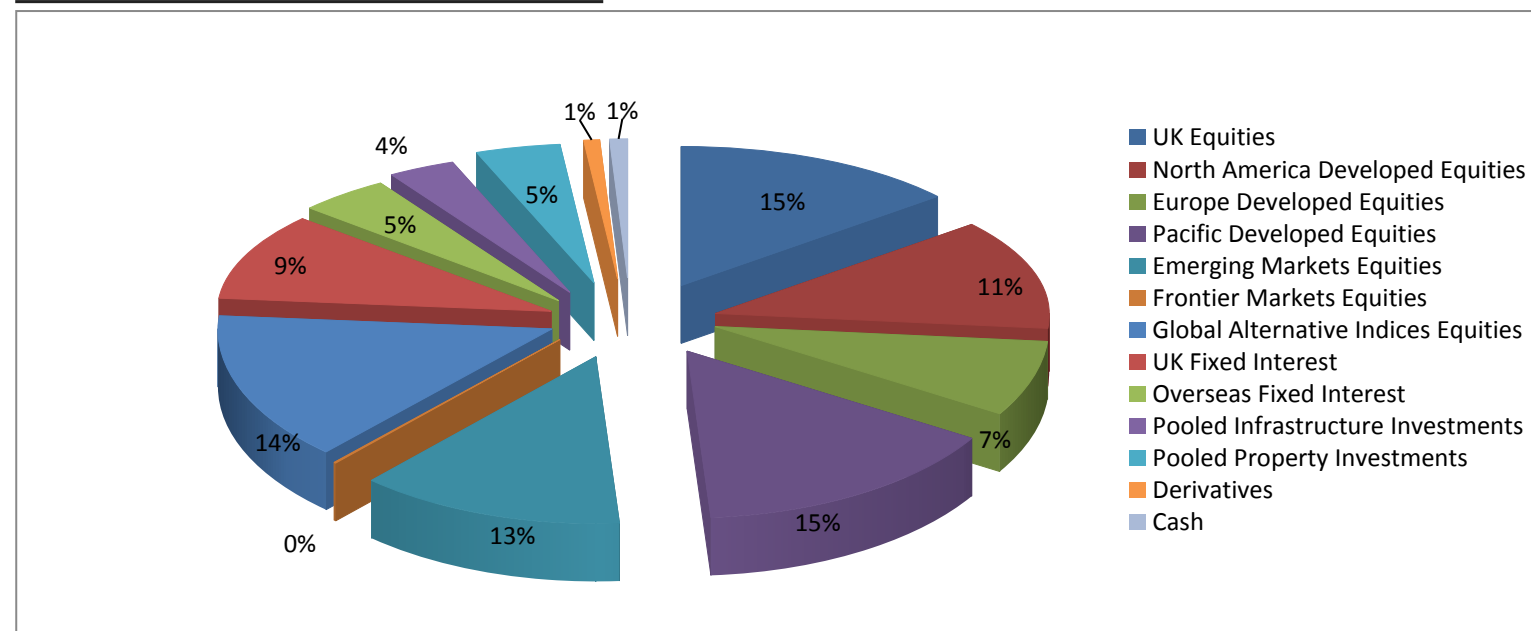
As at 31st March 2018 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into two pooled property funds; Invesco Real Estate UK Residential Fund, AEW UK Real Estate Fund and two pooled Infrastructure funds; Stone Peak Fund and First State European Diversification Fund (further top ups to these 2 funds were approved in December 2017). A further commitment to Hermes II a pooled infrastructure fund and a new Corporate Private Debt mandate with EQT were approved in March 2018 and are due to be implemented early 2018/19.

The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation and
- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

In December 2017 the Pensions Committee appointed River and Mercantile to implement and manage an Equity Protection Strategy using a 'static' options hedge solution. This was implemented during late February / early March 2018 and will cover a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2018:

Table 3 Distribution of the Funds Assets



On 25th November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) under the brand 'LGPS Central' submitted their initial proposals to the Government by 19th February 2016. On 15th July 2016 the eight Funds made a final submission that fully addressed the government's pooling criteria. The submission included a business plan to pool assets under a regulated structure and to be operational from 1st April 2018. On the 17 January 2018, LGPS Central Limited received Financial Conduct Authority (FCA) authorisation. The Company has been authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

Each Fund approved the regulatory capital requirements for LGPS central and its introduction on the 31st January 2018. All FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity. It was calculated that £16m of capital will need to be introduced (“Capital Introduced”) by the eight Shareholding Funds to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each Fund provided £2million of capital on 31st January 2018, with Worcestershire’s share consisting of £1.3million of equity and £0.7million of debt which has been met by Worcestershire County Council Pension Fund

Management of the fund's liabilities

The funding strategy is kept under regular review by the Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire County Council Pension Fund was carried out by Mercers as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The key outcomes of the valuation at that point in time are detailed below:

- The Fund’s assets of £1,952 million represented 75% of the Fund’s past service liabilities of £2,606 million (the “Funding Target”) at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.
- A common rate of contribution of 15.3% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Michael Hudson
LLB (Hons), LLM, CPFA
Chief Finance Officer

Development of the Scheme

Since 1922 the LGPS has developed from a scheme which just provided pensions for officers only, to today's scheme, which provides pension and lump sums for all members, spouses, civil and co-habiting partners, and children's' pensions, ill health, redundancy and death cover.

It is a comprehensive scheme and yet, through co-operation of the Government, employer and employee representatives, the scheme is constantly changing and adapting to modern day needs and demands.

LGPS Benefits

The LGPS is a defined benefit scheme. Prior to 1 April 2014 benefits are based on membership and final salary on or near to retirement. For membership from 1 April 2014 pension benefits are based on pension build up, which is also called career averaging. This provides, in the scheme standard section, for a pension of a 49th of pay each year. Members now have an option of joining the 50/50 section of the LGPS, permitting them to pay half the contribution rate and build up half the pension savings.

Standard employee contributions vary according to levels of pay, ranging from 5.5% to 12.5% of pay. Employers meet the balance of the cost of the LGPS through variable employer contributions. The employer contribution rates are set by WCCPF Actuary every 3 years following a valuation of the Pension Fund. The last valuation took place as at 31 March 2016 and determined the contribution rates to be applied for the 3 years from 1 April 2017.

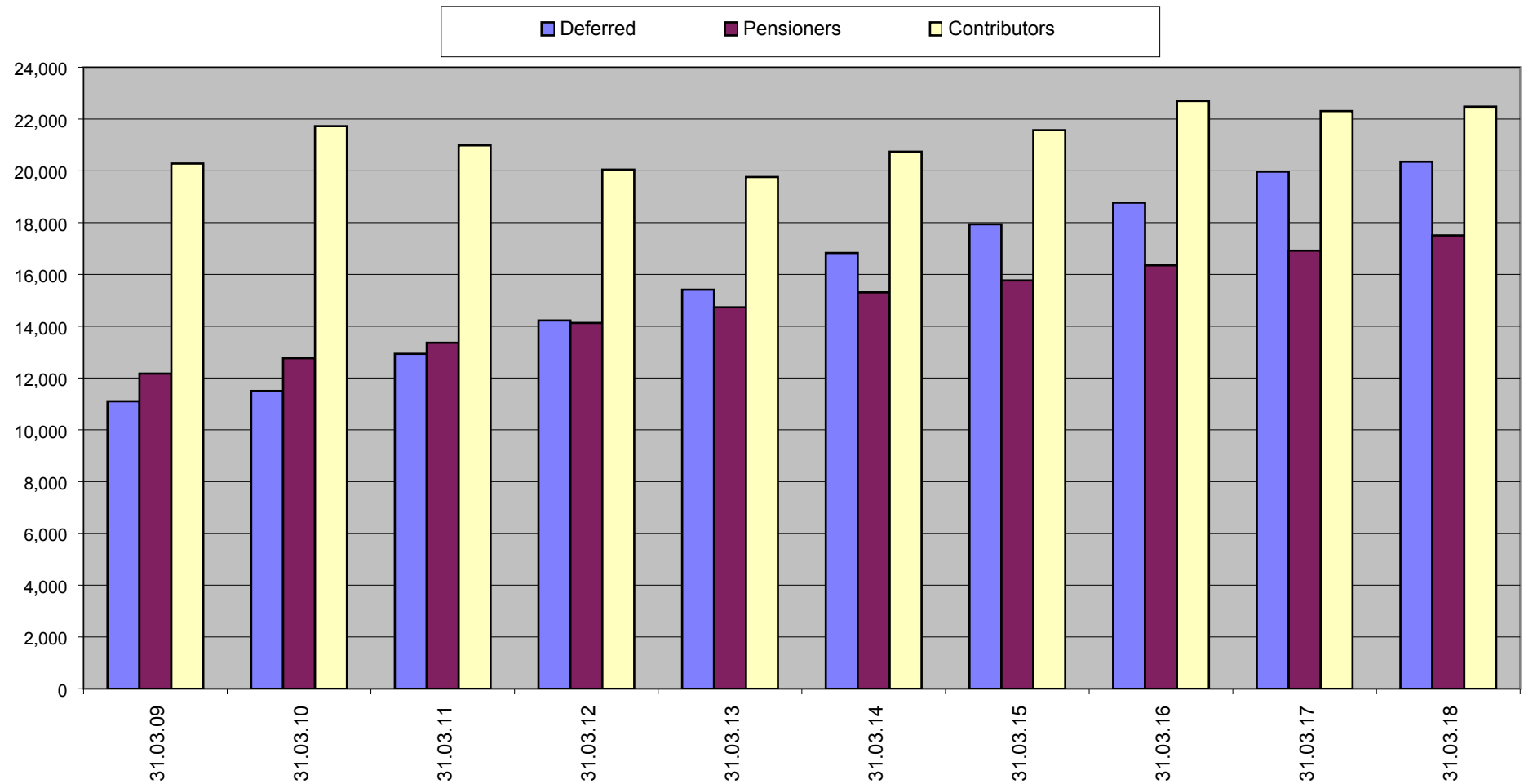
Members of the LGPS were contracted-out of the State Second Pension (S2P) because it provided at least broadly equivalent benefits. Members and their employers paid lower rate NI contributions as a result. Contracting-out was abolished from 1 April 2016 following the introduction of a new 'single-tier' State Pension replacing the existing basic and additional State Pension. The LGPS is also registered with HMRC, giving rise to various tax benefits, including tax relief on employee contributions.

Membership

A chart showing the number of contributors, pensioners and deferred pensioners for the past 10 years is given at Figure 1

Numbers of Pensioners and Contributors

Figure 1



Legislation

The Enterprise Act 2016

The act provides the legislative framework for the introduction of the £95K cap on public service exit payments. Further consultation continues as detailed below

Consultations - continuing

LGPS Amendment Regulations

The consultation covers Fair Deal and changes to AVC provisions following Freedom and Choice reforms. Further consultation continues.

Exit Payment Cap and Recovery

Exit Cap -Consultation on regulations for the £95,000 exit payment cap in respect of the public sector exit payment reforms are still in abeyance with no legislative changes.

Exit Payment Recovery -Consultation on the recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year, is likewise in abeyance

Autumn Statement and Budget 2017

The Chancellor's Autumn Statement, DCLG highlighted the following points

a) TPR to 'clarify' long-term investment guidance amid government infrastructure plans

The Pensions Regulator (TPR) will clarify guidance on investments with long-term horizons as part of the government's plans to encourage pension funds to invest more in infrastructure, according to Autumn Budget documents.

b) Autumn Budget 2017: Lifetime allowance increase confirmed

Budget papers have confirmed the lifetime allowance (LTA) for pensions will increase to £1,030,000 for the tax year 2018/19.

The Pensions Regulator (TPR)

Following the continuing expansion of its statutory duties in respect of Public Sector Pension Schemes (PSPS) the TPR priorities for 2018 to 2021 are:

- a) Enhancing and executing effective regulatory approaches across all schemes.
- b) Promoting good trusteeship through improving governance and administration.
- c) Effective regulation of defined benefit schemes.
- d) Effective regulation of master trusts.
- e) Ensuring employers meet their ongoing automatic enrolment duties.
- f) Preparing for the impact of Brexit.
- g) Equipping our staff to meet the challenges that TPR faces.
- h) Developing an approach to regulation that focuses on more proactive and targeted work and uses a wider range of regulatory interventions.

New Pensions Minister

The DCLG minister with responsibility for the LGPS in England & Wales is Rishi Sunak, conservative MP for Richmond.

Pensions Administration Review of the Year

Career average revalued earnings (CARE) continues to be embedded and is a challenge for both employers and administrators, especially the year-end process and requirements for Annual Benefit Statement (ABS) and annual tax allowances.

The number of academies continues to increase together with a number of new admissions following the commissioning of services to alternative providers.

2016 Valuation

This applied from the 1st April 2017 and the next triennial valuation is due in 2019. The data to be supplied by scheme employers forms a major part of the valuation the actuary undertakes. It will be important that the information submitted is correct and compliant with the LGPS Regulations 2013.

The valuation data for the 2016 Triennial Actuarial Valuation of the Fund was submitted on time, ensuring that all member records were at the correct status at the date of submission to the Actuary to ensure an accurate assessment of fund employer funding levels and contribution rates.

The administration team is accountable to the Pensions Board, participating employers and scheme members. The team is fully committed to providing a quality service to meet the Fund's various stakeholders and to deliver excellent customer care.

The team administers the WCCPF in accordance with legislative requirements with key aims to;

- Ensure the efficient administration of pension records, including the preparation and distribution of ABS to active and deferred members
- Undertake the calculation and payment of retirement benefits and transfer values
- Provide direction and guidance to scheme members and employers
- Provide pensions administration for the Firefighter Pension Schemes
- Support trustees of the Pension Fund and their decision making.

The team structure has been completed by officers in regard to its appropriateness for the efficient administration of the scheme. This review took on board national policy development and significantly the impact of regulatory changes on the volume and type of casework.

We continue to strive for improved efficiency through appropriate use of information technology. The primary focus during the year was to actively engage with our key supplier, Heywood, in ensuring that the pension administration and pensioner payroll system received the required software and benefit calculation updates.

All administration data is stored electronically and any paper records are securely destroyed. Staff who work away from the office as part of their role, can access data by secure means.

Collaboration

We continue to work collaboratively with other pension funds and have produced several key documents within the Group, including annual benefit statements and newsletters, to share expertise and costs.

We also participate in the Joint Communications Working Group and attend the Shrewsbury Pensions Officers Group.

Benchmarking

The Fund continues to participate in the chartered Institute of Public Finance and Accountancy (CIPFA) annual benchmarking survey. The survey showed that the Fund had a lower cost pension payroll than the CIPFA average.

