

Worcestershire County Council

Agenda

Pensions Committee

Friday, 5 October 2018, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
 - You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Pensions Committee

Friday, 5 October 2018, 10.00 am, County Hall, Worcester

Membership: Mr R W Banks (Chairman), Mr A I Hardman,
Mr R C Lunn, Mr P Middlebrough and Mr P A Tuthill

Coopted Members

Mr V Allison	Employer Representative
Mr A Becker	Employee Representative
Mr R J Phillips	Herefordshire Council

Agenda

Item No	Subject	Page No
1	Named Substitutes	
2	Apologies/Declarations of Interest	
3	Public Participation <i>Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 4 October 2018). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i>	
4	Confirmation of Minutes To confirm the Minutes of the meeting held on 22 June 2018 (previously circulated – pink pages)	
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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 26 September 2018

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PENSIONS COMMITTEE
5 OCTOBER 2018**ADMINISTERING AUTHORITY – ADMINISTRATION**
UPDATE

Recommendation

1. **The Head of Human Resources and Organisational Development recommends that:**
 - a) **a tolerance level of £2 per week for the Guaranteed Minimum Pension (GMP) Reconciliation exercise be approved; and**
 - b) **The general update from the Administering Authority be noted.**

Guaranteed Minimum Pension (GMP) Reconciliation exercise – project update

2. Following the appointment of Independent Transition Management (ITM) Limited on 28 June 2018 to undertake the Fund's reconciliation and rectification exercise, they have securely received the Administering Authority records and commenced their review.
3. To support ITM to focus on the more complex cases, the Committee is asked to approve a tolerance level of £2 per week. This will mean that where reconciliation is £2 or less a week it will be deemed to have been reconciled for the purposes of this exercise and no further review will be undertaken.
4. ITM have advised that the proposed tolerance level is the same as that which has been applied across many other Funds.
5. Table 1 in the Appendix provides the project dashboard update as at 28 August 2018.

Data Quality

6. The Administering Authority has purchased software to enable our system provider to produce a detailed set of reports on quality of data which is bench marked against The Pensions Regulator guidelines. Additionally it will highlight areas for improvement and year on year tracking to illustrate our progress.
7. The categories covered are common data for example date of birth and NI Number and conditional data such as member benefits, which are the more complex details to extract.
8. The Common Data results, based on a data extraction date of 26 March 2018, show the overall percentage of tests passed for the Fund is 99.0%. Table 2 in the Appendix shows the graph to support this outcome. The percentage of member

records without a single common data failure is **92.6%** and this is the figure we will be reporting to The Pension Regulator.

9. The Specific Data results, based on an extraction date of 23 March 2018, show the overall percentage of tests passed for the Fund is 83.7%. Table 3 in the Appendix shows the graph to support this outcome. The percentage of records without a single scheme specific data failure is 62.2% and this is the figure we will be reporting to the The Pension Regulator.

10. The Specific Data report also provides a detailed improvement plan and the Team are actively working through the priorities from this plan. These are available at Table 4 in the Appendix.

Changes to Retirement Age for Deferred Members

11. New Regulations have been published to enable members who left the Scheme between 1 April 1998 and 31 March 2014 to elect to take early payment of their deferred benefits from age 55 (rather than 60). The change to the Scheme rules means that a deferred member no longer needs the consent of the former employer to take their benefits between the age of 55 and 59.

12. Members who left the Scheme with a deferred benefit on or after 1 April 2014 are already able to choose to take early payment of their deferred benefits from age 55 without needing their former employer's consent, and this has not changed.

13. For members who left the Scheme with a deferred benefit before 1 April 1998 the Scheme rules have been changed to allow the member to take their benefit at age 55 (rather than 60) or the date the deferred benefit will be payable without a reduction for early payment. This is called your Normal Pension Age (NPA). The NPA will be between 60 and 65 depending on when the member joined the Scheme.

14. A member who elects to take their deferred benefits earlier than their NPA, the benefits will normally be reduced to take account of the fact that the pension will be paid for longer. The reduction is based on the length of time (in years and days) between the date the benefits are paid and the date your deferred benefit would have been payable without a reduction for early payment. The early reduction factors are set by the Government.

Administration Forum

15. The next Administration Forum has been booked for 22 October 2018.

16. All employers have been invited to attend and to submit agenda items/areas that they would like to be discussed. Each employer is offered 2 places at the Forum. The Administration Forum agenda will include GMP Reconciliation, Covenant Review Update and Preparation for the next triennial valuation.

17. Currently 32 employers have confirmed attendance and we will be sending reminders over the coming weeks to the remaining employers encouraging them to attend.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Appendix – Data Quality information

Background Papers

In the opinion of the proper officer (in this case the Director of Commercial and Change) the following are the background papers relating to the subject matter of this report:

Table 1

Project dashboard

Status	Reconciled			Unreconciled			Other
	No GMP liability	Exact match	Within tolerance	Awaiting data from client	Awaiting data from HMRC	Further review	N/A record
Active	8,578	413	169	20	1,771	5,238	6,780
Deferred Post GMP Age	399	89	46	2	141	358	47
Deferred Pre GMP Age	11,595	1,867	389	26	1,891	4,819	814
Pensioner Post GMP Age	2,268	4,720	2,690	118	1,675	2,127	444
Pensioner Pre GMP Age	433	277	82	4	115	662	9
Widow(er)	78	193	186	34	988	140	121
Unlinked dependant						194	
Total on admin	23,351	7,559	3,562	204	6,581	13,538	8,215
Other admin					65	5,388	22,355
HMRC only				2	2,042	5,943	2,553
Total reported cases – 29 August 2018	23,351	7,559	3,562	206	8,688	24,869	33,123
Total reported cases - Baseline	23,333	7,552	3,566		816	36,386	29,705

Table 2

Summary of Common Data Results

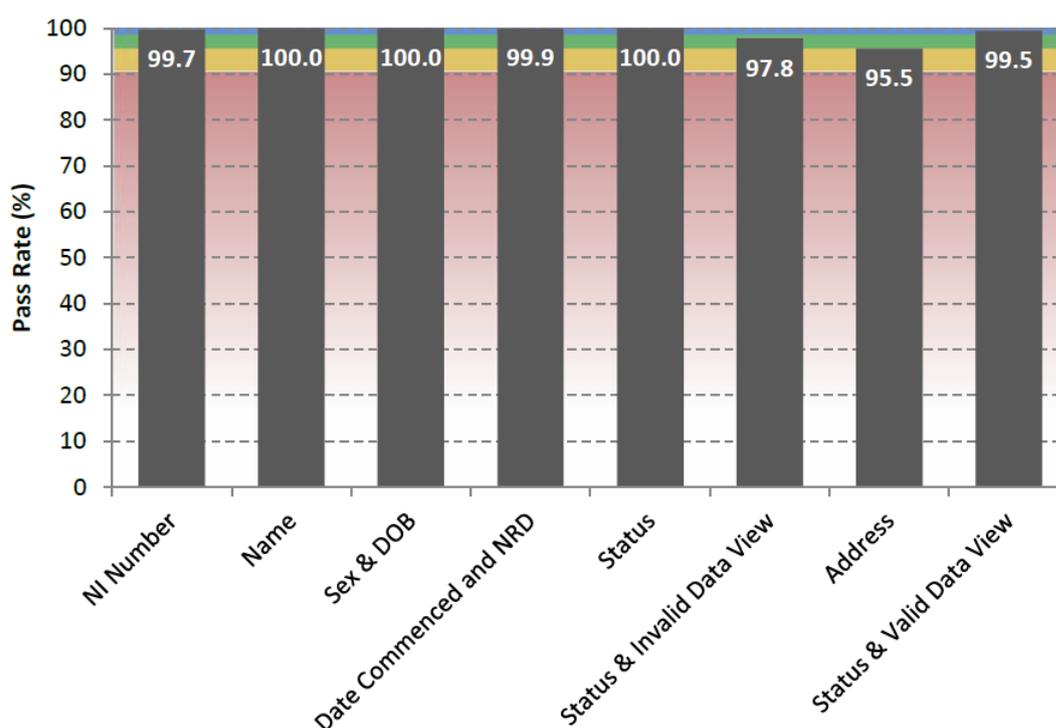


Table 3
Summary of Scheme Specific Data Results

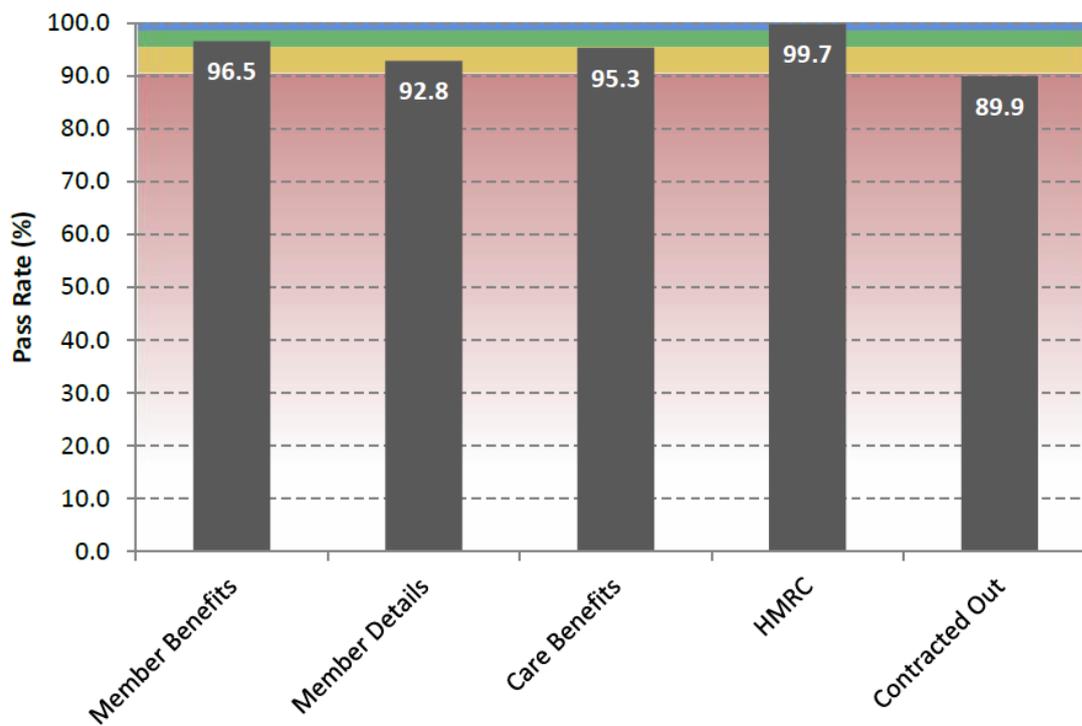


Table 4
Common Data Correction Plan

Data Category	Recommendation	Suggested Priority
NI Number	<ul style="list-style-type: none"> Obtain correct NI numbers for the members with temporary numbers or those in the incorrect format Investigate as a priority the 2 cases with blank NI numbers 	<ul style="list-style-type: none"> Low High
Name	<ul style="list-style-type: none"> Correct the missing surname of the leaver 	<ul style="list-style-type: none"> Low
Sex and Date of Birth	<ul style="list-style-type: none"> No issues found 	
Date commenced and NRD	<ul style="list-style-type: none"> Investigate the cases with a blank date joined fund as this could affect benefits Correct the date joined fund for the member affected 	<ul style="list-style-type: none"> High High
Status	<ul style="list-style-type: none"> No issues found 	
Status and invalid data view	<ul style="list-style-type: none"> Invalid data should be removed where necessary or the member status corrected where appropriate. These cases should be treated as a high priority as the presence of the data may affect benefits 	<ul style="list-style-type: none"> High
Address	<ul style="list-style-type: none"> Current addresses should be sought and uploaded for the members that failed this category 	<ul style="list-style-type: none"> Medium