Internal Disputes Resolution Cases

During the year to March 2018, there was only one case dealt with by the Appointed Person responsible for considering Stage 2 appeals against employer decisions. In this case the employer's decision was upheld.

Key staff indicators

The administration team employs 19 members of staff (17.60 FTE). The Fund therefore has a ratio of one full time equivalent member of the team for every 3,500 Fund members.

Financial Performance and Industry Standard Performance Indicators

The Local Government Pension Committee in conjunction with CIPFA has set a series of National Performance Indicators that measure the quality of service provided by Local Government Pension Schemes. These are set out in the table below along with the Fund's performance over 2017/18;

Performance Indicator (from point at which all required information has been received)	LGPC Target	Achieved %	Authority Target	Achieved %
Letter detailing transfer in quote	10 days	95%	10 days	95%
Letter detailing transfer out quote	10 days	95%	10 days	95%
Process and pay refund	5 days	95%	10 days	95%
Letter notifying estimate of retirement benefits	10 days	100%	10 days	100%
Letter notifying actual retirement benefits	5 days	100%	5 days	100%
Process and pay lump sum retirement grant	5 days	100%	5 days	100%
Initial letter acknowledging death of active, deferred / pensioner member	5 days	100%	5 days	100%
Letter notifying amount of dependent's benefits	5 days	95%	5 days	95%
Calculate and notify deferred benefits	10 days	95%	10 days	95%

2017/18 Pension Administration	Revised Approved Budget £000	Actual Expenditure £000
<u>Employees:</u>	453	449
Insurance Fidelity	4	0
Indirect Expenses	2	1
<u>Transport:</u>	2	2
<u>Supplies & Services:</u>		
Office Running expenses	15	12
Postage	35	26
External Audit Fee	26	26
Consultants	0	11
Mercers Fees*	10	10
Heywood Ltd - Licences & Maintenance	210	181
Insurances	3	3
<u>Central Support Recharges</u>	76	76
Total Expenditure:	836	797
	0	
<u>Income:</u>		
Pensions Fund*	-835	-796
Income from Outside bodies*	-1	-1
Total Income:	-836	-797
Net Surplus (-) / deficit	0	0

The Fund's Investment Portfolio and Performance

The County Council as Administering Authority is responsible for the investment of the Pension Fund which is delegated to the Pension Committee. Performance is reviewed by the Pension Committee, supported by the Pension Investment Advisory Committee. The Pension Committee consists of County Councillors and an Employee and Employer Representative and receives recommendations from the Pension Investment Advisory Committee in relation to investment decisions. The Pension Investment Advisory Committee consists mainly of Councillors and is advised by an independent financial adviser. Both the main and secondary committees meet on a quarterly basis with an additional annual meeting held by the Pension Investment Advisory Committee to consider the full year's performance. The Pension Investment Advisory Committee also reviews the actions taken by the investment managers in voting the Fund's shares.

The operation of the Fund is governed by statutory regulations, including the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which provide for a prudent approach to fund management and set out such matters as the type of investments into which the Fund's assets can be placed, with certain restrictions.

The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation and
- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

In December 2017 the Pensions Committee appointed River and Mercantile to implement and manage an Equity Protection Strategy using a 'static' options hedge solution. This was implemented during late February / early March 2018 and will cover a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2018:

For management purposes the Fund is divided between twelve external investment managers (including the Equity Protection strategy) operating a mix of thirteen active and passive equity mandates, bond mandates, property pooled funds and infrastructure pooled funds. A summary is set out below:-

Far East Active Equities	Nomura Asset Management UK Limited.
Passive UK, North America and European Equities	Legal and General Asset Management
Emerging Markets Active Equities	JP Morgan Asset Management.
Emerging Markets Active Equities	Schroder Investment Management
Global Corporate Bonds	JP Morgan Asset Management.
European Property	Invesco Real Estate
UK Property Debt	Venn Partners
North America Property Debt	Walton Street Capital
UK Property Fund	AEW
UK Infrastructure (Offshore wind)	Green Investment Bank
UK Infrastructure (Core)	Hermes
Infrastructure (Core)	Stonepeak
Equity Protection Strategy	River & Mercantile

Performance is measured against respective world indices, target net IRR and actual vs forecast cash flows. The details of the mandates are set out in the Investment Strategy Statement (Appendix 3). The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Investment Strategy Statement, therefore portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset allocation as at 31st March 2018 is shown below;

Shares Managed	%	Investment Manager and Expected Performance
<u>Shares Managed Actively</u>		
Far East Developed	10.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	JP Morgan Asset Management and Schroder Investment Management - FTSE-All World Emerging Market index +2.0%

Shares Managed	%	Investment Manager and Expected Performance
<u>Total Shares Managed Actively</u>	20.0	
<u>Shares Managed Passively</u>		
<u>Market Capitalisation Indices</u>		
United Kingdom	23.5	Legal and General Asset Management - FTSE All Share Index
North America	9.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	7.5	Legal and General Asset Management - FTSE All World Europe ex UK Index -Developed Series Index
<u>Alternative Indices</u>		
Global	15.0	Legal and General Asset Management: 40% GPAE - FTSE-Research Affiliates Fundamental Index(RAFI) Dev 1000 Equity Fund, 30% GPBK - MSCI World Mini Volatility Index, 30% STAJ - CSUF - STAJ MF36726/36727
<u>Total Shares Managed Passively</u>	55.0	
Total	75.0	
Fixed Interest	10.0	JP Morgan Asset Management – 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP
Property / Infrastructure	15.0	Invesco Real Estate, VENN Partners, Walton Street Capital, Green Investment Bank, Hermes
Overall Total	100.0	

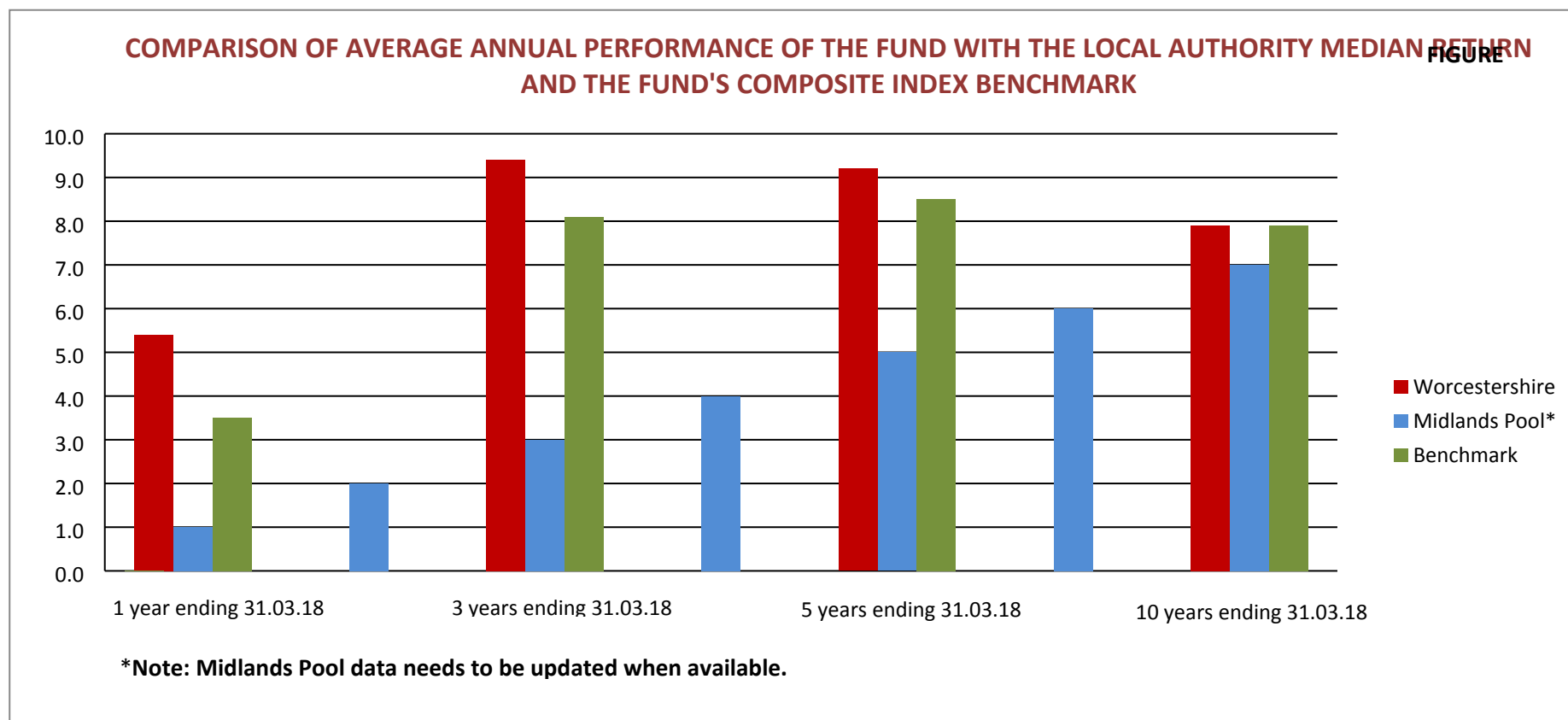
Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing.

In addition to the custodian's role in the safe-keeping of the Fund's total assets, the custodian also provides settlement and income collection services, the exercise of voting rights and the execution of corporate actions in conjunction with the investment managers. The appointment of a global custodian also secures an independent confirmation of the fund's assets and their value.

Statistics for measuring the investment managers' performances against the Fund's index benchmarks and against other local authorities are provided quarterly by the WM Company. The figures show performance in the year 2017/2018 for each Fund by means of a time-weighted return, as recommended by the Society of Investment Analysts.

For the financial year ended 31st March 2018 the Worcestershire return of 5.4% beating the Fund's index benchmark return by 1.9% and outperformed the Peer Universe return by 1.7%.

Figure 2 shows comparisons of the performance returns of the Fund with Peers return and the Fund's composite index benchmark over the last one, three, five, and ten years.



A comparison between the Fund's performance returns against the retail price index and the national average earnings since 2008 is given at Figure 3.

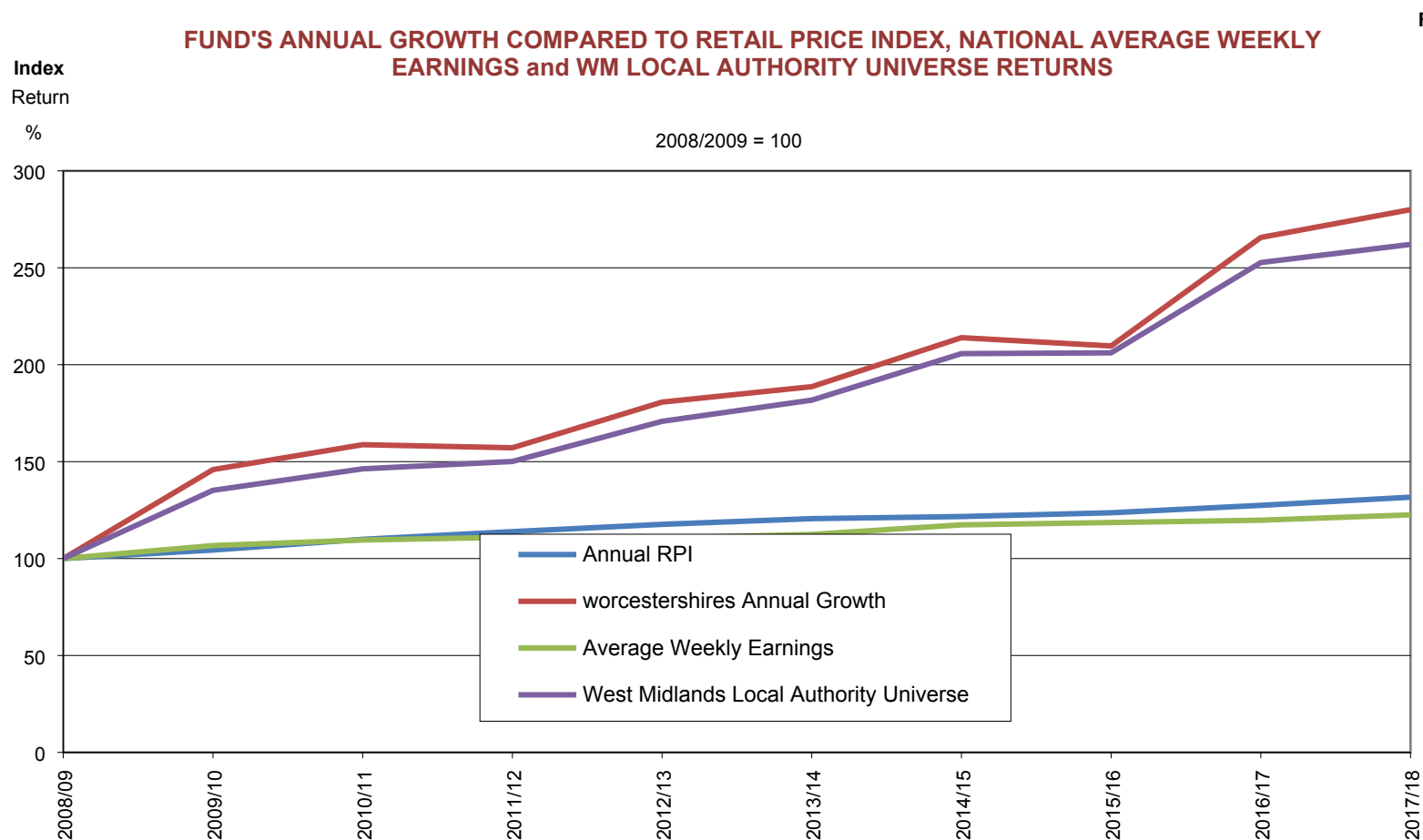


Figure 3

A chart showing the total net assets of the Fund each year since 2008 is given at Figure 4.

Figure 4

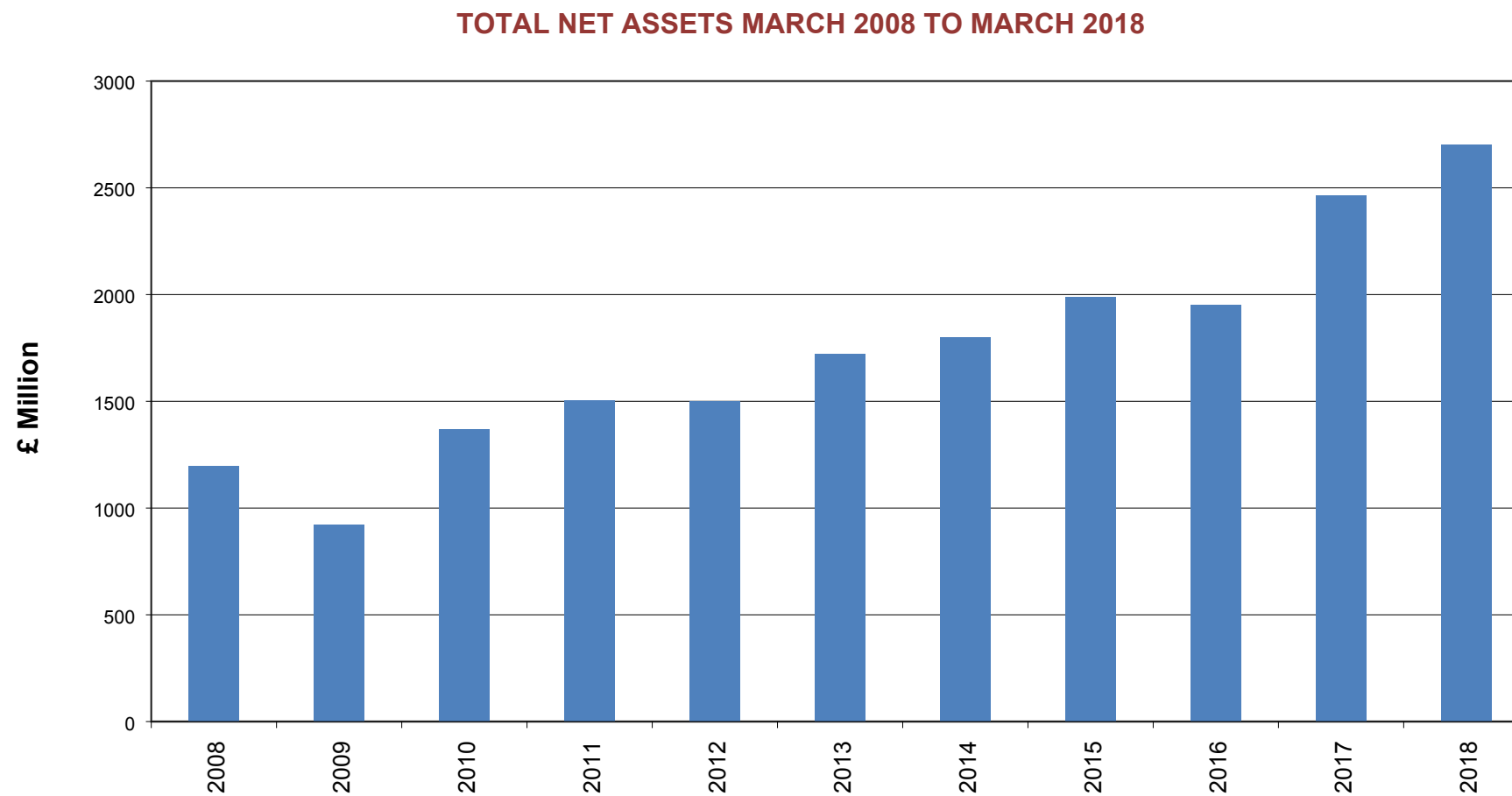
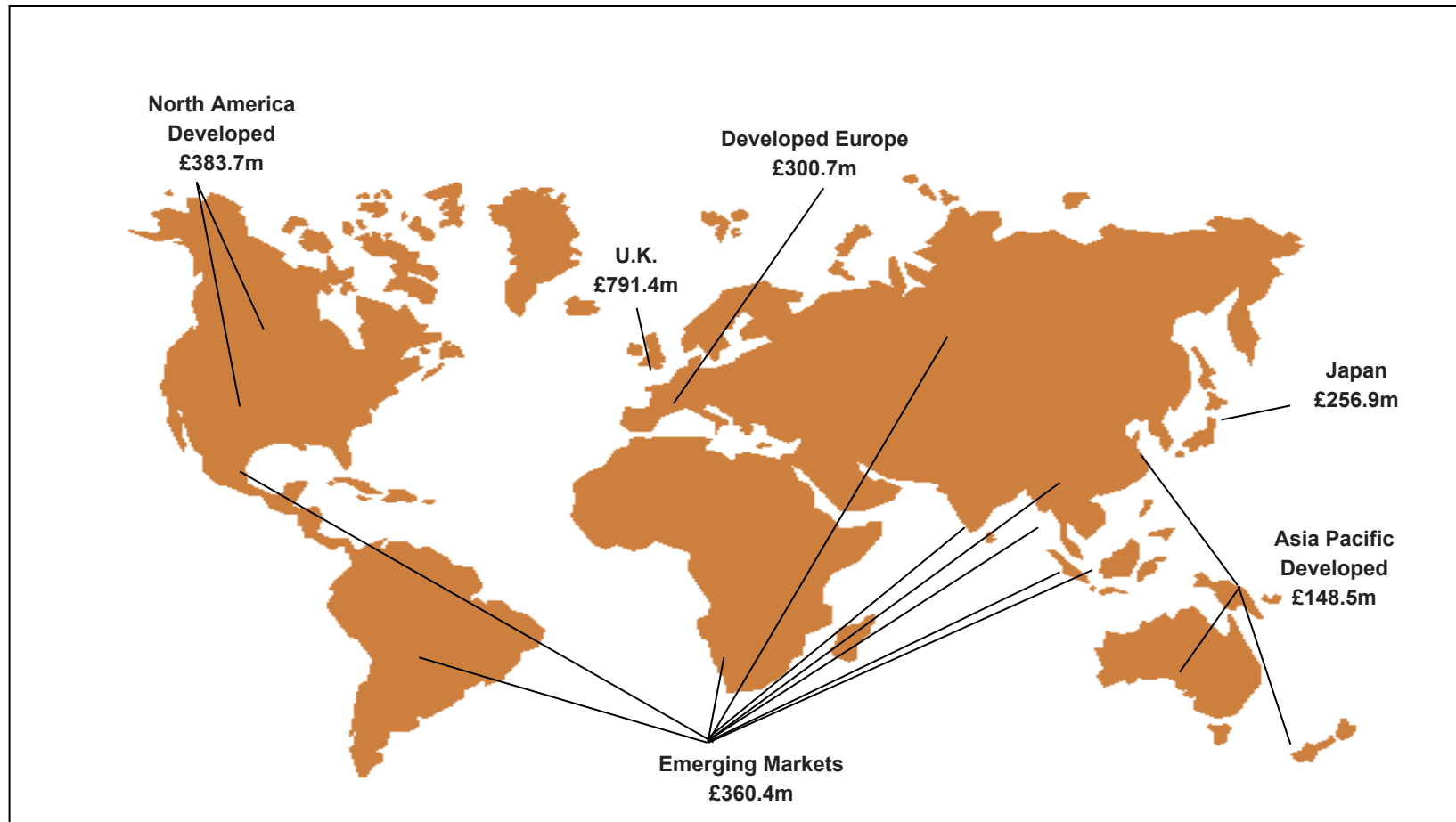


Figure 5 shows the geographical spread of investments (excluding cash, derivatives and global 'Alternative Indices' passive pooled investments):



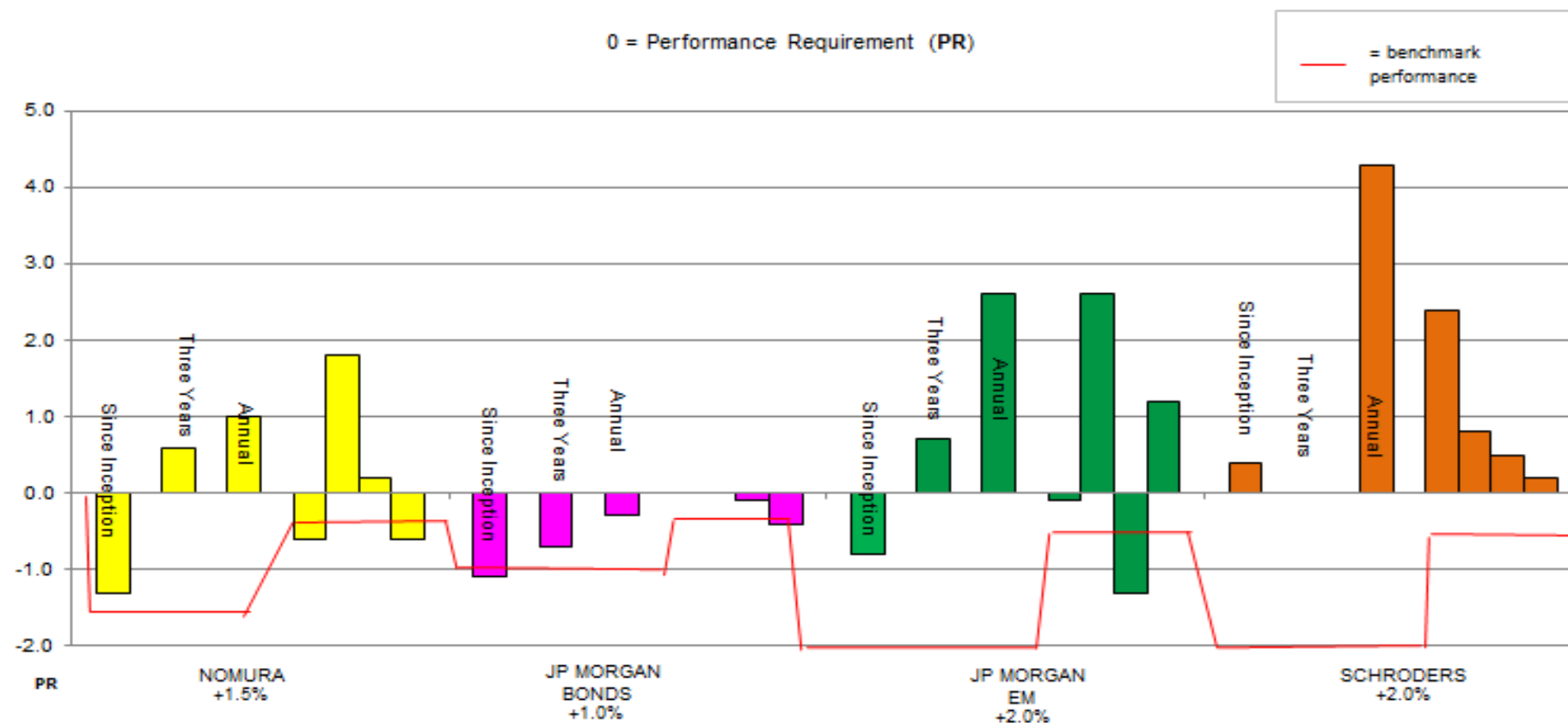
The Fund's top ten equity holdings (excluding Pooled Funds) are as follows:-

Equity Holding	Market Value as at 31 st March 2018 £'m	% of Fund Market value as at 31 st March 2018
TENCENT HOLDINGS LTD	25.04	0.9
TAIWAN SEMICONDUCTOR MANUFACTU	11.60	0.4
NOMURA FDS IRE-ASN SM CO-ZD	10.46	0.4
SAMSUNG ELECTRONICS CO LTD	10.34	0.4
NOMURA FDS IRE-IND EQ-Z-ACC	10.31	0.4
SUMITOMO MITSUI FINANCIAL GROU	9.77	0.4
FTSE 100 INDEX (OTC) CALL OCT	9.65	0.4
NATIONAL AUSTRALIA BANK LTD	9.61	0.4
TAIWAN SEMICONDUCTOR MANUFACTU ADR	9.27	0.3
SBERBANK OF RUSSIA PJSC ADR	9.13	0.3

The total value of these ten holdings represents 4.3% of the whole Fund.

Performance results for the Fund's individual managers' are shown below;

Worcestershire County Council Pension Fund - Chart showing for each active manager: performance since inception, three years, annual performance April 2017 to March 2018 and latest year in quarter ends January 2018 to March 2018, relative to performance requirement



Key Highlights

- The performance trend for Nomura and JP Morgan Bonds on a three year basis compared to since inception is positive. The annual return for Nomura , Schroder's' and JP Morgan Emerging Markets is strong and JP Morgan Bonds have nearly equalled the ir performance target over the past twelve months.
- Schroder's portfolio continued to have good performance in quarter 4 of 2018, which increased their one year return to substantially above target. Over the passed three years JP Morgan Emerging Markets are now ahead of their performance target

Report of the Financial Adviser

Another excellent year

Last year I described the 2016-17 accounting period as a "Vintage Year", and I am pleased to report that during the 2017-18 year the Fund has seen a further increase in value. The total market value of the Worcestershire County Council Pension Fund at 31 March 2018 was £2,681m, compared to £2,465m at the e

end of March 2017, an increase of 9%. The Fund outperformed its bespoke benchmark performance target over the last year by 1.9%. The Fund also outperformed its benchmark by 1.3% over 3 years and 0.7% over 5 years. It is particularly gratifying to note that the ten year performance figure has now moved to an in line position against the benchmark, after a long period of showing an underperformance.

Over the course of the year under review equity markets climbed to ever higher levels, continuing into January 2018. Towards the end of January concerns about the US stance on their global trading arrangements, particularly with China, started to give serious concern and world markets fell sharply, initiating a period of volatility in share prices that hasn't been seen for some time. By the end of the quarter and the Fund accounting year, market levels had recovered to a large extent, but in sterling valuation terms the Fund was slightly below the high water mark that had occurred in January. The Fund continued to benefit from the relatively high exposure to equities, with a further boost from the active managers who all performed well against their benchmarks.

To an extent political surprises continued on from 2016-17. In the UK the Prime Minister, Theresa May, called a snap General Election after her Easter break in the Welsh hills. This was ostensibly to capitalise on the strong position the Conservative Party held in opinion polls to strengthen the Government's position in their negotiations on exiting the European Union ("Brexit"), given the small majority that the Government held in the House of Commons at that time. As history now shows, the actual outcome did not give Mrs May's Government an overall majority, so their position had actually weakened, with the added complication of an emboldened Opposition. Next up was another Mrs M., this time Angela Merkel facing the German electorate. Again, another difficult outcome, with another cobbled together coalition. Somehow markets managed to shrug off all this potentially damaging news on the political front and headed to yet higher levels. Over in the US, their new President, Donald Trump, had an uphill struggle with his own staff, but has been applying his own particular brand of diplomacy on the world stage. He certainly has US interests at heart, and has avoided international disasters so far, despite his Tweeted bluster.

At Fund level much has changed during the last year. The rise in equity markets in particular has seen the funding level (which is a measure of the Fund's assets measured against the expected liabilities) improve to such an extent that the deficit had been eliminated, implying a fully funded position. Given that at the last Triennial Valuation in 2016 we had been looking at a recovery period of a further 19 years, based on a funding level of 76%, this was a very welcome development.