Data Category	Recommendation	Suggested Priority
Status and valid data view	<ul style="list-style-type: none"> The deaths from deferred and active status may be missing death grant data and should be investigated The deaths with missing cease dates should be investigated and corrected Although small in number, the 15 members with missing data views that hold their entitlement should be investigated as a high priority and either their status corrected or the correct data recorded 	<ul style="list-style-type: none"> Low Low High

Specific Data Correction Plan

Data Category	Recommendation	Suggested Priority
Member Benefits	<ul style="list-style-type: none"> Investigate incomplete Transfer In and AVC data with the very highest priority as benefits may be incorrect Correct deferred benefit cases prior to running deferred annual benefit statements Investigate defects in pension benefits that are linked to the PN60 and CARE tranche Investigate cases with an incorrect pension increase date 	<ul style="list-style-type: none"> VERY HIGH High High VERY HIGH

Data Category	Recommendation	Suggested Priority
Other Member Data	<ul style="list-style-type: none"> Investigate the cases with an unexplained date of leaving present Investigate the 2 members with date of commencement issues Investigate the 4 members with incorrect employer details Investigate final salary pay issues prior to running annual benefit statements Investigate cases with missing contributions prior to running annual benefit statements Investigate the cases where the date for leaving is either blank or incorrect Investigate the cases potentially missing service history, prioritising active and deferred members Data for the 2016/17 year should be requested where it is missing as soon as possible 	<ul style="list-style-type: none"> Low High High High High High VERY HIGH VERY HIGH
CARE Data	<ul style="list-style-type: none"> CARE data should be requested where it is missing as soon as possible Investigate all other data issues in this category by status prior to issuing annual benefit statements for that status. Pensioners should be investigated as soon as possible to ensure correct benefits are in payment 	<ul style="list-style-type: none"> VERY HIGH High

Data Category	Recommendation	Suggested Priority
HMRC	<ul style="list-style-type: none"> Review criteria for testing HMRC data and ensure that current processes populate this data correctly in Altair Investigate the 8 incorrect Crystallisation Dates Investigate the 3 missing PCLS amounts Investigate the 46 cases with missing death grant data Investigate the 23 cases with incorrect Lifetime Allowance Charge data Investigate the cases with missing Annual Allowance data, particularly the scheme pays case. This should be dealt with as soon as possible 	<ul style="list-style-type: none"> Medium Medium Medium Low High High
Contracting Out	<ul style="list-style-type: none"> Investigate the cases with incorrect Date Contracted Out data Investigate missing and incorrect data for NI contributions and earnings history Review and update GMP values in conjunction with the GMP Reconciliation process Obtain and upload GMP figures for the members with missing data as a high priority 	<ul style="list-style-type: none"> Medium Medium Medium High

PENSIONS COMMITTEE

5 OCTOBER 2018

LGPS CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the LGPS Central Update be noted.**

Update

Operations

2. On the 1 April 2018, LGPS Central Limited formally went live and to date daily routines have been operating effectively and staff are getting to grips with the new systems.

Staffing

3. Appointment has been made to a senior portfolio manager for active equities but LGPS Central is having difficulty appointing to an Active Equities Director. It has been recently announced that the Chief Executive has decided to step down. The current intention is that he will leave the organisation by the spring of 2019. The Board is now conducting the search for his successor.

Transition of Assets

4. LGPS Central currently has approximately £15.7bn of assets under management (AUM). These mainly relate to West Midlands Pension Fund and Derbyshire who transitioned some of their assets on the initial launch of the company. The latest transition plan is being updated by LGPSC and will be provided at the next Committee.

5. There are 5 partner funds (not including Worcestershire) with Global Equity assets which LGPSC are looking to transition across. A product information day was conducted on the 12 September which detailed the process that LGPSC had completed (See Appendix) and there were also presentations from the 3 successful Fund managers (Harris Associates LP (Sub-delegated by Natixis Investment Managers UK Ltd), Schroder Investment Management and Union Investment). The next steps are to transition the assets across and ensure the Sub Funds are ready to go live by the 30 November 2018

6. The next fund to transition across is the Emerging Markets active equities. Worcestershire currently has mandates with JP Morgan and Schroder's. Pre-Qualification Questionnaires (PQQ's) have already been sent out by LGPS central to begin the process and we will be working closely with LGPS Central to ensure a smooth a transition as possible. Regular updates will be provided to Committee and there will be a similar product information day for Emerging Markets as there was with Global Equities.

Cost Sharing Agreement

7. Pensions Committee on the 13th March 2017 agreed the following cost share principles which were agreed by the LGPS Central Programme Board:

- a) Set-up costs to be shared equally amongst participating funds, i.e. one eighth per fund.
- b) Investment management and monitoring costs to be shared by assets under management (AUM), on a sub-fund by sub-fund basis, subject to a pricing schedule being agreed for different asset classes e.g. active vs. passive and the differing activities of managing and monitoring assets.
- c) Corporate governance costs – shared equally amongst participating funds, i.e. one eighth per fund;
- d) Operator costs – charged by total AUM (from day one);
- e) Transition costs - charged by AUM within sub-funds with a condition that if a fund(s) 'throws into the pot' a mix of assets that suffers from liquidity constraints or much larger transition costs than the rest of the assets, then that fund(s) is charged the additional cost.

8. It was also reported at the March Committee that Worcestershire would potentially break even in relation to the cost sharing and savings model after a 16 year period (with 2018/19 as year 1).

9. The LGPS Central business case is due to be rerun over the next few months and this first planned rerun will take into account the full details of the revised cost share agreement and the proposed sub-fund structure. The update will be reported to Committee as soon as it is available.

10. A company called Simplitium has recently been procured by LGPS Central on behalf of the partner funds with a prime aim to track through costs and savings overall and for each individual partner fund since inception of the company.

Annual General Meeting of LGPS Central Ltd

11. There was a Shareholders meeting followed by annual general meeting on the 10 September 2018. All the recommendations were agreed and the meeting covered:-

- Adoption of the 2017.18 Company report and accounts with a presentation to shareholders from the chair of LGPSC
- Re-appointment of Deloitte LLP as auditor of the company and the auditors remuneration
- Re- election of Directors
- Creation of subsidiaries to create the most appropriate vehicle for the Private Equity Fund launch.
- Items of information were the review of the corporate structure of the company and a report from the chair on a number of the formal company committees.

12. The latest quarters budget monitoring for the company shows a forecast underspend of just over £0.200m against the £9.1m approved budget which is mainly due to staff savings and was part of the AGM papers.

Other areas

13. Considerable focus is still being placed on the client agreements that LGPS Central need to have in place as these are still outstanding.

14. There are regular individual partner fund meetings with the Head of Client Service and Stakeholder Engagement. LGPSC also provide detailed updates to the monthly Practitioner Advisory Forum (PAF) Meetings.

15. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These work streams cover: Investments; Client Reporting; Finance; Responsible Investment; and Governance.

16. **Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting Information

- Appendix – LGPS Product Information Day presentation slides (**Exempt information – Salmon pages**)

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

LGPS Central business case submission to government 15 July 2016.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSIONS COMMITTEE
5 OCTOBER 2018**PENSION INVESTMENT UPDATE**

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The Independent Financial Adviser's fund performance summary and market background be noted;**
 - b) **The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted; and**
 - c) **Delegated authority be granted to the Chief Financial Officer to commit an additional £25m to Hermes Fund II, a £30m commitment to Venn property fund II and a suitable commitment to Walton Street Fund II in the region of the current allocation, subject to appropriate due diligence being undertaken and sign-off by the Pensions Committee Chair.**

Background

2. The Committee will receive regular updates on Fund performance. The Fund's Independent Financial Adviser has provided a Fund performance summary and a brief market background update (Appendix 1). The market background update is provided to add context to the relative performance and returns achieved by the Fund's investment managers.

3. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Pension Investment Advisory Panel (Appendix 1).

JP Morgan Emerging Markets

4. JP Morgan (Emerging Markets) portfolio underperformed against their benchmark over the quarter by 3.7%. Performance for the year ended June 2018 was 0.1% behind their benchmark. Over the past three years JP Morgan has unfortunately now underperformed their performance target by 0.4% per annum. Since inception they remain behind target, at -1.1% against their performance requirement

JP Morgan Bonds

5. The JP Morgan Bond portfolio underperformed against their benchmark by 0.15% in the quarter ended June 2018. Performance over the last 12 months has deteriorated to 0.29% behind their benchmark by 0.55% and therefore behind their target outperformance by 0.84%. Over the past three years they have underperformed against their performance target by 0.54% and ten years by 0.63%

6. It is recommended that JP Morgan (Bonds) remain on watch until their three year performance is tracking further towards target and also now place the JP Emerging markets on watch

Property and Infrastructure Commitments

7. On the 1 December 2017, the Committee were provided with an analysis of the Fund's real assets portfolio and evaluation of market opportunities from Bfinance (Minute no. 109 refers). This resulted in a number of agreed recommendations to increase the funds infrastructure commitments to meet its strategic target allocation of 15% of the overall fund.

8. As at the end of June 2018 the overall funds commitments to Property and Infrastructure were £515m. However given the nature of these funds, the drawdown tends to be slow and over a number of years. As at the 30 June 2018 only £248m (48.2%) had been drawn down. It was felt prudent to analyse the drawdown and distribution profile for the range of investments that the Fund has invested in over the last 5 years, to establish what our actual allocation versus the strategic allocation is over the expected life time of these investments.

9. Bfinance have assisted in this exercise and the outcome of this analysis is attached as Appendix 4. We included an element of over commitment to ensure that we achieve a full allocation through the cycle, and to identify when the Fund will need to consider additional investments to maintain a full weighting. In summary, although in some cases the drawdown is slower than would be optimal, the overall profile appears to be satisfactory for the immediate future. Bfinance have highlighted that the fund is expected to be at or near its target level of exposure to real assets by 2021 until 2030.

10. Although no immediate additional action is required under the current asset allocation, Bfinance detailed some key issues for consideration, one of them being the maturity to real estate debt funds (Venn and Walton Street)

11. This was considered at the Pension Investment Advisory Panel on the 18 September and both Venn (current allocation £28m) and Walton Street (current allocation £27m) are seeking interest and potential commitments in their next funds (Fund 2). Their existing Funds being UK Property Fund Venn is achieving a return since inception (July 2015) of 12.4% compared to targeted return of 9% and US Property Fund Walton Street is achieving a return since inception (Feb 2016) of 9.3% compared to targeted return of 6.5%.

12. In addition the Pensions Investment Advisory Panel considered increasing the current commitment of £25m to Hermes Fund II approved by Committee in December 2017, by a further £25m. This is to make it in line with the commitment to Hermes Fund I of £50m which is achieving a return since inception (May 2015) of 9.3% compared to targeted return of 8.4%

13. The Pension Investment Advisory Panel therefore endorsed the following subject to the appropriate due diligence on these investments taking place.