The Fund had effectively been rewarded for holding a high percentage of Fund assets in equities, certainly when compared to other LGPS Funds, but having achieved the objective of securing a vastly improved funding position thoughts then turned quite rightly to provide at least partial protection to the impact of possible future falls in equity markets.

This was achieved in a number of ways. Firstly it was recognised that while the strategic asset allocation to equities had been reduced to 75% of Fund assets at the last allocation review, the allocation to Bonds and Alternatives still remained low against their allocation within their agreed ranges and a rebalancing was necessary to reduce the actual exposure to equities. For the Alternatives this was achieved by increasing the allocation of funds to existing managers, including those selected during a process to increase the allocation to Alternatives undertaken in June, as a result of the 2016 strategic asset allocation review. The process of increasing exposure to Bonds identified that it was appropriate to widen the definition of that asset class to Fixed Interest, which enabled a search for alternatives to traditional Bonds, which now included Private Debt managers. Following a rigorous selection process, EQT have been appointed to manage a mandate in that area.

This still left the Fund potentially exposed to the detrimental impact of a significant fall in equity values, so in consultation with the Fund Actuary it was agreed that an equity downside protection strategy would be designed and implemented. The most appropriate and cost effective strategy was selected, namely a single option strategy that would provide protection against significant equity market falls in value for an 18 month period over the Funds passive equity investments. This period would provide cover up until the next Triennial Valuation due in April next year and for a period after that while decisions about strategic asset allocation are taken as a result of the findings of that valuation. A clearly defined brief was prepared and a selection process for a manager was undertaken, with River & Mercantile being selected to implement the mandate. This was put in place during February 2018.

During the course of the year under review considerable changes have taken place in the management team responsible for the Fund. In October Sean Pearce, Chief Financial Officer and Section 151 Officer responsible for the Fund, left to take up a new position as Finance Director of West Midlands Combined Authority. In January the long serving Manager responsible for the day to day operation of the Fund, Mark Forrester, departed to take up new responsibilities at the University of Birmingham, including appropriately being in charge of their Pension Fund. Both Sean and Mark have made a significant contribution to ensuring the Fund's investments have been well managed, in partnership with the members serving on the Pensions Investments Advisory Panel, the Pensions Committee and more recently the Local Pension Board. Since Sean left, Sue Alexander capably filled the role as Interim CFO during a period of a heavy workload for the Fund, supported by Andrew Lovegrove, CFO of Herefordshire County Council. The Fund also received invaluable support from officers at West Midlands Pension Fund, most notably from their Chief Investment Officer, Jill Davys. She made a significant contribution, particularly during the search process for the Private Debt manager. Mark Forrester has been replaced by Rob Wilson, who managed both his old role at the Council and his new one with aplomb during the implementation of the equity protection strategy and the selection process for the Private Debt manager. The Fund has been well served by many people during the last year. Since the year end, the Fund has been joined by the new Director of Finance, Michael Hudson, who until recently held a similar role at Wiltshire County Council and Pension Fund. His experience from their Pension Fund will be invaluable, particularly as we move forward into the new era of the Fund's asset management arrangements, in partnership with LGPS Central.

As flagged in my report last year, the Fund is a member of LGPS Central which will be responsible for managing the Fund assets for Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire Pension Funds. For the time being each Fund retains the responsibility for monitoring their existing managers and making short term changes to their management arrangements as necessary. Over a period of two to three years most assets will transition to management by the team being assembled by LGPS Central. Worcestershire County Council Pension Fund will retain responsibility for asset allocation decisions, which research shows forms the major part of the contribution to Fund performance over time. Crucially the Fund will also still be responsible for meeting the liabilities to our members, namely paying their pensions.

Philip Hebson

MJ Hudson Allenbridge

29th May 2018

Risk Management

The Pension Fund is subject to many different risks in areas such as; governance, investments, funding, administration and communications. In order to manage these risks a Pension Fund Risk Register is maintained and reviewed on a quarterly basis. Risks identified have been reduced to an acceptable level through planned actions. The register is managed by the Chief Financial Officer and risks have been identified and assigned to 'Risk Owners'.

The key risks identified within the Pension Fund risk register are as follows;

Objectives area at risk	Objective at risk	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Risk Score	Actions Taken	Residual Risk Score
Investments	To maximise the returns from investments with reasonable risk parameters.	If investment return is below that assumed by the actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger the risk.	Directorate Threat	Financial	12	Diversified portfolio, annual strategy review, asset liability study, option to extend recovery periods to smooth contribution increases.	9
Investments	To maximise the returns from investments with reasonable risk parameters.	If investment strategy is inconsistent with funding plan then it can lead to employers paying the incorrect contribution rate.	Directorate Threat	Financial / Reputation	12	Triennial reviews linked with funding strategy and investment strategy. Asset liability study, ISS, interim reviews, Co-ordination between actuary and investment consultant.	2

Objectives area at risk	Objective at risk	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Risk Score	Actions Taken	Residual Risk Score
Investments	Ensure that the Fund has robust client and performance monitoring in place when transferring its assets to LGPS Central and ensure this is in line with the fund's investment strategy	Failure to ensure the Fund transfers its assets and has insufficient information on the performance of its asset valuations	Strategic Threat	Financial / Governance	12	<p>Monthly PAF meetings take place with representatives from LGPS central to discuss and address operational issues. Formal Transition procedures are in place and the end to end process is currently being refined. The Investment work stream group (IWG) with representatives from all the funds will be used to ensure as smooth a process as possible and is in line with investment strategy.</p> <p>The Client reporting work stream group meets regularly with the Head of Client monitoring for LGPS central to ensure that client and performance reporting is in place</p>	6
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible.	Mismatch in asset returns and liability movements result in increased employer contributions.	Strategic Threat	Financial / Reputation	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	6
Funding	Minimise unrecoverable debt on termination of employer participation	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the fund as a whole with increases being required in all other employers contributions	Partnership / Strategic Threat	Financial / Reputation	12	The Fund assesses the strength of individual employers covenant strength and requires a bond or parent company guarantee when setting terms of admission agreements. With the assistance of the Fund's Actuary, the Fund plans to carry out a covenant review for the full fund, with the aim of implementing bonds or guarantee for the handful of historic employers where no protection was built into the original admission agreements.	6

Objectives area at risk	Objective at risk	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Risk Score	Actions Taken	Residual Risk Score
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.	Failure to administer scheme in line with regulations and policies.	Directorate threat	Regulatory Compliance /Reputation	12	Scheme administration and communication is reviewed by the Worcestershire County Council Pension Board to ensure compliance with regulations. A review of pension administration resources is being undertaken in 2017/17 to ensure sufficient resources are in place to meet scheme administration requirements.	3

The nature and extent of risks arising from Financial Instruments are detailed in note 15 of the Pension Fund Accounts.

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2018

2016/17 £m	Notes	2017/18 £m
Dealings with members, employers and others directly involved in the fund		
107.8 Contributions	5	185.2
8.0 Transfers in from other pension funds	6	10.4
115.8		195.6
(95.5) Benefits	7	(98.0)
(7.0) Payments to and on account of leavers	8	(8.8)
(102.5)		106.8
13.3 Net additions / (Withdrawals) from dealings with members		88.8
(1.0) Administrative expenses	9	(0.8)
(7.2) Management expenses	10	(9.0)
Net additions / (Withdrawals) including fund management and administrative 5.1 expenses		79.0
Returns on investments		
30.4 Investment income	11	37.2
(1.0) Taxes on income	12	(1.4)
Profit and losses on disposal of investments and changes in the market value of 494.1 investments	13a & 14b	105.3
523.5 Net return on investments		141.1
528.6 Net increase / (decrease) in the net assets available for benefits during the year		220.1
1,952.3 Opening fund net assets of the scheme		2,480.9
2,480.9 Closing fund net assets of the scheme		2,701.0

3. Net Assets Statement for the year ended 31 March 2018

2016/17 £m		Notes	2017/18 £m
0.1	Long term Investment Assets	13	1.9
2,453.4	Investment Assets	13 & 14	2,692.6
22.4	Cash deposits	13	27.1
2,475.9			2,721.6
(5.2)	Investment Liabilities	13	(32.2)
12.0	Current Assets	16	25.6
1.4	Non-Current Assets	17	1.8
(3.2)	Current Liabilities	18	(15.8)
2,480.9	Net Assets of the fund available to fund benefits at the period end		2,701.0

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in the Actuarial Statement included in the Pension Fund Annual Report and note 2 to the accounts. Notes 13 and 14 provides details on the Fair Value of assets

4. Notes to the Pension Fund Accounts

1. Description of Fund

a) General

The Pension Fund is administered by the County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, Private Sector admitted bodies with staff transferred under TUPE from the Administering Authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser and the scheme manager. The Pension Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually and pension administration issues are to be discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pension Committee.

The day to day management of the Fund's investments is divided between thirteen external investment managers operating in accordance with mandates set out in the Statement of Investment Principles.

b) Membership

A list of scheduled and admitted bodies contributing to the Fund is given in Note 25 to these accounts.

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

Organisations participating in the Worcestershire County Council Pension Fund include:

- Scheduled bodies, which are the local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 208 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

	31 March 2017	31 March 2018
Contributors to the fund		
County Council	8,049	8,083
Other employers	14,259	14,395
Total	22,308	22,478
Pensions paid		
County Council	4,721	4,968
Other employers	12,197	12,539
Total	16,918	17,507
Deferred members		
County Council	8,307	8,296
Other employers	11,663	12,055
Total	19,970	20,351
Total number of members in the fund	59,196	60,336

A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Chief Financial Officer, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website: [Link](#) to follow

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2018. Employee contributions are matched by employers' contributions which are set based on triennial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2017/18 employer contribution rate for the fund is 15.3%. In order to ensure employer contribution increases, required by the fund's actuary following the 31st March 2013 actuarial valuation, remained affordable, the administering authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Benefits payable from the fund are governed by the Superannuation Act 1972, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014.

Retirement Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index. Members in the 50/50 option build up a pension of a 98th of the pay received during that year, which is again protected against inflation.

Ill health pensions can be awarded based on one of three tiers for those that satisfy the scheme's criteria for permanent incapacity. Those in the 50/50 option have full ill-health and death cover.

Membership that was built up before 1 April 2014 continues to provide benefits as it did at the time. Membership from 1 April 2008 to 31 March 2014 provides final salary pensions based on 60ths. Membership before that also provides final salary benefits based on 80ths. Members can normally exchange some annual pension for a larger lump sum at the rate of 1:12, i.e. every £1 of annual pension given up in exchange for £12 lump sum. HMRC limits apply.

Generally a minimum of two years membership is required to draw retirement benefits.

Age of retirement

- Normal pension age is 65 or State pension age, whichever is the later, but can be paid earlier:
- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with unreduced benefits from age 55 onwards if their retirement is on the grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, but actuarial reductions may apply where benefits come into payment before normal retirement age. Employer consent is required for members who left prior to 1 April 2014.
- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply
- Payment of benefits may be delayed beyond normal pension age but only up to age 75.

There are also various protections regarding membership that are linked to earlier normal retirement ages that applied in earlier versions of the scheme.

Death Benefits In service

A lump sum death grant is payable, normally equivalent to three years assumed pay. The Administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's spouse, civil partner, eligible cohabiting partner and eligible children.

After retirement

A death grant is payable if less than ten years pension has been paid and the pensioner is under age 75 at the date of death, the balance of ten years pension is paid as a lump sum. Pensions are also normally payable to the member's spouse, civil partner, eligible cohabiting partner and any eligible dependent children.

Cost of Living Increases

Career average pensions that are being built up and pensions in payment are increased annually to protect them from inflation. Pension increases are currently in line with the Consumer Prices Index (CPI). Where a member has a guaranteed minimum pension (which relates to membership during SERPS prior to 5 April 1997) some of the pension increase may be paid with the State Pension.

Leaving before pension age

Members leaving before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if their scheme membership is less than two years. Members with more than two years membership have the option to defer their benefits in the fund until normal retirement age or transfer their benefits to another pension scheme.

Further details regarding LGPS benefits can be found at: www.worcestershire.gov.uk/pensions or Email: pensions@worcestershire.gov.uk

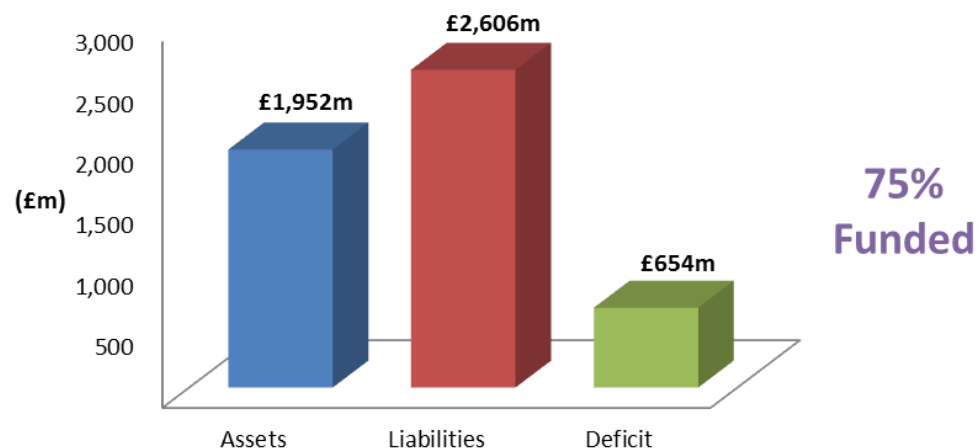
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1) (d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £654 million.



The valuation also showed that a common rate of contribution of 15.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £34 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years’ total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.35% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

**allowance was also made for short-term public sector pay restraint over a 4 year period.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 3.6% p.a. rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2016 was £3,010 million.

Ian Kirk

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

April 2018

3. Pension Fund Investments 2017/18

The proportion of the market value of investment assets held by the external fund managers at the year-end was:

External Fund Manager	31 March 2017		31 March 2018	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	136.5	5	139.8	5
JP Morgan Asset Management (Emerging Markets)	153.0	6	173.5	6
Nomura Asset Management UK Ltd	390.4	16	420.5	16
Schroder Investment Management	163.0	7	187.3	7
Legal and General Asset Management	1,412.2	57	1,270.3	47
Green Investment Bank	49.4	2	49.2	2
Hermes	49.2	2	44.1	2
Invesco	66.7	3	70.2	3
VENN	22.9	1	26.3	1
Walton Street	13.6	1	17.3	1
AEW	0	0	18.8	1
Stonepeak	0	0	2.8	0
River and Mercantile	0	0	255.8	9
WCC Managed Account	8.4	0	5.1	0
	2,465.3	100	2,681.0	100

The following investments represent more than 5% of the net assets of the scheme:

	Market value	% of total	Market value	% of
	31 March 2017	fund	31 March 2018	total
Security	£m		£m	fund
LGIM – UK Equity Index Pooled Fund	667.9	27.1	398.0	15.0
LGIM – North America Index Pooled Fund	289.3	11.7	293.1	11.0
River and Mercantile UK Gilts	0.0	0.0	228.3	8.6
LGIM – Europe (ex-UK) Index Pooled Fund	147.2	6.0	192.1	7.2
LGIM - FTSE Developed Equity Pooled Fund	95.0	3.9	155.3	5.8

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £35.9 million (2017 £27.8million). Counterparty risk is managed through holding collateral at the fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £38.3 million (2017 £29.5million) representing 107% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2018 (2017 £0.1million). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

Stock lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower.

There are no liabilities associated with the loaned assets.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on the 18th May 2018. These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. A £0.9m Capital call was made for one of the infrastructure funds in March 2018, but was paid in April; the figure for Contingent Liabilities has been adjusted for this.

5. Contributions Receivable

By category:	2016/17 £m	2017/18 £m
Employers		
Normal contributions	46.3	52.9
Deficit recovery contributions	36.8	36.5
Augmentation contributions	2.7	2.0
Additional Contributions	0.0	71.2
Employees		
Normal contributions	21.6	22.3
Additional contributions	0.4	0.3
	107.8	185.2

By authority:	2016/17 £m	2017/18 £m
Worcestershire County Council	30.8	77.6
Scheduled bodies*	62.0	92.1
Community admission bodies	5.5	6.3
Transferee admission bodies	8.7	8.2
Designated bodies	0.8	1.0
	107.8	185.2

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2017/18. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

The Additional Contributions in 2017/18 were made to the Fund by Worcestershire County Council and other Employers (Bromsgrove District Council, Fortis Living, Herefordshire Housing Association, Herford and Worcestershire Fire Authority, Redditch Borough Council, Regulatory Services, Sports partnership Hereford & Worcestershire, Trinity Academy, Worcester City Council, Worcestershire 6th Form College, ,Wychavon District Council and Wyre Forest District Council) , which represented 100% of the Employer Deficit recovery contributions and as well as Worcestershire County Council, other employers (Redditch Borough Council , Bromsgrove District Council, Wychavon District Council and Regulatory Services) paid 90% of the Normal Contributions due from the Council for each of the Financial years 2017/18, 2018/19 and 2019/20.

6. Transfers in and from other Pension Funds

	2016/17	2017/18
	£m	£m
Individual transfers	8.0	10.4
	8.0	10.4

7. Benefits Payable

By category:	2016/17	2017/18
	£m	£m
Pensions	77.3	80.4
Commutations and lump sum retirement benefits	16.0	15.7
Lump sum death benefits	2.2	1.9
	95.5	98.0

By authority:	2016/17	2017/18
	£m	£m
Worcestershire County Council	36.1	36.8
Scheduled bodies	48.4	50.5
Admitted bodies	1.6	1.9
Community admission bodies	6.2	5.5
Transferee admission bodies	2.7	2.6
Designated bodies	0.5	0.7
	95.5	98.0

8. Payments to and on Account of Leavers

	2016/17	2017/18
	£m	£m
Individual transfers	7.0	8.8
Group transfers	0.0	0.0
	7.0	8.8

At year-end there were no potential liabilities (2016/17 £0.2 million) in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

	2016/17	2017/18
	£m	£m
Employee expenses	0.5	0.5
Support services	0.1	0.1
Actuarial services	0.2	0.2
Other expenses	0.2	0.0
	1.0	0.8

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2018 was £26,156 0.25% of total admin costs (£26,156 for the year ended 31st March 2017 0.20% of total admin costs).

10. Management Expenses

	2016/17 £m	2017/18 £m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	7.0	8.9
Other expenses	0.1	0.0
	7.2	9.0

10 a. Investment Management Expenses

	2016/17 £m	2017/18 £m
Management fees	5.6	7.7
Custody fees	0.3	0.3
Transaction costs	1.2	0.9
	7.1	8.9

The £9.0m management expenses incurred in 2017/18 represent 0.33% or 33basis points (bps) of the market value of the fund's assets as at 31st March 2018 (0.29% or 29bps 31st March 2017). The increase in management and investment expenses is mainly due to the addition of pooled property investments, pooled infrastructure investments and implementation of an Equity Protection Strategy to the fund's portfolio and the increase in the Fund's equities market value resulting in an increase in investment management fees that are based on the value of assets under management.

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison. The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature. The equity protection strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £7.2 million to £9.0 million for 2017/18 (£5.1 million to £7.2 million for 2016/17). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

11. Investment Income

	2016/17	2017/18
	£m	£m
Fixed interest securities	4.2	5.0
Equity dividends	18.4	22.0
Pooled Property investments	4.6	5.1
Pooled Infrastructure investments	2.9	4.7
Interest on cash deposits	0.2	0.4
Securities lending	0.1	0.0
	30.4	37.2

12. Taxes on Income

	2016/17	2017/18
	£m	£m
Withholding tax – equities	(1.0)	(1.4)
	(1.0)	(1.4)

13. Investments

	Market value 31 March 2017 £m	Market Value 31 March 2018 £m
Long term Investment Assets		
LGPS Central –AFIM	0.1	0.5
LGPS Central shares	0.0	1.4
Investment assets		
Fixed interest securities	130.7	359.8
Equities	678.9	752.5
Pooled investment vehicles	1,434.9	1,292.0
Pooled property investments	101.5	128.5
Pooled Infrastructure investments	98.6	96.1
Derivatives - futures	0.1	54.7
Derivatives - forward FX	1.2	1.8
Cash deposits	22.4	27.1
Investment income due	5.3	6.5
Amounts receivable for sales	2.2	0.7
Total investment assets	2,475.9	2,721.6
Investment liabilities		
Derivatives - futures	(0.2)	(30.2)
Derivatives - forward FX	(0.2)	(0.2)
Amounts payable for purchases	(4.8)	(1.8)
Total investment liabilities	(5.2)	(32.2)
Net investment assets	2,470.7	2,689.4

13 a: Reconciliation of movements in investments and derivatives

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£m	£m	£m	£m	£m
-					
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	1.8	0.0	0.0	1.9
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	359.8
Equities	676.2	277.7	(258.0)	56.6	752.5
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	1,292.0
Pooled Property investments	101.5	51.6	(27.2)	2.6	128.5
Pooled Infrastructure investments	98.6	7.8	(16.5)	6.2	96.1
	2,444.6	776.9	(676.2)	83.6	2,628.9
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	24.5
Forward currency contracts	1.0	10.4	(16.5)	6.7	1.6
	2,445.6	838.4	(731.8)	104.7	2,656.9
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases of investments	(4.8)				(1.8)
Net investment assets	2,470.7			105.3	2,689.4

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Market value 31 March 2016	Purchases during the year and derivative payments restated	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.0	0.1	0.0	0.0	0.1
	0.0	0.1	0.0	0.0	0.1
Investment Assets					
Fixed interest securities	119.5	80.0	(85.5)	16.7	130.7
Equities	679.7	358.9	(534.8)	172.4	676.2
Pooled investment vehicles	947.8	362.9	(179.5)	306.4	1,437.6
Pooled Property investments	88.2	21.1	(16.1)	8.3	101.5
Pooled Infrastructure investments	72.2	27.3	(5.0)	4.1	98.6
	1,907.4	850.2	(820.9)	507.9	2,444.6
Derivative contracts:					
Futures	(0.1)	2.7	(2.9)	0.2	(0.1)
Forward currency contracts	2.6	30.7	(11.7)	(20.6)	1.0
	1,909.9	883.7	(835.5)	487.5	2,445.6
Other investment balances:					
Cash deposits	20.0			6.6	22.4
Investment income due	4.1				5.3
Amount receivable for sales of investments	3.8				2.2
Amounts payable for purchases of investments	(5.0)				(4.8)
Net investment assets	1,932.8			494.1	2,470.7

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2017/18 year amounted to £0.8 million, (2016/17 £1.2 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31st March 2018 (5bps at 31st March 2017).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

Note 13 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

	31 March 2017 £m	31 March 2018 £m
Long term Investment Assets		
LGPS Central – AFIM	0.1	0.5
LGPS Central - shares		1.4
	0.1	1.9
Fixed interest securities		
UK Gilts	0.0	228.3
UK corporate quoted	8.2	10.9
Overseas public sector quoted	0.0	0.0
Overseas corporate quoted	122.5	120.6
	130.7	359.8

Equities

UK quoted	12.5	13.1
Overseas quoted	663.7	739.4
	676.2	752.5

Pooled Investment Vehicles

Other UK managed funds – UK equities	667.9	398.0
– Overseas equities	436.5	485.2
– Global equities	307.8	387.1
Other overseas managed funds – Overseas equities	25.4	21.7
	1,437.6	1,292.0

Pooled Funds - Additional Analysis

Pooled property investments - UK	23.0	45.1
Pooled property investments - overseas	78.5	83.4
	101.5	128.5

Pooled Infrastructure investments - UK	98.6	96.1
	98.6	96.1

Derivatives - futures	0.1	54.7
Derivatives - forward FX	1.2	1.8
Cash deposits	22.4	27.1
Investment income due	5.3	6.5
Amounts receivable for sales	2.2	0.7
Total investment assets	2,475.9	2,721.6

Investment liabilities

Derivatives - futures	(0.2)	(30.2)
Derivatives - forward FX	(0.2)	(0.2)
Amounts payable for purchases	(4.8)	(1.8)
Total investment liabilities	(5.2)	(32.2)
<hr/>		
Net investment assets	2,470.7	2,689.4

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the fund and investment managers.

In 2017/18 the Pension Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

The fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the fund has enabled

the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value	Market Value 31 March 2017	Economic Exposure Value	Market Value 31 March 2018
		£m	£m	£m	£m
UK gilt exchange traded	Less than one year	0.3	0.0	0	0.0
UK FTSE exchange traded option	Greater than 1 year	0.0	0.0	0	25.9
EUROSTOXX exchange traded option	Greater than 1 year	0.0	0.0	0	14.3
US S+P exchange traded option	Greater than 1 year	0.0	0.0	0	14.3
Overseas exchanged traded	Less than one year	29.4	0.1	24.9	0.2
Total assets			0.1		54.7

Liabilities

Type of future	Expiration	Economic Exposure Value	Market Value 31 March 2018	Economic Exposure Value	Market Value 31 March 2018
		£m	£m	£m	£m
UK gilt exchange traded	Less than one year	0.0	0.0	(1.4)	0.0
UK FTSE exchange traded option	Greater than 1 year	0.0	0.0	0.0	(10.0)
EUROSTOXX exchange traded option	Greater than 1 year	0.0	0.0	0.0	(11.3)
US S+P 500 exchange traded option	Greater than 1 year	0.0	0.0	0.0	(8.7)
Overseas exchanged traded	Less than one year	(21.3)	(0.2)	(19.6)	(0.2)
Total liabilities			(0.2)		(30.2)

Net futures					(0.1)	24.5
Open forward currency						
Contracts as at 31 March 2018						
Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	EUR	39.6	GBP	34.7	0.0	
One to six months	GBP	35.1	EUR	39.7	0.3	
One to six months	GBP	96.2	USD	1.3	1.4	
One to six months	HKD	10.2	USD	1.3	0.0	
One to six months	USD	0.2	EUR	0.2	0.0	
One to six months	USD	129.6	GBP	92.3	0.1	
One to six months	USD	0.1	HKD	1.0	0.0	
One to six months	USD	0.5	ZAR	6.0	0.0	
One to six months	EUR	0.5	GBP	0.5		0.0
One to six months	GBP	35.1	EUR	40.0		0.0
One to six months	GBP	91.0	USD	128.0		(0.2)
One to six months	USD	5.3	GBP	3.9		0.0
One to six months	USD	0.2	INR	11.3		0.0
					1.8	(0.2)
Net forward currency contracts at 31 March 2018						1.6
Prior year comparative:						
Open forward currency contracts at 31 March 2017					1.2	(0.2)

Net forward currency contracts at 31 March 2017

1.0

Analysis of Cash

	2016/17	2017/18
Cash	£m	£m
Cash deposits	13.7	19.4
Cash instruments	8.7	7.7
	22.4	27.1

Note 14: Financial Instruments

Note 14 a: Classification of financial instruments

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

Designated as fair value through profit and loss 31 March 2017 £m	Loans and receivables 31 March 2017 £m	Financial liabilities at amortised cost 31 March 2017 £m	Designated as fair value through profit and loss 31 March 2018 £m	Loans and receivables 31 March 2018 £m	Financial liabilities at amortised cost 31 March 2018 £m
Financial assets					
		0.0			1.9
130.7					
676.2			359.8		
1,437.6			752.5		
101.5			1,292.0		
98.6			128.5		
0.1			96.1		
1.2			54.7		
	25.2		1.8		
7.5				33.7	
	9.2		7.2		
	1.4			19.0	
				1.8	
2,453.4	35.8	0.0	2,692.6	54.5	1.9

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2017	31 March 2017	31 March 2017	31 March 2018	31 March 2018	31 March 2018
£m	£m	£m	£m	£m	£m
		Financial liabilities			
(0.2)		Derivatives - Futures	(30.2)		
(0.2)		Derivatives - Forward FX	(0.2)		
(4.8)		Other investment balances	(1.8)		
		(3.2)			(15.8)
(5.2)	0.0	(3.2)	(32.2)	(0.0)	(15.8)
2,448.2	35.8	(3.2)	2,660.4	54.5	(13.9)

Note 14 b: Net gains and losses on financial instruments

31 March 2017		31 March 2018
£m		£m
	Financial assets	
507.9	Fair value through profit and loss	83.6
6.6	Loans and receivables	0.6
	Financial liabilities	
(20.4)	Fair value through profit and loss	21.1
494.1	Total	105.3

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The large increase, following on from previous decrease is a result of volatility in global equity markets since 2015/16 and the decrease in the value of Sterling resulting in an increase the value of the Fund's overseas investments when converted back to Sterling.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 14 c: Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

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

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,119.5	1,348.5	224.6	2,692.6
Loans and receivables	54.5	0.0	.0.	54.5
Total fair value financial assets	1,174.0	1,348.5	224.6	2,747.1
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(32.2)	0.0	(32.2)
Total fair value financial liabilities	0.0	(32.2)	0.0	(32.2)
Net fair value financial assets	1,174.0	1,316.3	224.6	2,714.9

	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	
Values at 31 March 2017	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	814.4	1,438.9	200.1	2,453.4
Loans and receivables	35.8	0.0	0.0	35.8
Total fair value financial assets	850.2	1,438.9	200.1	2,489.2
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(5.2)	0.0	(5.2)
Total fair value financial liabilities	0.0	(5.2)	0.0	(5.2)
Net fair value financial assets	850.2	1,433.7	200.1	2,484.0

Level 3 Investments: Further analysis

Sensitivity Analysis	Valuation range	Value as at 31 st March 2018	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	7%	128.5	137.5	119.5
Pooled Investments - Infrastructure Funds	7%	96.1	102.8	89.4
Total		224.6	240.3	208.9

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments –Infrastructure Funds	
	£m	£m	£m
Market Value 1 st April 2017	101.5	98.6	200.1
Transfers into Level 3	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0
Purchases and derivative Payments	51.6	7.8	59.4
Sales and derivative receipts	(27.2)	(16.5)	(43.7)
Unrealised gains/(losses)	2.5	3.8	6.3
Realised gains/(losses)	0.1	2.4	2.5
Market value 31st March 2018	128.5	96.1	224.6

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

Note 15: Nature and extent of Risks arising from Financial Instruments

In the course of every day operating, the Pension Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Pension Fund Statement of Investment principles the Fund holds equity and bond instruments in order to meet the Fund's investment objectives. The Fund's investment objectives and risk management policies are as follows;

- (1) The investment objective for the Fund is to:-
 - (a) ensure that sufficient assets are available to meet liabilities as they fall due;
 - (b) maximise the return at an acceptable level of risk.