- Potentially allocate £30m to Venn Fund II acknowledging that fund II is targeting slightly lower returns at between 6 to 8% (will be aiming for 8%) due to a more defensive strategy given the existing market factors which were explained at Panel.
- Identify a suitable commitment to Walton Street Fund II in the region of the current allocation of £27m.
- Increase the committed allocation to Hermes II by a further £25m (£50m in total) whilst this is still open, to make it in line with fund I which is achieving its target (9.3% compared to target 8.4% since inception),

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of investment managers' performance (Appendix 2)
- Portfolio Evaluation Performance Report (Appendix 3)
- Bfinance – Allocation update – Real Assets September 2018 (Appendix 4)

Background Papers

In the opinion of the proper officer (in this case the Director of Finance) the following are the background papers relating to the subject matter of this report:

Agenda papers and Minutes of the Pensions Committee meeting held on 1 December 2017

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REPORT PREPARED FOR
Worcestershire County Council Pension Fund

September 2018

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Independent Investment Adviser's report for the Pension Investment Advisory Panel meeting

17 & 18 September 2018

Global overview

At this time of year I usually share some insights from my summer holiday, when I get the chance to view the world from a slightly different angle. I had high hopes this year of getting something a bit different when my wife booked a holiday with an American cruise line, albeit sailing out of Southampton. Now don't laugh, but it turned out that only 7% of the passengers were actually American, of the US variety! So having played the game of hunt the American, I discovered that they probably weren't typical, as they had actually left their homeland. Their mindset therefore played to the angle that they could see the clear dangers and potential cost of pursuing an isolationist policy on trade, but could also see the point in trying to level the playing field somewhat to help native US industry. All disturbingly rational. We visited Spain, Italy and the southern coast of France, at all ports of call the impact of large numbers of immigrants from Africa was both saddening (deprivation) and worrying (crime, and native populations being forced out of some areas).

In the US itself, performance of US equities was driven by strong corporate earnings and economic data, although the growing threat of a trade war between the US and China raised concerns over future performance. It does bother me that when the music eventually stops, there could be a big correction. That day is getting closer.

Onwards to what is happening at home, or not as the case maybe. Sorry to mention it, Brexit, or now Chequers. The brinkmanship is growing, hopefully towards some form of resolution this autumn. It just feels like Deal or No Deal at the moment. In the meantime the weakness of sterling has helped markets, and hopefully the economy.

On the other side of the Brexit debate, political uncertainty increased significantly in Europe in Q2. The Italian elections resulted in a coalition of two populist parties. However, instability subsequently declined, and support for the euro was steady or increasing across the Eurozone by the end of the quarter. Stock market returns were positive, boosted by more promising economic data, although financial stocks, in particular Italian banks, weighed on overall performance.

The Asian region, alongside the Emerging Markets on a wider basis, had a challenging quarter, but as usual some fared better than others. The two main issues revolved around the strength of the US dollar, and the looming threat of a trade war with the US. At the moment there is a lot of noise, and there are clearly some real issues that need sorting to balance trade more equitably, but hopefully common sense will prevail. The alternative is genuinely worrying. In Japan, markets were boosted by a weaker yen, following a disappointing Q1. Corporate earnings broadly met expectations, and unemployment declined further.

For China trade tensions with the US led to falls in their markets. Growth slowed somewhat, as expected, but remained solid as the transition from an investment-led model to one based on consumer spending continued.

Elsewhere emerging markets had a difficult quarter, due to the strength of the dollar, trade tensions, and an increase in risk aversion.

In Brazil, political instability and strikes hit output. Turkey and Argentina also suffered, with the former raising interest rates sharply to shore up the lira, and the latter forced to approach the IMF for assistance.

As a tailpiece, on a calm evening in the middle of the Mediterranean Sea, with the sun low on the horizon, I couldn't help noticing the sheer amount of rubbish floating around that I could see from my balcony. It did make me think about the reality of pollution, and the potential harm it causes.

Summary and Market Background

The value of the Fund in the quarter rose to £2.761bn, an increase of £79m compared to the end March value of £2.682bn. The Fund produced a return of 2.9% over the quarter, which gave an underperformance against the benchmark of -2.0%. This was mainly attributable to a negative contribution from the equity protection strategy as markets rose above the upside limits, although the Fund still enjoyed an overall increase in value from other assets outside the strategy. Elsewhere the underperformance of Emerging Markets as a sub asset class, alongside poor relative performance from JP Morgan (Emerging markets) and Nomura (Pacific), also impacted on performance. Over a 12 month period the Fund recorded a small negative relative return against the benchmark of -0.1% (7.1% v. 7.2%). The Fund has outperformed over the three and five year periods, details of which can be found in Portfolio Evaluation Limited's report.

As a reminder the equity protection strategy mandate with River & Mercantile was implemented to secure some protection to the funding level against a relatively significant fall in equity values, up until after the next Triennial valuation in April 2019 (covering an 18 month period), after which the position can be reviewed. Given that the risks associated with the Fund's relatively high allocation to equities may no longer be justified, consideration of a switch to some other asset classes will be included in the strategic asset allocation review.

With the definite exception of Emerging Markets, in sterling terms all world markets enjoyed a good second quarter this year. Bonds didn't fare so well, but against a background of real and suggested rate increases some volatility was to be expected. With a concentration in the regions that struggled in Q2, some of the Fund's active equity managers had a challenging quarter, to put it politely. The good news was that Schroders (Emerging Markets) enjoyed another good quarter, with an outperformance of 1.4%. That's the end of the good news, with JP Morgan (Emerging Markets) collecting the wooden spoon with an underperformance of -3.7%, followed by Nomura (Pacific) with an underperformance of -1.1%.

JP Morgan (Bonds) also underperformed slightly again, by -0.15%.

The alternative passive strategies underperformed the total passive benchmark by -0.65% (7.34% v. 7.99%). Not surprisingly the passive index equities also outperformed active equities by 8.8% (-0.5% v. 8.3%).

Markets generally shook off the malaise of the first quarter of 2018 during the Spring months, with particularly strong performances from the US and the UK. Markets fared better on a sterling adjusted basis, reflecting the strength of the US dollar. Using the sterling adjusted basis, the MSCI World Index rose by 8.1%. The USA (S&P) topped the leader board at 9.9%, followed by the UK at 9.2% (which hurt the Fund, due to our underweight position).

They were followed at some distance by Europe ex UK at 3.8%, Japan (3.3%), Asia ex Japan (2.5%). Emerging Markets was the clear laggard at -2.1%, in large part attributable to China and growing trade issues with the US.

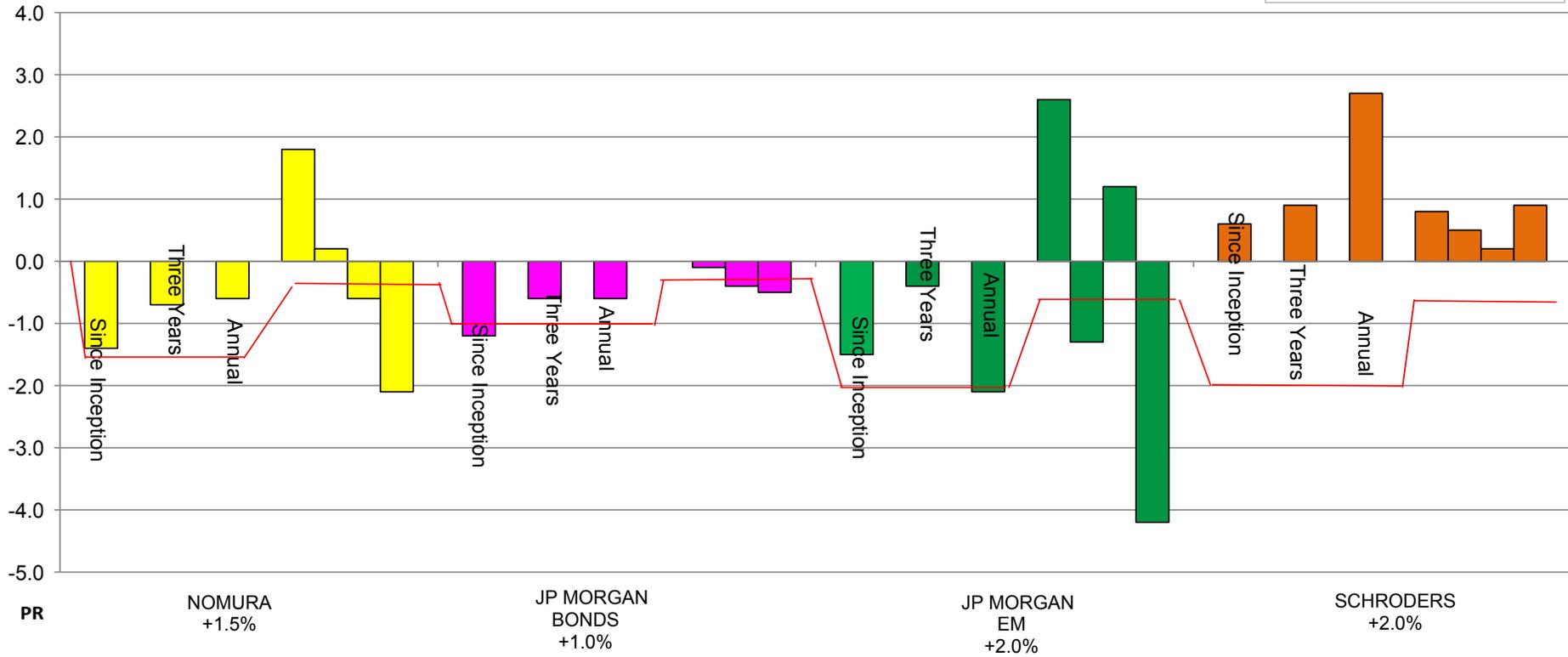
Bond markets as a whole had a volatile and varied quarter with a mixed experience on a sterling adjusted basis, against the continuing background of anticipated rate increases and the implications of quantitative tightening (QT). In trying to establish a pattern, performances to some degree were driven by local issues, so for some (UK) the impact of rising base rates weighed, while Emerging Market debt was driven lower by the general connectivity to the strength of the US dollar. On the flip side, US treasury and corporate issues performed well, again on a sterling adjusted basis

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

0 = Performance Requirement (PR)

— = benchmark performance

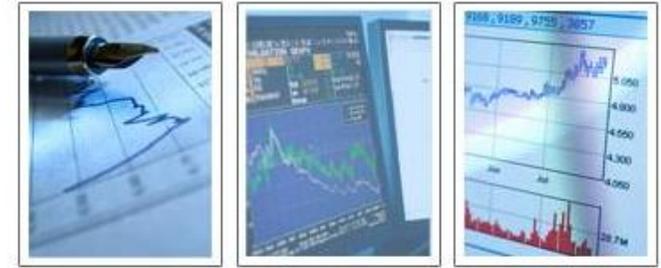


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P O R T F O L I O
E V A L U A T I O N
L I M I T E D

Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund



Specialists in Investment Risk and Return Evaluation

Period ending 30th June 2018



Specialists in Investment Risk and Return Evaluation

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Worcestershire County Council Pension Fund Total Fund