- (2) Risk management is mostly concerned with:
- avoiding the possibility of loss, or
 - limiting a deficiency in the underlying Fund, or
 - avoiding a contribution rate increase in the future.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

There are three main types of market risk that the Fund is exposed to as at 31 March 2018:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the administering authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to independently measure the Fund's investment returns and the Fund's absolute and relative risk for each portfolio and also the Fund as a whole. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.4 %
UK equities	8.2 %
Overseas equities	12.5%
UK pooled investment vehicle	8.2%
Overseas pooled investment vehicle	12.4%
Global pooled investment vehicle	12.4%
Pooled property investments	7.4%
Pooled Infrastructure investments	7.4%

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

If the market price of the fund investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 13):

Asset Type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	27.1	0.0%	27.1	27.1
Investment portfolio assets:				
UK fixed interest securities	10.9	3.4%	11.3	10.5
Overseas fixed interest securities	120.6	3.4%	124.7	116.5
UK equities	13.1	8.2%	14.2	12.0
Overseas equities	739.4	12.5%	832.1	646.7
UK pooled investment vehicle	398.0	8.2%	430.5	365.5
Overseas pooled investment vehicle	506.9	12.4%	569.8	444.0
Global pooled investment vehicle	387.1	12.4%	435.1	339.1
Pooled property investments	128.5	7.4%	138.0	119.0
Pooled Infrastructure investments	96.1	7.4%	103.2	89.0
Net derivative assets	26.1	0.0%	26.1	26.1
Investment income due	6.5	0.0%	6.5	6.5
Amounts receivable for sales	0.7	0.0%	0.7	0.7
Amount payable for purchases	(1.8)	0.0%	(1.8)	(1.8)
Total	2,459.2		2,717.5	2,200.9

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2017	Value as at 31 March 2018
	£m	£m
Cash and cash equivalents	22.4	27.1
Cash balances	2.8	6.6
Fixed interest securities	130.7	359.8
Total	155.9	393.5

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The Council's treasury management adviser, Link Asset Services, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2018 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£m	£m	£m
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	6.6	6.7	6.5
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	393.5	397.4	389.5

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2017	Asset value as at 31 March 2018
	£m	£m
Overseas quoted securities	663.7	739.4
Overseas pooled investment vehicle	461.9	506.9
Global pooled investment vehicle	307.8	387.1
Overseas pooled property investments	78.5	83.4
Total overseas assets	1,511.9	1,716.8

Overseas bonds are 100% hedged to GBP at 31 March 2018.

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 8.1% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 8.1% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as	Change to net assets available to	
	at 31 March	pay benefits	
	2018	+8.1%	-8.1 %
	£m	£m	£m
Overseas quoted securities	739.4	799.3	679.5
Overseas pooled investment vehicle	506.9	548.0	465.8
Global pooled investment vehicle	387.1	418.5	355.7
Overseas pooled property investments	83.4	90.2	76.6
Total change in assets available	1,716.8	1,856.0	1,577.6

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2018 was £33.7million (31 March 2017: £25.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2017 £m	Balances as at 31 March 2018 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	0.2	2.7
BNY Mellon US Dollar Liquid Fund	AAA	4.5	3.2
BNY Mellon US Dollar	AAA	0.0	0.0
JPM liq-ster Liquidity-x	AAA	2.3	0.8
JPM liq-USD Liquidity-XDI	AAA	1.7	1.1
Bank deposit accounts			
The Bank of New York Mellon	A-1+	13.7	19.3
Bank current accounts			
Barclays Bank PLC	A-1	2.8	6.6
Total		25.2	33.7

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension fund has adequate cash resources to meet commitments.

Note 16: Current assets

	2016/17 £m	2017/18 £m
Contributions due from employer in respect of:		
Employer	5.0	5.5
Members	1.8	2.1
Magistrates Courts Bulk Transfer Payment Due	0.7	0.4
Augmentation	1.2	0.9
Cash balances	2.8	6.6
Other Debtors	0.5	10.1
	12.0	25.6

Other debtors have increased due mainly to cash outstanding from fund managers that has been received early in 2018/19

Note 17: Non-current assets

	2016/17 £m	2017/18 £m
Magistrates Courts Bulk Transfer Payment Due	1.3	0.8
*LGPS Central Capital Advance treated as loan	0.0	0.7
Augmentation	0.1	0.3
	1.4	1.8

*This was part of the regulatory capital required to set up the company LGPS Central which is detailed in the foreword

Note 18: Current liabilities

	2016/17	2017/18
	£m	£m
Investment management expenses	(1.3)	(7.0)
Payroll and external vendors	(1.5)	(5.1)
Other expenses	(0.4)	(3.7)
	(3.2)	(15.8)

Increase due to outstanding fund manager fees and Fund manager draw down for Walton Street and outstanding pension payments

Note 19: Analysis of debtors and creditors

Analysis of debtors

	31 March 2017	31 March 2018
	£m	£m
Central government bodies	2.0	2.4
Other local authorities	5.6	6.2
Other entities and individuals	3.0	11.6
	10.6	20.2

Analysis of creditors

	31 March 2017	31 March 2018
	£m	£m
Central government bodies	(1.3)	(0.2)
Other local authorities	(1.5)	(6.9)
Other entities and individuals	(0.4)	(8.7)
	(3.2)	(15.8)

Note 20. Related Party Transactions

Worcestershire County Council

The Worcestershire County Council Pension Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.8 million in 2017/18 (2016/17: £1.0 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £77.6 million to the fund in 2017/18 (2016/17: £29.9 million). However £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation.

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 25 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 5, 7, 16, 17, 18 and 19 to the accounts.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool. No services were provided by LGPS Central Ltd during 17/18 as operation only commenced in April 2018. £1.315 million has been invested in share capital and £0.685 million in a loan to LGPS Central during the year. These are the balances at year end.

£0.4 million has been spent by Worcestershire County Council Pension Fund on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then recharged equally to the administering authorities. A total of £0.4 million is due to be refunded to Worcestershire County Council Pension Fund by LGPS Central during 2018/19 reflecting the cost of setting up the enterprise to the end of March 18.

Key Management Personnel

The posts of Director of Finance, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel with regards to the Pension Fund. The financial value of their relationship with the fund (in accordance with IAS24) is set out below:

	2016/17 £000	2017/18 £000
Short term benefits*	46	33
Long term/ post-retirement benefits**	364	418
	410	451

*This is the pension's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial officer are active members of the Fund.

Note 21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2018 totalled £267.6 million (31 March 2017: £31.7 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Pooled Property Investments and Pooled Infrastructure investments part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

Note 22. Contingent assets

The Councils below have provided guarantees to a number of organisations that have been admitted to Worcestershire County Council Pension Fund, to fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Council considers to be material for these purposes) are:-

- Balfour Beatty Living Places (£0.740million), **Herefordshire County Council**
- Hoople Ltd joint venture company (£0.500million) **Herefordshire County Council**
- Civica UK Ltd (£0.360million) **Wychavon District Council**
- Bromsgrove District Housing Trust (£0.610 million) **Bromsgrove District Council**

There are a further 27 organisations with a pension liability less than £195,000. The Council has considered various factors in determining the potential risk of having to fund any future liability, including risk of failure of the business and membership profile, and are satisfied that they do not represent a significant potential liability for the Council.

Eleven admitted body employers in the Worcestershire County Council Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note 23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2017/18 are as follows:

	2016/17	2017/18
	£m	£m
Contributions received	0.1	0.2
Investments purchased	0.1	0.2
Change in market value	(0.1)	0.3
Retirement benefits paid or transferred	0.3	0.4

The combined value of the AVC funds at 31 March 2018 was £2.9 million, (31 March 2017 £2.2 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only.

Note 24. Agency Services

The Worcestershire County Council Pension Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2016/17	2017/18
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	0.1

Note 25. Participating Employers of the Fund at 31 March 2018

Scheduled Bodies

Worcestershire County Council
 Advance Trust/Vale of Evesham School
 Alvechurch Middle
 Ashperton Primary School Academy
 Aspire Academy
 Astwood Bank 1st School
 Barrs Court Special School & College
 Bengeworth First School
 Birchen Coppice Primary School
 Bishop Perowne Academy
 Bredon Hill Middle

Marden Primary School Academy
 Matchborough First
 Mordiford Academy

 N E W College
 Newbridge Advance Trust
 Nunnery Wood Academy
 Oasis Community Learning (Warndon Primary)

 Our Lady of Lourdes Academy
 Perry Wood Prim & Nursery(Griffin Sch T)

Brockhampton Academy
 Bromsgrove District Council
 Brookfield School
 Building Control
 Burghill Community Primary School
 Burley Gate Primary
 Canforth Academy
 Canon Pyon Academy
 Chantry Academy
 Christopher Whitehead Academy
 ContinU Plus
 Crabbs Cross
 Diocese of Worcs MAT
 Droitwich Academy
 Dyson Perrins Academy
 Farifield High School
 Gorse Hill Academies
 Great Malvern Academy
 Great Witley Primary
 H & W Community Council
 H & W Fire Authority
 Hanley Castle Academy
 Haybridge Academy
 Hereford Academy
 Hereford College of Art
 Hereford College of Technology
 Hereford Marches Fed of Academies
 Hereford Sixth Form College
 Hereford Steiner Academy
 Herefordshire (unitary)

Pershore Academy
 Prince Henry's High School
 Probation
 Queen Elizabeth Academy
 Reach Assisted Living
 Redditch Borough Council

 Redditch RSA Academies Trust
 Regency High School
 Regulatory Services (Broms)
 Ridgeway Academy
 Riversides Academy
 Robert Owen Free School Academy
 Somers Park Academy
 South Bromsgrove High School - Academy
 South Worcestershire Coll (Was Evesham & Malvern Hills College)
 South Worcestershire ICT Shared Services
 St John's CofE Middle
 St Matthias Academy
 St Michaels Primary
 St Nicholas Owen Catholic Multi Academy Company
 St Pauls C of E Academy
 St Thomas Cantilupe Academy
 Stourport Academy
 Stretton Sugwas Academy
 Suckley Academy
 Tenbury academy
 Tenbury High School
 The Coppice Primary Academy
 The Vaynor Academy
 The Villages MAT

HIBOS
 Holmer Primary School
 Holy Fam MAC St Marys Broadway
 Holy Fam MAC St Marys Evesham
 Honeybourne Primary Academy
 Ipsley CE RSA Academy
 John Kyrle High & 6th Form
 John Masefield High School & Sixth Academy
 Joint Museum Shared Services
 Kidderminster College of F E
 King Charles Academy
 Kingfisher Academy
 Kingstone High School
 Lady Hawkins Academy
 Lickhill Academy
 Llangrove Academy
 Lugwardine Academy
 Malvern Hills District Council
 Malvern the Chase Academy

Community Bodies

Babcock Training Ltd
 Brightstripe - Cultural Health CIC
 Bromsgrove District Housing Trust
 Encore Enterprises
 Festival Housing Group (formerly Partnership Housing
 FOCSA Services (UK) Limited
 Hereford Community Leisure Trust
 Herefordshire Housing Association
 Hoople LTD

Trinity Academy
 Tudor Grange

 Tudor Grange Academy Redditch
 University College Worcester
 Valuation & Community Charge Tribunal
 Walkwood Middle
 Waseley Hills Academy
 Webheath Academy
 West Mercia Police & Crime Commissioner
 West Mercia Police Authority
 Whitecross Hereford
 Woodfield Academy
 Woodrush Academy
 Worcester City Council
 Worcester College of Technology
 Worcester Sixth Form College
 Worcestershire Hub
 Wychavon District Council
 Wyre Forest District Council

Malvern Hills Conservators
 Malvern Hills Outdoor Education Centre
 Sports Partnership Hfds & Worcs
 VESTIA Community Trust
 Worcester Community Housing
 Wychavon Leisure Community Association
 Wyre Forest Comm. Assoc.

Transferee Bodies

4 children
Action for Children
Action for Children (Malvern Hills)
Addaction
Alliance in Partnership
Alliance in Partnership AS
Amey PLC
Arete
Aspens
ATEGI
Aztec Watersports
Balfour Beatty (Living Places)
Bespoke Cleaning Services
Brandon Trust
Bromsgrove PFI
CAPITA (IBS Schools)
Catshill & North Marlbrook Parish Council
Civica - Ex Wychavon DC Tupe
CIVICA - WCC Hub
Clearview Cleaning Services
Cygnets Foods Ltd

Designated Bodies

Baxter College
Belbroughton parish council
Bewdley Woen Council
Bredon Parish Council
Broadway Parish Council
CIVICA - WCC Hub

Ewyas Harold Parish Council
Elite Cleaning
Field Studies Council
Fortis Living
Heart of Worcestershire College
Herecad Enterprises Ltd
Jacobs UK Ltd
Kemerton Parish Council
Kidderminster & District Youth
Liberata
Midland Heart
National Youth Advocacy Service
Place Partnership
Redcliffe Catering Ltd
Redditch & Bromsgrove NHS
Ringway
Shaw Homes Health Care
Sports & Leisure Management
The Rivers Multi Academy Trust

Timberdine nursing
Worcester Community Trust
Wychavon Leisure (Bromsgrove)

Kidderminster town council
Ledbury Town Council
Leominster Town Council
Malvern Town Council
Persore Joint Burial Committee

Colwall Parish council
Droitwich Town Council
Evesham Town Council
Freedom Leisure
Hagley Parish Council
Hereford City Parish Council
Hewlett Packard ICT
Initial Facilities Service UK Ltd
Integral UK Ltd
Kempsey Parish Council

Pershore Town Council
Rock Parish Council
Ross-on-Wye Town Council
Stone Parish Council
Stourport Town Council
Upton-on-Severn T C

Wigmore High & Primary
Wythall Parish Council

Note 26. Critical Judgements in Applying Accounting Policies

The pension fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 27. Assumptions made about the future and any other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> • a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m • a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m • a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

5. Statement of Accounting Policies

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Worcestershire County Council's Pension Fund accounts.