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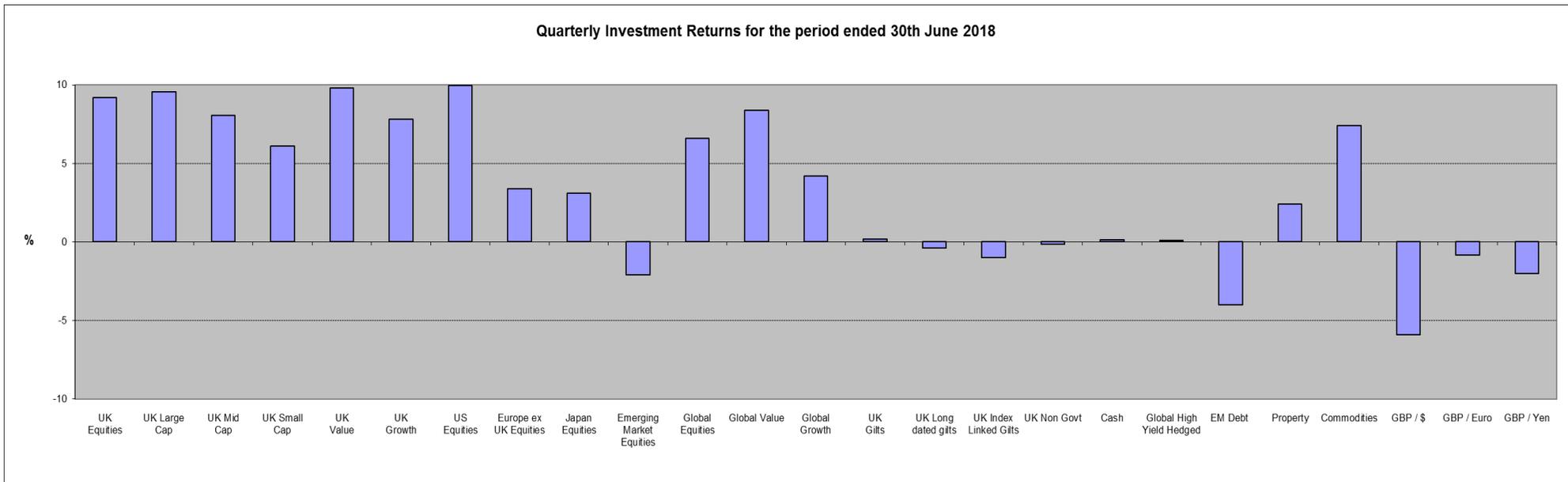
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Portfolio Evaluation Ltd Market Commentary Q2 2018 (Sterling)

Global equity markets had positive returns in Q2 2018 reversing the negative returns of Q1 as global growth continued in many developed markets, in particular the US, delivering better economic performance than expected; however over the year to date the global markets are only showing small increases. These market results hide significant regional movements; the most notable is the decline in emerging markets performance, partly due to tightening financial conditions (i.e. the impact of rising USD interest rates and exchange rates impacts on those running deficits) and the potential impact of trade measures. Once again the US positive return is partly due to USD appreciation (partly due to the strength of the US economy resulting in higher interest rates). It should be noted that investors became jittery in June because of the activist trade policy being followed by the US administration resulting and concerns about global trade barriers and US protectionism. In the UK Brexit continues to hang over the economy and markets as investors continue to avoid the UK due to uncertainty.

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Quarterly Investment Returns for the period ended 30th June 2018



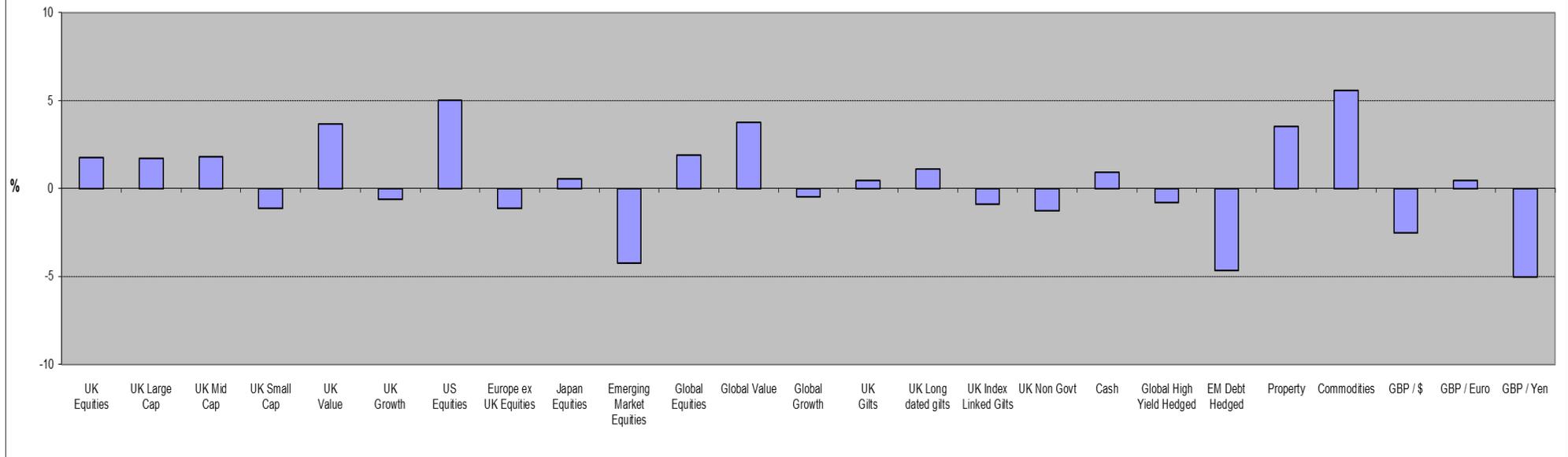
Bond yields globally slightly increased but increasing equity market volatility saw yields in safe havens such as Germany and the US decline; however over the quarter there was no significant increases in yields or bond returns. The outlook for bond yields from many investors is one of increasing yields but this could be tempered by any increased equity volatility resulting in investors reducing their exposures to equities. Commodities were up reversing the first quarter but July has seen these reduce again as investors worry about trade tariffs. Market volatility has continued to be low relative to history but has increased across asset classes in Q1 and Q2.



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Investment Returns for the year to date ended 30th June 2018



In respect of sector performance all UK sectors had strong positive performance in Q2 except for Telecoms and Financials. A number of risks are present in the market including trade tariffs, Brexit, increasing interest rates and within Europe the increasing move to populist politics.

Given this backdrop our institutional clients seem to be adopting more LDI based strategies, factor based equity investing and increasing exposure to alternative asset classes such as infrastructure and Private Debt.

For further information

If you would like further information about the topics contained in this newsletter or would like to discuss your investment performance requirements please contact Nick Kent or Deborah Barlow Tel: +44 (0)1937 841434 (e-mail: nick.kent@portfolioevaluation.net) or visit our website at www.portfolioevaluation.net.

Please note that all numbers, comments and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance.

Worcestershire County Council Pension Fund - Commentary

Period ending 30th June 2018

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund** **Return: 2.9%** **Benchmark Return: 4.9%** **Excess Return: -2.0%**

- Over the quarter there has been an investment within EQT Mid-Market Credit II (Private Debt), and within infrastructure they have invested in EDIF II (First State) and Hermes II Infrastructure Fund. This was all funded by a withdrawal of assets from the L&G index funds.
- The Fund achieved a total return of 2.9%. In a reversal of last quarter equity assets were the highest returning asset class (returning +3.2); within equities the 'active equity' mandates had a negative return due to emerging markets whilst the index funds investing in developed markets had strong positive returns. Property and Infrastructure assets had positive returns over the quarter (2.9% and 0.9% respectively). Bonds had a negative return of -1%.
- The Fund underperformed its benchmark by 2.0% this quarter. This was dominated by the new equity protection portfolio managed by River and Mercantile; this accounted for 1.3% of the underperformance but is not unexpected given market movements and the structure of the Fund (for example the bond collateral). Additionally the active equity pool generated a negative excess total return of -1.1% due to the outperformance of the JPM emerging markets portfolio and the Nomura Far East equity portfolio. Infrastructure underperformed and Property and bonds outperformed.
- Asset allocation was a negative contributor primarily because of the underweight UK equity position.
- All index funds tracked their benchmarks as expected.

YEAR SUMMARY AND LONGER: **Worcestershire County Council Pension Fund** **Return: 7.1%** **Benchmark Return: 7.2%** **Excess Return: -0.1%**

- Over the year the Fund has generated a return of 7.1% marginally underperforming the benchmark by 0.1%. All asset classes had positive returns with the exception of bonds. Currency exchange rates continued to significantly vacillate and influence returns over the year.
- Stock selection was a positive contributor primarily due to the successful outperforming active equity manager pool and the bond portfolio.
- Asset allocation over the year was a negative contributor over the year due to being underweight UK equities and the exposure to the equity protection portfolio. It should be noted that the excess return impact of the equity protection portfolio will be reduced if you adjust for the bond collateral portfolio but this would reduce the asset allocation gain from being underweight bonds.
- Over the medium term three and five year periods the Fund has outperformed
- The Total Risk of the Fund is consistent with that of a typical multi asset class Fund. Active risk is also consistent with a typical multi asset class Fund that uses both passive and active strategies.

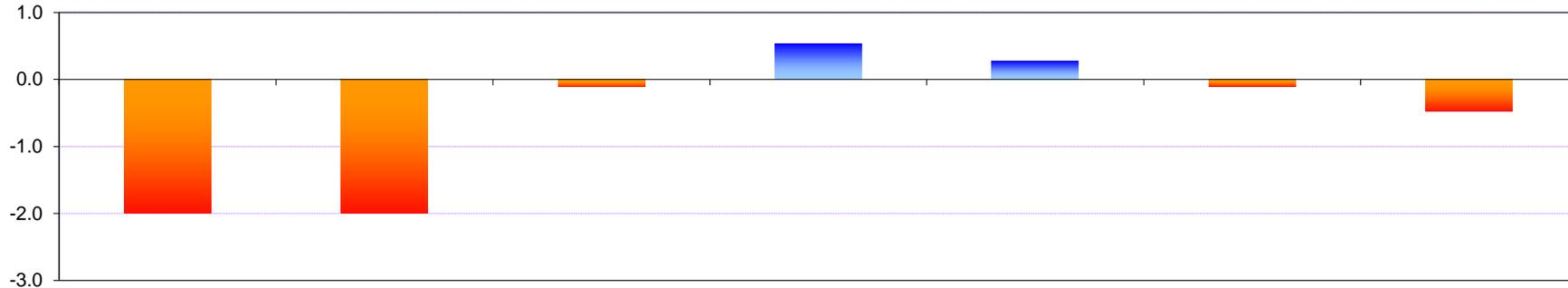
Total Fund Overview

Total Fund

Report Period: Quarter Ending June 2018



Excess Return Analysis (%)