1. General

The statement of Accounts summarises the fund's transaction for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements have been followed.

3. Contribution Income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

4. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

5. Investment Income

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

6. Benefits Payable

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

7. Taxation

The fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

8. Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA guidance *accounting for Local Government Pension Scheme Management Costs*.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Fixed Income and Equity Investment Managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the fund's independent financial adviser is included in investment management charges.

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

9. Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

10. Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) **Market-quoted investments** the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) **Fixed interest securities** fixed interest securities are recorded at net market value based on their current yields.

iii) **Unquoted investments** the fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in unquoted listed partnerships are valued based on the fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

iv) **Limited partnerships** Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) **Pooled investment vehicles** Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

11.Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

12.Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

13.Cash and cash equivalents

Cash comprises demand deposits and cash equivalents; these include amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

14.Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the fund.

15. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and the relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2).

16. Contingent Assets

A contingent asset arises where an event has taken place that gives the Pension Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund.

Contingent assets are not recognised in the financial statements, but are disclosed in note 22 to the accounts.

17. Additional voluntary contributions

The Worcestershire County Council Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members. In 2017/18 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 23).

Independent Auditor's Report to the Members of Worcestershire County Council Pension Fund

To be inserted

Appendix 1

Funding Strategy Statement (FSS) - March 2017

The Funding Strategy Statement - March 2017 is available in the Reports area of the pensions section on the Worcestershire County Council website. A link to the pensions section is included [HERE](#).

Appendix 2

ACTUARIAL VALUATION AS AT 31 MARCH 2016

Method and assumptions used in calculating the funding target and recovery plan

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit 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 implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

Financial assumptions

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.15% per annum above CPI inflation, i.e. a total discount rate of 4.35% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and

- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has

been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

Employer Asset Shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cash flows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cash flows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2016 actuarial valuation

<u>Long-term yields</u>	
Market implied RPI inflation	3.2% p.a.
<u>Solvency Funding Target financial assumptions</u>	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
<u>Future service accrual financial assumptions</u>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are as follows:

		Base Table	Improvements	Adjustment (M / F)
Current pensioners	Normal health	S2PA	CMI_2015 [1.5%]	99% / 89%
	Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
	Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	123% / 104%
	Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	116% / 111%
Current active / deferred	Active normal health	S2PA	CMI_2015 [1.5%]	99% / 89%
	Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
	Deferred	S2PA	CMI_2015 [1.5%]	99% / 89%
	Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	116% / 111%

Other demographic assumptions are set out in the Actuary's formal report.

Appendix 3

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND – INVESTMENT STRATEGY STATEMENT

The current Investment Strategy Statement is available via this link [HERE](#)

Appendix 4

Policy Statement on Communication Strategy

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 207 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.
- 1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund and after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on communications with
- members;
 - representatives of members;
 - prospective members; and
 - employing authorities.
- 1.3 In particular, the statement must set out the Fund's policy on
- i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);
 - ii. the format, frequency and method of distributing such information or publicity; and
 - iii. the promotion of the Scheme to prospective members and their employing authorities.
- 1.4 The County Council welcomed these regulatory developments as they support one of the Fund's key business objectives of developing clearer communications and providing a seamless service to individual members.

- 1.5 The Fund revises the Communications Policy Statement on a regular basis to ensure it reflects stakeholder needs and utilises any available advancements in technology. Our aim is to significantly develop our communications strategy over time. Comments on the document are very welcome and can be sent to the Pensions Section at the address below or by e-mail to pensions@worcestershire.gov.uk
- 1.6 In this Communication Policy Statement, we have set out how we will meet the needs of our customers in relation to communications. In doing so we will use the most appropriate and effective communications vehicle to provide information.
- 2. Communications Strategy**
- 2.1 We strive to communicate effectively with all our internal and external stakeholders.
- 2.2 We will use clear and concise forms of communication appropriate to the enquiry received and which communicate technical issues without the use of technical jargon. We aim to provide a response to all requests in a timescale, which is appropriate to the enquirer and meets their information objectives.
- 2.3 To achieve successful and robust communications we have established clear aims for our communications strategy as shown below.

Communications Aims

Organisation & Culture

- We have clear roles, responsibilities and accountability and an environment where staff are motivated, trained and confident to express themselves.

Staff Competency Development

- Competency development plan linked to job needs and staff training needs.
- Staff encouraged and supported to study for appropriate professional qualifications.
- Achieved Investors in People and ensure continued compliance.

Procedures

- Advance planning and implementation for known legislative/Scheme changes.
- All procedures documented and meeting all disclosure and best practice standards within the industry.
- Clear consistent documentation and letters in recognised plain English style.

Service standards

- Document and publish a clearly defined Statement of Service standards that is aligned to the legal requirements and best practice standards.

2.4 We have grouped our key stakeholders together as shown below and this document goes on to discuss our approach to meeting each group's communication needs

- Fund Employers
- Fund Members (Current Employees, Pensioners and Deferred Members)

- Fund Administration
- External Advisers

3. Communications with Fund Employers

- 3.1 The Fund comprises of 208 employers whose employees are able to participate in the Local Government Pension Scheme including all the local authorities, the police and fire authorities (for non-uniformed staff), FE colleges, Parish Councils a range of voluntary sector bodies, academies and a number of private sector contractors who provide services to local authorities under Best Value arrangements. A full list of participating employers is shown in Note 25 to the Pension Fund Accounts.
- 3.2 The Fund's aim is to work with employers to define their information needs and expectations and to work with employers to meet those needs, recognising mutual dependencies where appropriate.
- 3.3 The Fund provides a range of employer communications shown below and our aim is to use the most appropriate communication medium for the employer receiving the information.

Description	Service
Website	The Fund website was launched in 2004. The address is; http://www.worcestershire.gov.uk/pensions It provides Scheme details, publications, contacts, and links to other organisations. The national website was launched in 2013. The address is www.lgpsregs.org It provides regularly updated and tracked guidance.
Employer Updates	Employers are informed in writing or electronically of all changes in legislation etc. and we aim to develop a website to provide employers with legislation, operational items and technical updates and support
Employer Reports	Membership and Benefits administration reports. Provided on request.
New Employer Training	Provision of Pensions Training for new employers. Ad hoc Meetings - to review operational issues

Description	Service
Pension Administration Forum	A bi-annual forum to discuss, manage and communicate to all Fund employers major strategic issues, legislation changes and funding matters
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet, additional information leaflets (e.g. added years) etc.
Administration Forms	Standard forms with guidance notes to notify Pension Section of key events affecting pension benefits.
Employer Representatives	Employer representatives take items for discussion to the Pensions Committee on behalf of employers.

3.4 We aim to continually develop all of the above communications in the light of employer requests and changes in legislation.

4. Communications with Fund Members

4.1 The Fund provides a broad range of information for scheme members (employees, Deferred Members and Pensioners) and will provide a quality, professional and efficient pension administration service as required within the Regulations.

4.2 Our aim is to provide a quality, professional and efficient pension's administration service, which delivers accurate and timely information to members either in response to their specific enquiries or through the Fund's published information.

4.3 The following table summarises the main forms of communication we currently provide

Description	Current Service
Requests for information.	Provision of accurate, timely and informative details of the Local Government Pension Scheme and individual information to scheme members
Website	The Fund website was launched in November 2004. The address is; http://www.worcestershire.gov.uk/pensions It provides Scheme details, publications, contacts, and links to other organisations e.g. AVC providers. The national website for members was launched in 2013. The address is: http://www.lgps2014 .
Scheme Booklet	A guide to the Local Government Pension Scheme describing scheme benefits with explanatory notes is provided to all new members. Booklet is re-written to reflect legislation changes and is available on the website
Benefit Statements	Annual Benefit Statements are sent direct to members
Annual Reports and Accounts	A copy of the Funds Annual Report and Accounts is available to all Scheme members on request and is available on the website.
Pensions Presentations	The Fund attends and presents at employer sponsored pension seminars at employer's request
Member Newsletter	The Fund provides an update on developments within the Scheme.
Member Representatives	Member representatives take items for discussion to the Pension Committee on behalf of members.

4.4 We aim to continually develop all of the above communications in the light of employer and member requests and changes in legislation

5. Communications within Fund Administration

5.1 The Pension Section, which is part of the Commercial and Change Directorate and reports to the Director of Commercial and Change, administers the Fund on a day-to-day basis.

5.2 An important part of the Fund's communication strategy is ensuring effective communications within the Pension Section. This is achieved in a number of ways.

Description	Current Service
Induction	All new members of staff attend Pension and County Council induction courses.
Training	Staff have individual Personal Development Plans and regular appraisals. They receive internal and where appropriate external training
Pensions Qualifications	All staff are encouraged and supported to obtain appropriate professional qualifications
Service Plan	The Pensions Section has an Operational Plan, which is actively managed and discussed in regular Team Meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly
Pensions Management Team	Regular meetings to discuss strategic plans and operational issues
Section and Team Meetings	All members of staff attend regular Section and Team Meetings
Intranet	All Pensions staff have access to the intranet providing information on corporate issues.
Internet	Staff have access to the internet.
Email	All members of the Team have an individual email account allowing us to communicate efficiently and effectively
Networking	Staff meet regularly with neighbouring Local Authority Pension Funds to discuss current issues etc.
Partnership Working	We collaborate with other administering authorities throughout the year to produce key documents by sharing expertise and costs.
The Administration Advisory Panel	Meets twice yearly and provides a forum for all stakeholders to meet and discuss current and forthcoming issues.

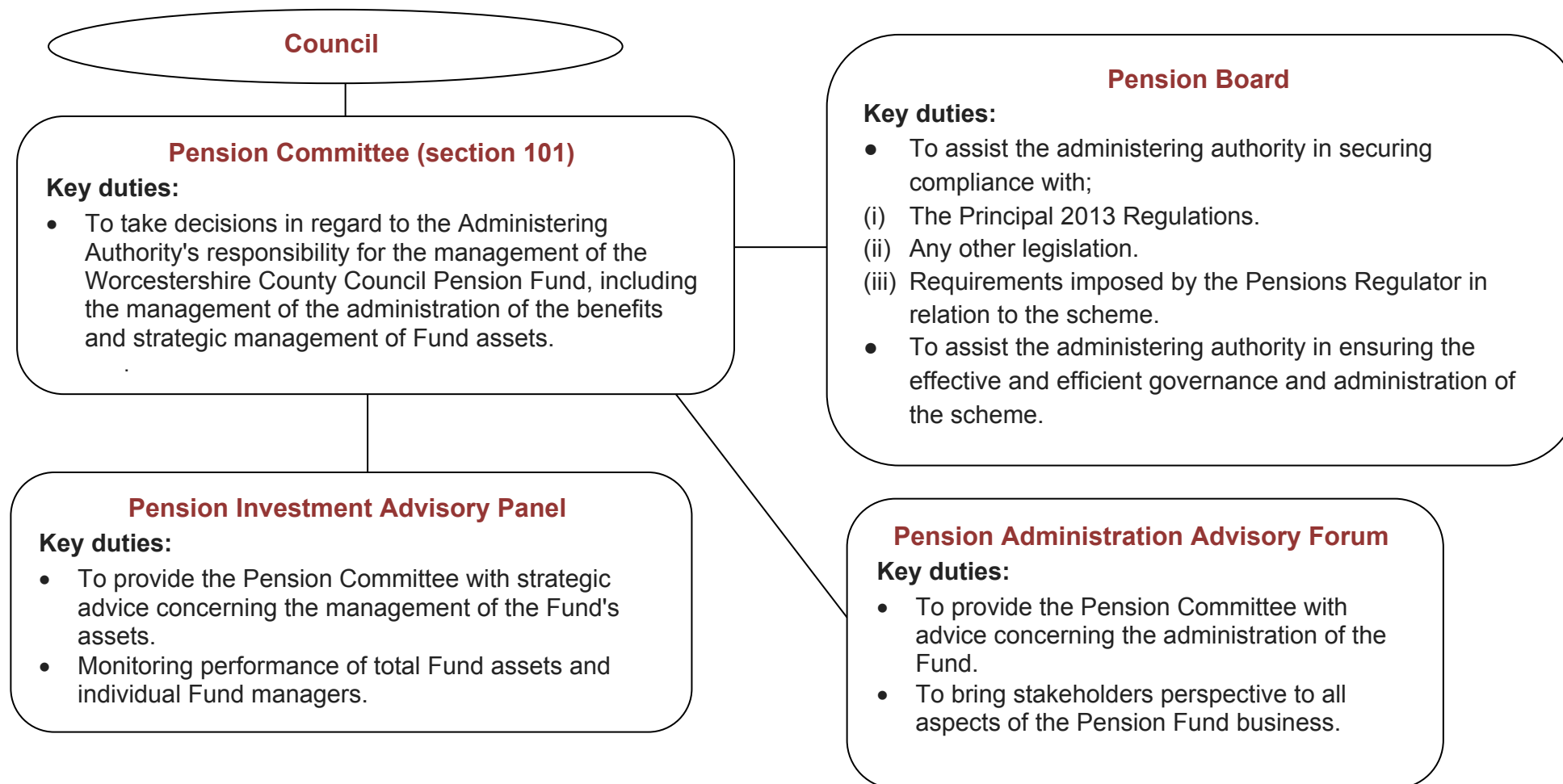
6. Communications with Professional Advisers

- 6.1 The Fund employs professional advisers who provide, actuarial and investment management services
- 6.2 We work in partnership with these advisers to ensure the Scheme remains compliant and that advice sought is implemented in the interest of all Fund stakeholders.

Appendix 5

Worcestershire County Council Pension Fund Governance Policy Statement

Governance Structure



This statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the governance policy strategy for the Worcestershire County Council Pension Fund (the Scheme), in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended).

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees and those of over 190 other Scheme Employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 19,000 pensioners and beneficiaries and a further 16,000 deferred pensioners.
- 1.2 The Local Government Pension Scheme (Amendment) (no.2) Regulations 2005 SI 2005/3199 provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Statement. The regulations require that an Administering Authority after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement setting out:
- Whether the administering authority delegates their function or part of their function in relation to maintaining the pension fund to a committee, a sub-committee or an officer of the administering authority;
 - The frequency of any committee or sub-committee meetings;
 - The terms of reference, structure and operational procedures of the delegation;
 - Whether the committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or members, and if so, whether those representatives have voting rights.
- 1.3 This statement has been prepared by Worcestershire County Council in consultation with appropriate interested persons.