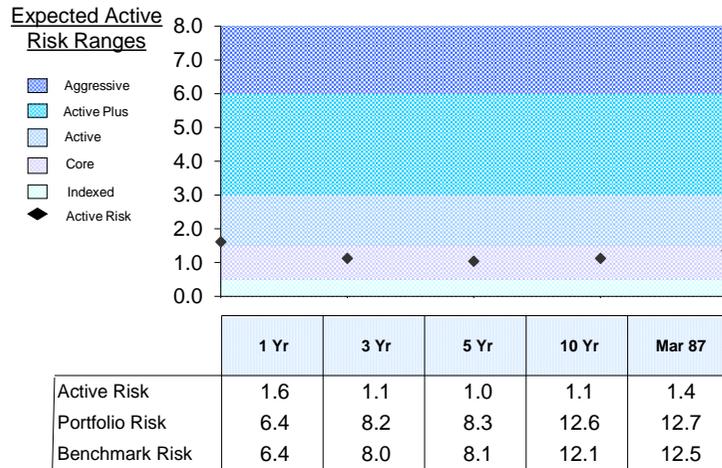


	QTR	YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Excess Return	-2.0	-2.0	-0.1	0.5	0.3	-0.1	-0.5
Portfolio Return	2.9	2.9	7.1	11.7	10.3	8.6	8.2
Benchmark Return	4.9	4.9	7.2	11.2	10.0	8.7	8.6

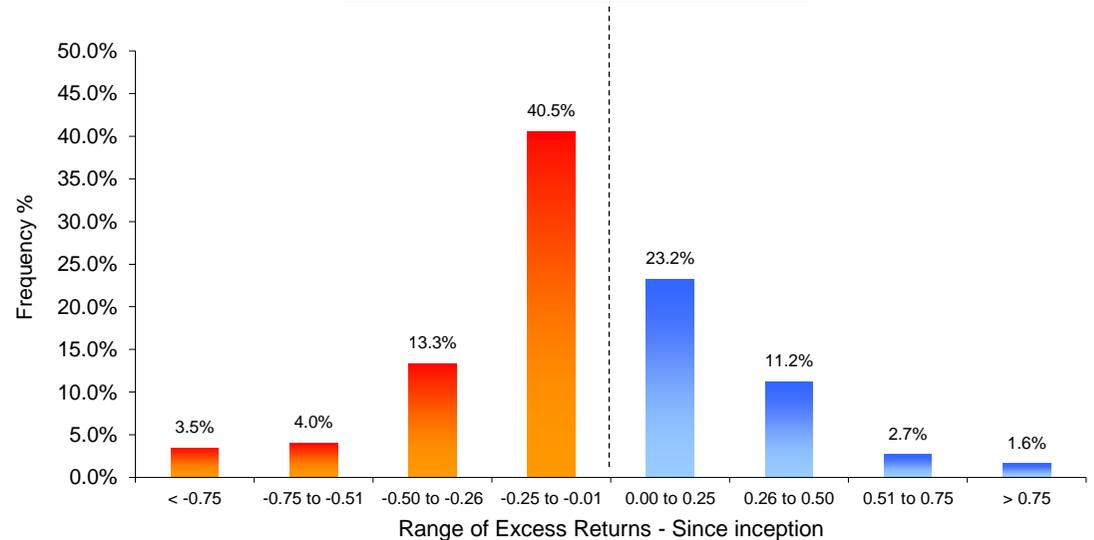
All returns for periods in excess of 1 year are annualised.

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Ex-Post Active Risk Analysis (%)



Excess Return Consistency Analysis



Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated) returns since inception.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 30th June 2018

Market Value: £2.8bn

	Total Fund	Total Equity	Total Active Equity	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	Total Passive Equity	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	Total Alternatives	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	River & Merc EQ Protection	Corporate Bond - JPM	EQT Mid-Market Credit II	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Property - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash	
Returns Summary (%)																														
Excess Return	-2.0	-2.7	-1.1	-1.7	-3.7	1.4	0.0	0.1	0.1	-0.2	-0.1	0.0	0.0	0.0	-9.1	-0.1	1.0	1.2	-0.1	6.5	0.4	2.5	-0.9	-0.8	-0.9	-3.1	-6.6	0.7	0.0	
Portfolio Return	2.9	3.2	-0.5	2.0	-6.1	-1.0	8.3	9.3	10.1	3.5	7.4	6.5	7.0	8.8	-9.1	-1.1	0.7	2.9	2.1	8.1	2.0	4.0	1.0	1.0	1.2	-2.5	-3.7	1.4	0.0	
Benchmark Return	4.9	5.9	0.6	3.7	-2.4	-2.4	8.3	9.2	10.0	3.7	7.4	6.5	7.0	8.8	0.0	-0.9	-0.3	1.7	2.2	1.6	1.6	1.6	2.0	1.8	2.0	0.7	2.9	0.7	0.0	
Asset Allocation Summary (%)																														
Portfolio Start	100.0	86.5	29.4	15.8	6.5	7.0	33.0	14.9	11.0	7.2	14.5	5.8	4.2	4.4	9.6	5.3	0.0	4.7	0.8	0.5	2.6	0.7	3.6	1.9	1.7	0.0	0.1	0.0	0.0	
Portfolio End	100.0	85.7	28.3	15.7	5.9	6.7	34.1	15.4	11.5	7.1	14.8	5.9	4.3	4.6	8.4	5.1	0.2	4.8	1.0	0.5	2.6	0.7	4.3	1.8	1.6	0.2	0.3	0.4	0.0	
Benchmark Start	100.0	81.8	24.0	12.0	6.0	6.0	47.8	27.3	11.0	9.5	10.0	3.3	3.3	3.3	0.0	10.0	0.0	4.7	0.8	0.5	2.6	0.7	3.5	1.9	1.7	0.0	0.1	0.0	0.0	
Benchmark End	100.0	80.9	24.0	12.0	6.0	6.0	46.9	26.4	11.0	9.5	10.0	3.3	3.3	3.3	0.0	9.7	0.3	4.8	1.0	0.5	2.6	0.7	4.3	1.8	1.6	0.2	0.3	0.4	0.0	
Attribution to Excess Return (%)																														
Excess Return	-2.0	-2.3	-0.6	-0.3	-0.3	0.0	-0.5	-0.5	0.0	0.0	0.1	0.0	0.0	0.0	-1.3	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Asset Allocation	-0.7	-1.0	-0.1	0.0	0.0	-0.1	-0.5	-0.5	0.0	0.0	0.1	0.0	0.0	0.0	-0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock Selection	-1.3	-1.3	-0.4	-0.3	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

The Returns Summary details the Portfolio, Benchmark and Excess Returns. The Excess Returns are plotted. The Asset Allocation Summary details the weights held by the portfolio and benchmark in each asset class/manager. The green plots are the over/underweight t exposures of the Fund (v Fund benchmark) at the beginning and end of the period. The Attribution to Excess Return, identifies how each asset class/manager has contributed to the overall excess return of the Total Fund. It is broken down into Asset Allocation (how successful the decision to over/underweight each asset class was) and then into Stock Selection (how well each manager/s decisions have performed). The Asset Allocation plus the Stock Selection excess returns are all additive and equal the Total Excess Return of the Fund.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Year Ended 30th June 2018

Market Value: £2.8bn

	Total Fund	Total Equity	Total Active Equity	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	Total Passive Equity	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	Total Alternatives	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	River & Merc EQ Protection	Corporate Bond - JPM	EQT Mid-Market Credit II	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Property - AEW	Total Infra	UK Infra - Green	UK Infra Core - Hermes	UK Infra - Hermes II	Infra Core - Stonepeak	First State	Cash	
Returns Summary (%)																														
Excess Return	-0.1	-0.8	1.6	0.9	-0.1	4.7	-0.2	0.2	0.1	-0.2	-0.4	-0.1	0.0	-0.3	1.0	0.3	-0.3	0.5	0.6	-0.7	0.6	0.3	1.7	-0.8	3.3	-0.9	-22.6	0.7	0.0	
Portfolio Return	7.1	7.4	8.6	8.9	5.8	10.6	8.5	9.3	12.6	2.7	8.5	7.7	5.3	13.2	1.0	-0.5	0.7	7.5	9.6	5.8	7.1	5.2	9.7	6.8	11.7	1.2	-16.7	1.4	0.0	
Benchmark Return	7.2	8.2	7.0	8.0	5.9	5.9	8.6	9.0	12.5	2.9	8.8	7.8	5.2	13.5	0.0	-0.9	1.1	7.0	9.0	6.5	6.5	4.8	8.0	7.6	8.4	2.0	5.8	0.7	0.0	
Asset Allocation Summary (%)																														
Portfolio Start	100.0	86.3	28.9	15.9	6.2	6.8	45.0	27.2	11.5	6.2	12.4	3.8	4.3	4.3	0.0	5.6	0.0	4.2	1.0	0.5	2.7	0.0	3.9	2.1	1.8	0.0	0.0	0.0	0.0	
Portfolio End	99.8	85.7	28.3	15.7	5.9	6.7	34.1	15.4	11.5	7.1	14.8	5.9	4.3	4.6	8.4	5.1	0.2	4.8	1.0	0.5	2.6	0.7	4.3	1.8	1.6	0.2	0.3	0.4	0.0	
Benchmark Start	100.0	81.9	24.0	12.0	6.0	6.0	47.9	27.4	11.0	9.5	10.0	3.3	3.3	3.3	0.0	10.0	0.0	4.2	1.0	0.5	2.7	0.0	3.9	2.1	1.8	0.0	0.0	0.0	0.0	
Benchmark End	99.7	80.9	24.0	12.0	6.0	6.0	46.9	26.4	11.0	9.5	10.0	3.3	3.3	3.3	0.0	9.7	0.3	4.8	1.0	0.5	2.6	0.7	4.3	1.8	1.6	0.2	0.3	0.4	0.0	
Attribution to Excess Return (%)																														
Excess Return	-0.1	-0.6	0.5	0.2	0.0	0.3	-0.4	-0.5	0.0	0.1	0.0	0.0	0.0	0.1	-0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	
Asset Allocation	-0.4	-0.8	-0.1	0.0	0.0	0.0	-0.5	-0.5	0.0	0.1	0.1	0.0	0.0	0.1	-0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock Selection	0.3	0.3	0.5	0.2	0.0	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	

Manager Return Analysis
Worcestershire County Council Pension Fund
for Period Ended 30th June 2018



Market Value: £2.8bn

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	Benchmark	Incep Date	Market Value (£m)	Weight	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Equity Fund	Client Specific Weighted Index	Mar-16	2,365.4	85.7	3.2	5.9	-2.7	3.2	5.9	-2.7	7.4	8.2	-0.8										16.8	16.7	0.0
<i>Total Active Equity Fund</i>	Client Specific Weighted Index	Mar-16	782.2	28.3	-0.5	0.6	-1.1	-0.5	0.6	-1.1	8.6	7.0	1.6										20.4	18.2	2.2
Far East Developed Fund - Nomura	FTSE Developed Asia Pacific Index	Feb-03	432.5	15.7	2.0	3.7	-1.7	2.0	3.7	-1.7	8.9	8.0	0.9	14.7	13.9	0.8	11.4	10.4	1.0	9.4	9.2	0.1	11.0	10.9	0.1
Emerging Markets Fund - JPM	FTSE All World Emerging Market Index	Dec-11	163.4	5.9	-6.1	-2.4	-3.7	-6.1	-2.4	-3.7	5.8	5.9	-0.1	12.5	10.9	1.7	8.4	8.0	0.4				8.1	7.6	0.5
Emerging Markets Fund- Schroder	FTSE All World Emerging Market Index	Oct-11	186.3	6.7	-1.0	-2.4	1.4	-1.0	-2.4	1.4	10.6	5.9	4.7	13.8	10.9	2.9	10.3	8.0	2.2				9.4	6.8	2.6
<i>Total Passive Equity Fund</i>	Client Specific Weighted Index	Mar-16	940.4	34.1	8.3	8.3	0.0	8.3	8.3	0.0	8.5	8.6	-0.2										15.9	15.9	0.1
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	426.0	15.4	9.3	9.2	0.1	9.3	9.2	0.1	9.3	9.0	0.2										14.1	13.8	0.3
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	318.3	11.5	10.1	10.0	0.1	10.1	10.0	0.1	12.6	12.5	0.1										20.4	20.4	0.0
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	196.1	7.1	3.5	3.7	-0.2	3.5	3.7	-0.2	2.7	2.9	-0.2										14.9	15.2	-0.3
<i>Total Alternatives Fund</i>	Client Specific Weighted Index	Mar-16	409.8	14.8	7.4	7.4	-0.1	7.4	7.4	-0.1	8.5	8.8	-0.4										16.1	16.5	-0.4
FTSE RAFI DEV Fund - L&G	FTSE RAFI Developed 1000 QSR Net Index	Dec-15	163.1	5.9	6.5	6.5	0.0	6.5	6.5	0.0	7.7	7.8	-0.1										18.2	18.4	-0.1
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	119.1	4.3	7.0	7.0	0.0	7.0	7.0	0.0	5.3	5.2	0.0										16.4	16.4	0.0
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	127.5	4.6	8.8	8.8	0.0	8.8	8.8	0.0	13.2	13.5	-0.3										19.1	19.2	-0.1
<i>Equity Protection - River & Mercantile</i>		Jan-18	233.1	8.4	-9.1	0.0	-9.1	-9.1	0.0	-9.1													1.0	0.0	1.0
Corporate Bond Fund- JPM	Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP	Mar-03	139.7	5.1	-1.1	-0.9	-0.1	-1.1	-0.9	-0.1	-0.5	-0.9	0.3	3.1	2.7	0.5	4.0	3.5	0.4	6.0	5.8	0.1	5.0	5.2	-0.2
EQT Mid-Market Credit II	Absolute Return + 6.5%	May-18	4.9	0.2																			0.7	1.1	-0.3
Total Property Fund	Client Specific Weighted Index	Mar-16	132.7	4.8	2.9	1.7	1.2	2.9	1.7	1.2	7.5	7.0	0.5										9.9	7.1	2.8
UK Property Fund - VENN	Absolute Return +9%	Jul-15	28.2	1.0	2.1	2.2	-0.1	2.1	2.2	-0.1	9.6	9.0	0.6										12.0	9.2	2.8
US Property Fund- Walton Street GBP	Absolute Return + 6.5%	Feb-16	14.0	0.5	8.1	1.6	6.5	8.1	1.6	6.5	5.8	6.5	-0.7										14.8	6.1	8.7
US Property Fund- Walton Street USD	N/A	Feb-16	N/A	N/A	1.9	0.0	1.9	1.9	0.0	1.9	7.5	0.0	7.5										9.3	0.0	0.0
Euro Property Fund- Invesco	Absolute Return + 6.5%	Feb-16	71.0	2.6	2.0	1.6	0.4	2.0	1.6	0.4	7.1	6.5	0.6										10.1	6.2	3.9
Property Fund- AEW	Absolute Return + 6.5%	Oct-17	19.6	0.7	4.0	1.6	2.5	4.0	1.6	2.5	0.0	0.0	0.0										5.2	4.8	0.3
Total Infrastructure Fund	Client Specific Weighted Index	Mar-16	119.0	4.3	1.0	2.0	-0.9	1.0	2.0	-0.9	9.7	8.0	1.7										9.9	8.0	1.9
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	49.8	1.8	1.0	1.8	-0.8	1.0	1.8	-0.8	6.8	7.6	-0.8	5.4	7.6	-2.2							5.6	7.6	-1.9
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	44.5	1.6	1.2	2.0	-0.9	1.2	2.0	-0.9	11.7	8.4	3.3	9.0	8.4	0.6							9.3	8.4	0.9
UK Infrastructure Fund - Hermes II	Absolute Return +8.5%	Jun-18	5.0	0.2																			-2.5	0.7	-3.1
Infrastructure Core Fund - Stonepeak	Absolute Return +12%	Jan-18	7.8	0.3	-3.7	2.9	-6.6	-3.7	2.9	-6.6													-16.7	5.8	-22.6
First State Fund	Absolute Return +9%	Jun-18	11.8	0.4																			1.4	0.7	0.7
Worcestershire CC Total Fund		Mar-87	2,761.7	100.0	2.9	4.9	-2.0	2.9	4.9	-2.0	7.1	7.2	-0.1	11.7	11.2	0.5	10.3	10.0	0.3	8.6	8.7	-0.1	8.2	8.6	-0.5

PF = Portfolio Return BM = Benchmark Return ER = Excess Return

Total Fund Benchmark	CLIENT SPECIFIC BM AS AT JUNE 2017:	Notes:
	27.4% FTSE All Share 9.5% FTSE Developed Europe Ex UK 12% FTSE All World Emerging Markets 10% 1/3 FTSE RAFI DEV 1000 QSR Total Return NET & 1/3 MSCI World Minimum Vol Total Return NET & 1/3 MSCI World Quality Total Return NET Corp Bonds: 10% Barclays Global Agg Corporate Bond HEDGED into GBP Property: Weighted Client Specific Index Infrastructure: Weighted Client Specific Index	For the Total Fund benchmark the weightings for the Infrastructure and Property will match the actual drawdowns/market values of the funds, then the remainder will be put into UK Passive Equities . Total Infrastructure and Total Property are measured against a weighted index of the funds underlying benchmarks. Historic data up to and including 31.03.2016 has been provided by the WM Co and L&G.

Total Fund Reconciliation Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 30th June 2018

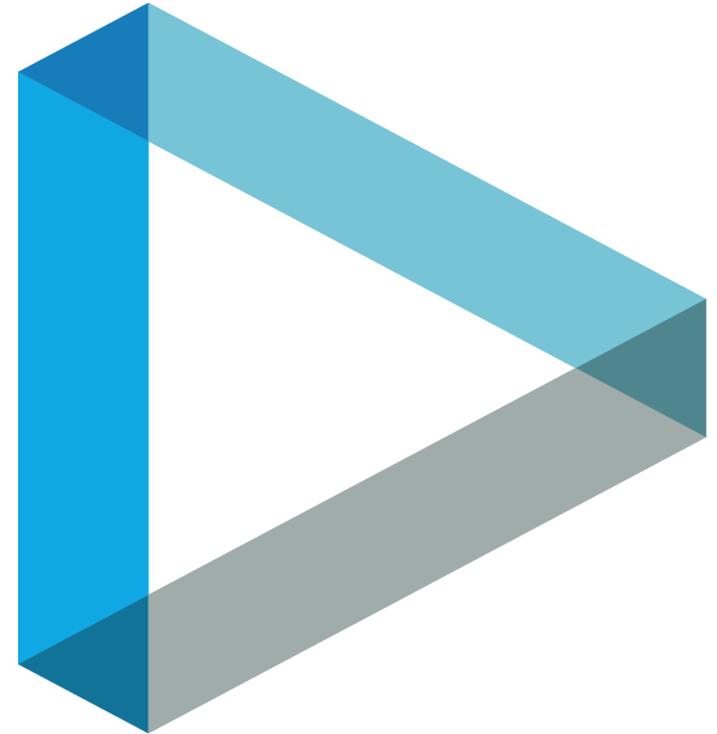
Market Value: £2.8bn

	31st Mar 2018		Net Investment (£000s)	Total Income (£000s)	Total Gain/Loss (£000s)	30th June 2018	
	Market Val (£000s)	Exposure (%)				Market Val (£000s)	Exposure (%)
Total Equity Fund	2,313,994	76.7	-23,000	0	74,416	2,365,411	85.7
<i>Total Active Equity Fund</i>	786,189	29.3	0	0	-3,985	782,204	28.3
Far East Developed Fund - Nomura	424,076	15.8	0	0	8,375	432,451	15.7
Emerging Markets Fund - JPM	174,001	6.5	0	0	-10,568	163,433	5.9
Emerging Markets Fund- Schroder	188,112	7.0	0	0	-1,792	186,320	6.7
<i>Total Passive Equity Fund</i>	883,949	33.0	-16,932	0	73,361	940,379	34.1
UK Equity Fund - L&G	398,398	14.9	-9,291	0	36,861	425,968	15.4
North American Equity Fund- L&G	293,249	10.9	-4,714	0	29,759	318,293	11.5
Europe ex UK Equity Fund- L&G	192,302	7.2	-2,927	0	6,742	196,117	7.1
<i>Total Alternatives Fund</i>	387,343	14.4	-6,068	0	28,489	409,764	14.8
FTSE RAFI DEV Fund - L&G	155,461	5.8	-2,430	0	10,112	163,144	5.9
MSCI World Min Vol TR Fund - L&G	113,035	4.2	-1,746	0	7,860	119,149	4.3
MSCI World Quality TR Fund - L&G	118,846	4.4	-1,893	0	10,518	127,471	4.6
Equity Protection - River & Mercantile	256,513	9.6	0	0	-23,449	233,065	8.4
Corporate Bond Fund- JPM	141,137	5.3	0	0	-1,483	139,654	5.1
EQT Mid-Market Credit II	0	0.0	4,910	0	35	4,945	0.2
Total Property Fund	129,738	4.8	-797	0	3,796	132,737	4.8
UK Property Fund - VENN	27,483	1.0	112	0	565	28,160	1.0
US Property Fund- Walton Street	13,276	0.5	-356	0	1,078	13,998	0.5
Euro Property Fund- Invesco	70,154	2.6	-553	0	1,392	70,992	2.6
Property Fund- AEW	18,825	0.7	0	0	761	19,587	0.7
Total Infrastructure Fund	96,923	3.6	26,187	0	-4,151	118,959	4.3
UK Infrastructure Fund - Green	50,330	1.9	-1,064	0	528	49,795	1.8
UK Infrastructure Core Fund - Hermes	44,553	1.7	4,617	0	-4,637	44,532	1.6
UK Infrastructure Fund - Hermes II	0	0.0	5,152	0	-127	5,025	0.2
Infrastructure Core Fund - Stonepeak	2,040	0.1	5,826	0	-80	7,786	0.3
First State Fund	0	0.0	11,656	0	166	11,822	0.4
Cash Fund	0	0.0	0	0	0	0	0.0
Worcestershire CC Total Fund	2,681,793	90.4	7,300	0	72,613	2,761,706	99.8



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Worcestershire County Council Pension Fund
Allocation Update – Real Assets
September 2017

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Current real assets allocation - summary