2. Administrative Arrangements

- 2.1 On 1 April 1998 Worcestershire County Council was constituted and vested, under section 16 of the Hereford and Worcester (Structural, Boundary and Electoral Changes) order 1996 (Statutory Instrument 1996 No 1867), with the rights and liabilities of the former pension fund Hereford and Worcester County Council. Therefore, the Council is the appropriate Administering Authority to maintain the Fund.

- 2.2 As the statutory Administering Authority and Scheme Manager for the Fund, Worcestershire County Council is responsible for ensuring effective stewardship of the Fund's affairs. Worcestershire County Council has established a Pension Committee to discharge the Council's responsibility for the management of the administration of the Fund.
- 2.3 Worcestershire County Council has also established a Pension Investment Advisory Panel to provide the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of investment managers and Independent Financial Advisers.
- 2.4 A Pension Administration Advisory Forum has also been established to provide wider stakeholder representation and communication in matters relating to the Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund, as set out in the Scheme of Assignment of Responsibility for Functions, however the Pension Committee takes advice from the Pension Administration Advisory Forum to enable the Pension Committee to discharge its responsibility effectively.

3. Pension Committee

- 3.1 The Pension Committee discharges the responsibilities of the Council as Administering Authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.
- 3.2 The Pension Committee discharges the responsibilities for management of the administration of the Fund. However it will take views from the Pension Administration Advisory Forum to enable it to discharge its duties effectively.
- 3.3 The Pension Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Pension Investment Advisory Panel to enable it to discharge its duties effectively. The dates of Pension Committee meetings will be synchronised with those of the Pension Investment Advisory Panel to ensure investment decisions are reviewed without unnecessary delay.
- 3.4 The Council appoints the Chairman and Vice-Chairman of the Pension Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.

3.5 The Pension Committee is a formal committee of the Council and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative and
- 1 co-opted voting employee representative from a relevant Union.

The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

3.6 The Pension Committee will be advised by on an ad hoc basis by an Independent Financial Adviser and the Fund's Actuary.

3.7 Pension Committee Terms of Reference:

The Pension Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant, Global Custodian and Actuary.
- The Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- The Triennial and Interim Actuarial Valuations.
- The approval of the Pension Fund Annual Report and Accounts.
- The approval of the Pension Fund annual and triennial budgets.
- Key outstanding risks as identified in the Pension Fund Risk Register.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Investment Advisory Panel arrangement and regular Advisory Panel reports, which monitor performance of the Fund's assets.

- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the Administering Authority.

3.8 All elected members and voting co-optees of the Pension Committee are subject to the Worcestershire County Council Code of Conduct for Members, and must therefore register and keep updated their Disclosable Pecuniary Interests as required by the law and Code and disclose potential conflicts of interest as required by that Code.

3.9 Members of the Pension Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 8.

3.10 The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.

3.11 Members of the Pension Committee have equal access to Pension Committee agenda papers and associated appendices in accordance with the legislation and constitutional Rules relating to access to information for committees. Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

4. Pension Board

Please see separate Pension Board Terms of Reference document.

5. Pension Investment Advisory Panel

5.1 The Pension Investment Advisory Panel provides the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of Investment Managers and Independent Financial Advisers. It is not a decision-making body or formal committee, and will not normally meet in public.

5.2 The Chief Financial Officer appoints the members of the Pension Investment Advisory Panel, which comprises of:

- four County Councillors
- the Chief Financial Officer
- the Principal Accountant – Pension Fund and;

- one employee representative.

The composition of the Pension Investment Advisory Panel is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation. All members of the Panel are entitled to vote if necessary for the Panel to fulfil its role and provide advice to the Pension Committee regarding the administration of the fund's assets.

The Chairman of the Panel is appointed from amongst its members by the Chairman of the Pensions Committee.

5.3 **Terms of reference:**

The Pension Investment Advisory Panel will meet at least quarterly or otherwise as necessary to produce strategic advice to the Pension Committee on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant and Global Custodian.

The Pension Investment Advisory Panel will also:

- Monitor performance of total Fund assets and individual Investment Managers.
- Monitor compliance with the Investment Strategy Statement.
- Monitor performance of the Independent Financial Advisor.

5.4 The Pension Investment Advisory Panel is advised by an Independent Financial Adviser who attends all meetings.

5.5 Active Equities Investment Managers report to the Pension Investment Advisory Panel bi-annually, whilst the Fund's Bond Manager reports annually. Further monitoring meetings with Investment Managers are undertaken by officers of the Administering Authority and the outcomes reported to the Pension Investment Advisory Panel.

- 5.6 One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.
- 5.7 The Fund's Investment Strategy Statement (ISS) sets out the arrangements in place for the management of the investments of the Worcestershire County Council Pension Fund.
- 5.8 The day to day management of the Fund's investments is divided between external Investment Managers, operating in accordance with mandates set out in the Investment Strategy Statement.
- 5.9 The Chairman of the Panel may attend the Pension Committee to ensure flow of information between the 2 bodies.
- 5.10 Members of the Pension Investment Advisory Panel must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the Pension Investment Advisory Panel and on an ongoing annual basis.
- 5.11 Members of the Pension Investment Advisory Panel are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

6. Pension Administration Advisory Forum

6.1 The Pension Administration Advisory Forum provides the Pension Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee, and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to scheme employers and for scheme employers to provide advice to, and raise concerns with, the employer representative.

6.2 The Pension Administration Advisory Forum comprises

- all Fund employers who wish to attend following invitation by the Administering Authority
- the Fund's Actuary (ad hoc basis)
- the Administering Authority's Pensions Manager and HR Service Centre Manager
- and the employer representative and employee representative of the Pension Committee.

6.3 Terms of reference:

The Forum will meet at least twice a year or otherwise as necessary to:

- Discuss an Annual Administration Report and respond to any issues raised by employers.
- Discuss Government Consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pension Committee and ensure flow of information between the Pension Committee and the Forum.
- To advise on service delivery to all stakeholders.
- To bring stakeholders perspective to all aspects of the Pension Fund business.
- To ask the Administering Authority and the Pension Committee to consider topics which affect the Pension Fund.

6.4 All Fund employers are invited to attend the Pension Administration Advisory Forum along with the Fund's Actuary, Administering Authority officers and the employer and employee representatives on the Pension Committee.

6.5 Other meetings are held as required between Administering Authority officers and employers to discuss important issues such as discretionary policies and regulatory changes.

6.6 The Administering Authority also communicates with the Fund's membership through newsletters, road shows and presentations.

6.7 The Fund's Policy Statement on Communication Strategy explains in more detail engagement with all stakeholders.

7. Delegation

7.1 The day to day administration of, and investment decisions for, the Worcestershire County Council Pension Fund are delegated to the Chief Financial Officer.

7.2 The Chief Financial Officer may authorise other officers to exercise on his/her behalf those functions delegated to him/her.

7.3 The Chief Financial Officer has delegated responsibility for the following responsibilities concerning the management of the administration of the Fund including:

- Preparing and maintaining a Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- Provision of data for the Triennial and Interim Actuarial Valuations. The Chief Financial Officer will also negotiate over actuarial assumptions, set the appropriate funding target and associated recovery period.
- Preparing the Pension Fund Annual Report and Accounts.
- Preparing the Pension Fund annual and triennial budgets.
- Preparing and maintaining a Pension Fund Risk Register and monitoring key outstanding risks.
- Overseeing and administering the Pension Administration Advisory Forum arrangement and review regular Forum reports to consider and address outstanding member and employer issues and concerns.
- Administering the Pension Investment Advisory Panel arrangement and reviewing regular Advisory Panel reports to monitor performance of the Fund's assets.
- Deciding upon requests for admission of qualifying Community and Transferee Bodies and Scheduled and Designated Bodies wishing to join the Fund.
- Deciding upon key pension policy discretions that are the responsibility of the Administering Authority.
- Executing documentation relating to the implementation of new and existing investment mandates, Independent Financial Advisers, Performance Measurement Consultant, Global Custodians, Actuaries and any other associated professional service providers.
- Quarterly monitoring of Investment Managers' performance for managers not presenting to the Pension Investment Advisory Panel.
- The effective discharge of the pensions administration function, including the payment of pensions and collecting and reconciling of contribution income.
- Maintaining the Fund's accounting records.
- Preparing and maintaining the Investment Strategy Statement, including implementing changes to the strategic benchmark for asset allocation.
- Implementing and maintaining a knowledge and skills training plan for members of the Pension Committee and Pension Investment Advisory Panel.
- Advising the Pension Committee.

- Implementing and maintaining the cash flow strategy for the Fund, which includes the transfer of cash to the Fund's Global Custodian to ensure cash is fully invested when available and the transfer of cash from the Global Custodian to pay pension liabilities as they fall due.

8. Knowledge and Skills

- 8.1 The Administering Authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Worcestershire County Council Pension Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.
- 8.2 Committee members and appropriate Administering Authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the Administering Authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event by event basis.

Appendix 6

Governance Compliance Statement

This statement shows how Worcestershire County Council as the administering authority of the Worcestershire County Council Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Amendment) Regulations 2008.

Ref.	Principles	Compliance Status	Evidence of Compliance
A	Structure		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council in February 2015.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pension Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Advisory Committee provides strategic advice to the Pension Committee regarding the management of the Fund's assets. The Chairman of the Pension Committee also sits on the Pension Investment Advisory Committee to ensure effective communication. The Pension Committee receives quarterly investment

Ref.	Principles	Compliance Status	Evidence of Compliance
			updates from the Pension Investment Advisory Committee. An Administration forum has been established. The employer and employee representatives from the pensions committee attend the forum and there is a standing invitation from the pension board to attend the forum.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The Chairman of the Pension Committee also sits on the Pension Investment Advisory Committee.
B	Representation		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis). 	Compliant	Membership of the Pension Committee and Pension Investment Advisory Committee include employer and employee representatives and an independent financial adviser. Full membership details are set out in the Fund's Governance Policy Statement.
b.	That where lay members sit on a main or secondary committee; they are treated equally in terms of access to papers, meetings, and training and are given full	Compliant	All committee members are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making

Ref.	Principles	Compliance Status	Evidence of Compliance
	opportunity to contribute to the decision-making process, with or without voting rights.		process. These terms are set out in the Fund's Governance Policy Statement.
C	Selection and role of lay members		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pension Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of the Pension Committee meetings are published on the Council's website. Training is also provided to Committee members where required.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pension Committee meetings. The Pension Committee is serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pension Committee meetings are published on the Council's website.
D	Voting		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.

Ref.	Principles	Compliance Status	Evidence of Compliance
E	Training / facility time / expenses		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has also published a Knowledge and Skills Policy Statement, which has been endorsed by the Pension Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	These policies apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement and Knowledge and Skills Policy Statement.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained.
F	Meetings (frequency / quorum)		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pension Fund Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Fund Investment Advisory Committee meets quarterly. These meetings are synchronised with the dates when the Pension Committee sits. These requirements are set out in the Fund's Governance

Ref.	Principles	Compliance Status	Evidence of Compliance
			Policy Statement. The Admin Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	Access		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pension Committee, Pension Investment Advisory Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pension Committee agendas and associated papers are published on the Council's website prior to the committee meeting.
H	Scope		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel which meets twice yearly is also attended by the employer and employee representatives who sit on the Pension Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme

Ref.	Principles	Compliance Status	Evidence of Compliance
			issues to the attention of the Pension Committee through the established communication routes.
I	Publicity		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the newly established Pension Board.

Disclosures to assist the LGPS scheme advisory board Report 2017/18

The following summary tables, based on information provided in the Worcestershire County Council Pension Fund Final Accounts 2017/18, have been produced and published to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board:

An analysis of fund net investment assets as at 31st March 2018

<u>An analysis of fund net investment assets as at 31st March 2018</u>	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	411.1	1,246.3	387.1	2,044.5
Bonds	10.9	120.6	0.0	131.5
Pooled property investments	45.1	83.4	0.0	128.5
Pooled infrastructure investments	96.1	0.0	0.0	96.1
Cash and cash equivalents	234.7	20.7	0.0	255.4
Other	4.6	28.8	0.0	33.4
Total	802.5	1,499.8	387.1	2,689.4

<u>An analysis of investment income accrued during the financial year to 31st March 2018</u>	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	1.0	21.0	0.0	22.0
Bonds	1.0	4.0	0.0	5.0
Pooled property income	2.3	2.8	0.0	5.1
Pooled infrastructure income	4.7	0.0	0.0	4.7
Cash and cash equivalents	0.4	0.0	0.0	0.4
Other	0.0	0.0	0.0	0.0
Total	9.4	27.8	0.0	37.2

Appendix 8

Glossary of Terms

Accounting Policies

The policies and concepts used in the preparation of the accounts.

Accruals

Sums included in the accounts to cover income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Actuary

An independent company which advises on the assets and liabilities of the fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

Augmentation

Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age.

Custodian

The organisation that holds and safeguards the Pension Fund assets.

Deferred Pension benefit

A pension benefit which a member has accrued but is not yet entitled to receive payment.

Derivatives

A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options.

Equities

Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business.

Fixed Interest

Corporate Bond - A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt - Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and is a loan to the Government.

Forward Foreign Exchange

An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price.

Index Linked

Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation.

Pooled Investment Vehicles

A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust.

Scheduled Employers

Are local authorities and other similar bodies, whose staff automatically qualify to become members of the LGPS. These include county councils, district councils, foundation schools and colleges and academies.

Designated Employers

Are scheme employers whose employees can be if the employer has passed a resolution to that effect. These include town and parish councils.

Admitted Bodies

Are scheme employers whose staff can become members of the pension Fund by virtue of an admission agreement made between the Fund and the relevant organisation and have been nominated for membership. They include non-profit making organisations providing a public service (CAB –Community Admission Body) or a contractor providing a service previously undertaken by a scheme employer TAB – transferee Admission Body).

Statement of Recommended Practice (SORP)

This relates to the Code of Practice on Local Authority accounting which is published by the Chartered Institute of Public Finance and Accountancy.

Stock Lending

The temporary transfer of stock (shares/securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal or greater value than the loaned securities.

Transfer Values

Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Contact Points

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If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

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Or you can write to:-

Michael Hudson

Chief Financial Officer

Worcestershire County Council

County Hall

Worcester

WR5 2NP

Copies of this Annual Report and further information can also be found on the Worcestershire County Council website:

(www.worcestershire.gov.uk)