Fund Managers	Amount Committed (£m)	Amount Committed (%)	Drawdown	Drawdown (%)	Current NAV	IRR (net)
Green Investment Bank	50	9.7%	50	99.2%	50	7.6%
Hermes I (Core)	49	9.5%	34	69.2%	43	8.4%
Hermes II (Core)	25	4.9%	5	20.0%	5	8.8%
First State	100	19.4%	10	10.3%	10	9.0%
Stonepeak	100	19.4%	8	7.8%	8	12.0%
Infrastructure	324	62.9%	107	32.9%	115	9.6%
Invesco European	76	14.8%	76	100.0%	72	6.5%
Invesco Residential	40	7.8%	0	0.0%	0	9.0%
AEW	20	3.9%	20	100.0%	19	7.0%
Venn	28	5.3%	27	97.1%	28	9.0%
Walton Street	27	5.2%	18	67.9%	14	10.0%
Real Estate	191	37.1%	141	74.1%	133	7.9%
Total	515	100.0%	248	48.2%		9.0%

Source: bfinance, WCC

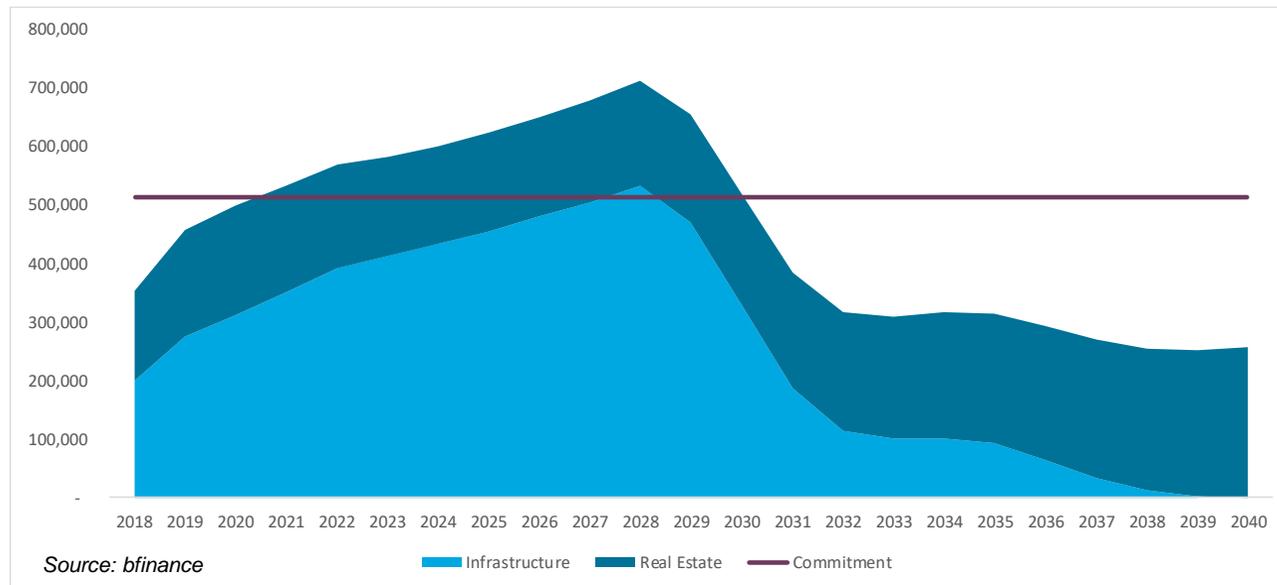
- > The table above summarises WCC's real assets allocation based on information provided to bfinance as at 30 June 2018
- > Funds committed to real assets stood at 19% of overall NAV compared to a strategic target of 15%
- > Of the £515m committed to infrastructure and real estate since 2015, £248m has been drawn down by managers, while the latest NAV for WCC's holdings stood at £249m, representing 48% of the targeted level of exposure



Real Assets Portfolio – modelled evolution of NAV

- > The chart below sets out the projected evolution of NAV for the real assets portfolio over the next 20+ years based on investment growth forecasts provided by investment managers against the committed amount of £515m. The charts below do not assume any re-investment of distributions
- > Based on this analysis, the Fund is expected to achieve its target level of exposure during 2021 and is expected to remain at or above its target level of exposure until 2030 as capital committed to funds is drawn down by fund managers and is expected to deliver capital growth. No growth assumptions for overall Worcestershire Pension Fund are taken into account.
- > Assuming there are no fund life extensions, the exposure to infrastructure is expected to peak in 2028 and fall to zero by 2038 given these are all closed-ended funds
- > For the real estate allocation, which includes 3 open ended funds, the Fund will continue to have an exposure its holdings until it decides to divest its holdings

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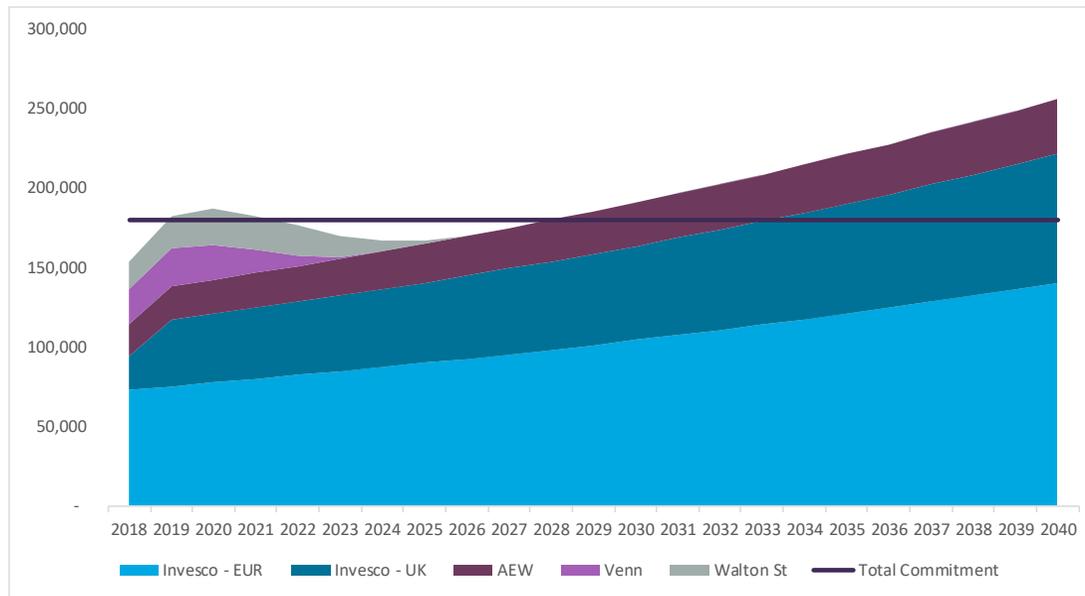
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Real estate portfolio – evolution of NAV

- > The chart below sets out the projected evolution of NAV the real estate portfolio over the next 20+ years based on investment growth forecasts provided by investment managers against the committed amount of £180m
- > Based on this analysis, the Fund is expected to achieve its target level of exposure during 2019 for 3 years and falling below this level once capital invested in real estate debt funds (Venn and Walton St) is returned
- > From 2028 onwards, the remaining open-ended funds are expected to meet the targeted level of exposure once again and continue to grow thereafter steadily going forward until the Fund decides to divest of its holdings
- > The allocations to Venn and Walton St are unlikely to arrive at the targeted level of exposure given the speed at which distributions and capital is returned to the Fund upon draw down. As a result, these two investments are expected to be 75% fully drawn down at any one time



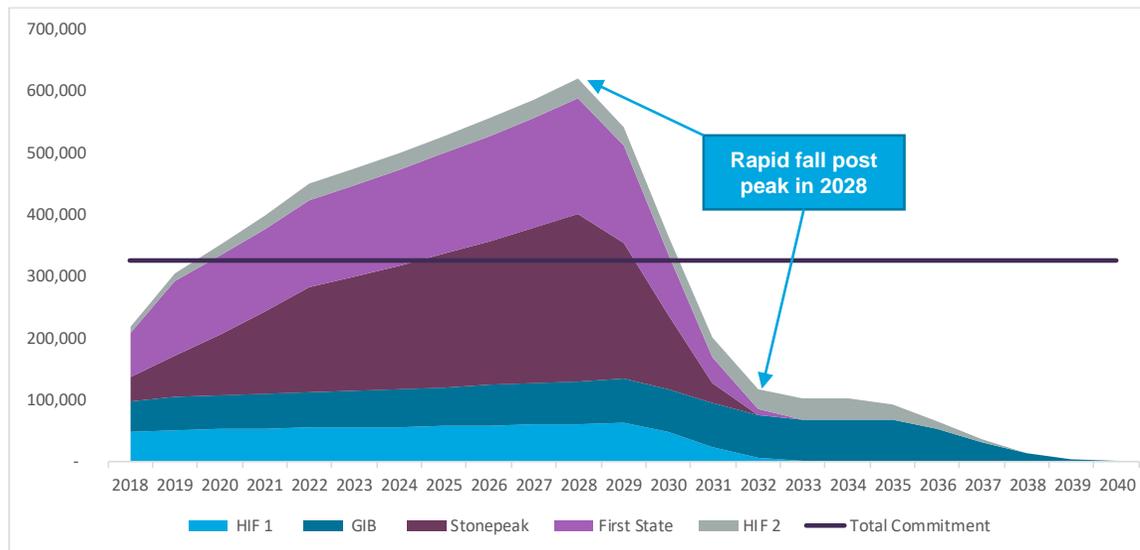
Source: bfinance



Infrastructure portfolio – evolution of NAV

- > The chart below sets out the projected evolution of NAV the infrastructure portfolio over the next 20+ years based on investment growth forecasts provided by investment managers against the committed amount of £325m
- > Based on this analysis, the Fund is expected to achieve its target level of exposure during 2021 and is expected to remain at or above its target level of exposure until 2030 as capital committed to funds is drawn down by fund managers and is expected to deliver capital growth
- > Assuming there are no fund life extensions, the exposure to infrastructure is expected to peak in 2028 and fall to zero by 2038 given these are all closed-ended funds
- > Exposures to First State and Stonepeak are projected to be a key driver of NAV growth and are expected to achieve growth of 5% and 8% p.a. respectively
- > Given the core focused nature of these strategies, allocations to Hermes and Green Investment Bank are not expected to deliver significant NAV growth and will deliver most of their return via yield

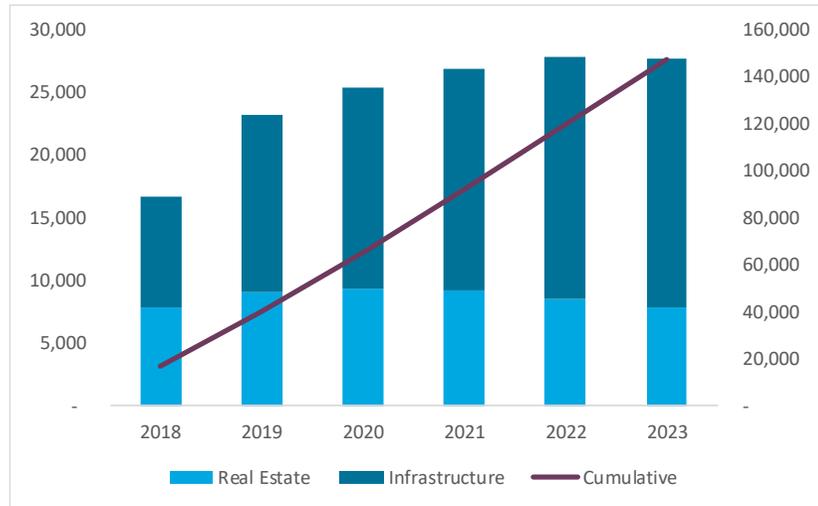
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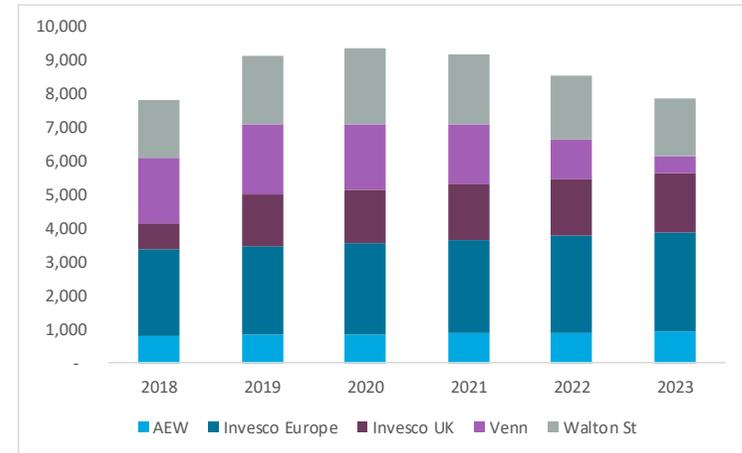
Source: bfinance



Real assets portfolio – forecast distributions

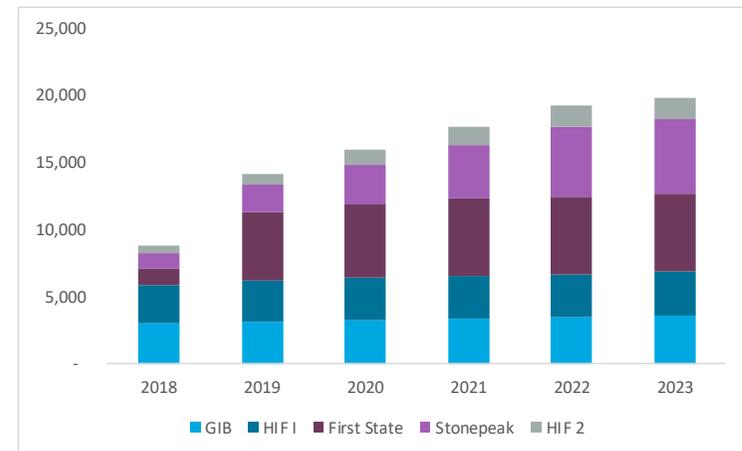


Source: bfinance



Source: bfinance

- > The charts on this page set out forecast distributions from each of the Fund's real asset managers over the period 2018-23
- > Based on projections provided by managers and bfinance estimates, the Fund is expected to receive an average of £25m in distributions p.a. or £150m on a cumulative basis
- > Over time, the share of distributions from infrastructure funds will take up a large portion of overall distributions as commitments made to infrastructure managers is drawn down



Source: bfinance

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Real assets allocation – key issues

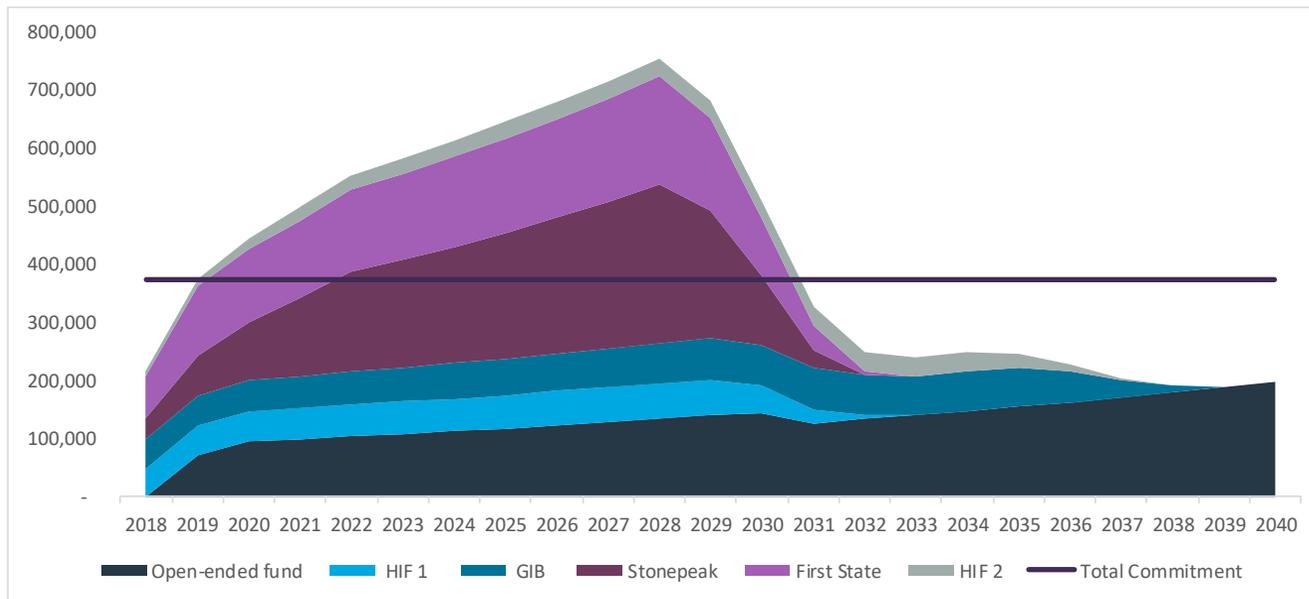
- > While there is no guarantee that a correction will take place, with its 75% exposure to public equities, the Fund is susceptible to equity market volatility, with monetary authorities in the US and UK at various stages of embarking upon policy tightening amidst a climate of heightened geopolitical risk
- > The Fund is expected to be at or above its target level of exposure to real assets by 2021 until 2030 based on the commitments it has made to the asset class since 2015
- > Nevertheless, there are some key issues that may require consideration over the near to medium term:
 - > Maturity of exposures to real estate debt funds (Venn and Walton Street);
 - > Weight of distributions projected over coming years and whether a plan should be devised to re-invest these into real assets; and
 - > The profile of projected exposure to infrastructure vs real estate, with the former set to peak and then drop to zero by 2038, while the latter provides a solid foundation to the real assets portfolio via the exposure to open-ended funds, meaning that the Fund's exposure to real estate will continue over the long term
- > In view of the latter two points and bearing in mind the profile of real estate debt funds, which return capital to investors very speedily and seldom enable investors to meet their target level of exposure, it may be worth considering a tactical allocation to a global core/core+ open-ended infrastructure fund that would allow the fund to re-balance the structure of its infrastructure portfolio over the long term and allow it to re-invest the sizeable distributions that are expected over the medium term. In particular, given the core+/value-add focus of Stonepeak, a strategy targeting core assets in North America and smaller mid-market assets in Europe could potentially be complementary to the existing fund holdings
- > Given the existing exposure to UK and European open-ended real estate funds and the “late-stage” of the current real estate cycle, caution is recommended when considering a further equity exposure to the sector



Real assets allocation - recommendation

- > The chart below sets out the projected evolution of NAV the infrastructure portfolio over the next 20+ years with the inclusion of a £50m commitment to an open-ended fund in 2019, which would receive additional commitments of 75% of annual distributions from the remainder of the real assets portfolio
- > By committing to an open-ended fund and “topping-up” the exposure to infrastructure, this would avoid a potential “cliff-edge” from 2030 onwards when the closed ended infrastructure funds will begin to return capital
- > WCC would be able to take advantage of recent open-ended fund searches undertaken by bfinance on behalf of other LGPS funds and benefit from fee discounts available to such investors

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Source: bfinance



About bfinance

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PENSIONS COMMITTEE
5 OCTOBER 2018**EXTERNAL AUDIT ANNUAL LETTER 2017/18**

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The Annual Audit Letter 2017/18 be noted;**
 - b) **The Independent Auditor's Report opinion on the Pension Fund Financial Statements be noted;**
 - c) **The External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter be noted;**
 - d) **The Committee considers whether it wishes to receive any further reports on information contained in the Letter; and**
 - e) **The Committee considers whether there are any issues arising from the Letter to draw to the attention of the Council.**

Summary

2. Grant Thornton is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Letter looks back over the year and summarises all of the reports and work the external auditors have undertaken and closes that year's audit. As such there are no new audit findings.

3. The External Auditor gave an unqualified opinion on the Pension Fund Accounts of Worcestershire Pension Fund on 31 July 2018. The audit did identify a number of areas requiring additional testing and as such the Letter identifies at Appendix 1 of this report and then Appendix A of that report, an additional fee for the Pension Fund audit of £5,200. Whilst that is 0.004% of the Administration budget it is still disappointing and avoidable going forward. A lessons' learnt report has been presented to Worcestershire County Council Audit & Governance Committee which will look to prevent this reoccurring.

Contact Points

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Specific Contact Points for this report
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Supporting Information

- Appendix 1 – The Annual Audit Letter for Worcestershire County Council
- Appendix 2 – Independent Auditor's Report – Financial Statements
- Appendix 3 – External Auditor's Letter – Closure of the audit of the Worcestershire County Council and Pension Fund Accounts

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

Annual Audit Letter

Year ending 31 March 2018

Worcestershire County Council

August 2018

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Worcestershire County Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £15.232m, which is 2% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £24.8m, which is 1% of the pension fund's net assets.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matters we identified in respect of Children's Services and Commissioning. We therefore qualified our value for money conclusion in our audit report to the Council on 31 July 2018.
Certificate	We certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An audit delivered by the statutory deadline – we delivered the audit by working hard in partnership with your team to tackle the issues identified, particularly those arising from the implementation of the new financial system.
- Improved financial processes – we worked with you to identify areas where processes could be improved for future years, in particular the necessary reporting from the financial system and the working papers needed to support revaluations.
- Sharing our insight – we regularly attended Audit and Governance Committee and shared our experiences. We also shared our thought leadership reports including those on setting up local authority companies.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £15.232m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £0.1m.

We set a lower threshold of £0.761m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

Pension Fund Materiality

For the audit of the Worcestershire Pension Fund accounts, we determined materiality to be £24.8 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for related party transactions. We set a threshold of £1.2m above which we reported errors to the Audit and Governance Committee.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Worcestershire County Council, mean that all forms of fraud are seen as unacceptable 	<p>We do not consider this to be a significant risk for Worcestershire County Council</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Evaluated the rationale for changes in accounting policies, – reviewed journal entries and performed testing on large and unusual entries, – reviewed unusual significant transactions; and – reviewed significant related party transactions outside the normal course of business 	<p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to our testing in this area is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was eventually found. Testing of the journal entries did not in the event identify any issues.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on an five year rolling programme basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our work in the area we have;</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, • reviewed the competence, expertise and objectivity of any management experts used, • reviewed the basis on which the valuation was carried out and challenged key assumptions, • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding, • tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Officers had not undertaken work to demonstrate that the value of assets not formally valued in year was not materially misstated as part of the preparation of the financial statements. This is a key requirement of the Code, and one which we had already raised clearly in the previous year's audit.</p> <p>Initial audit work in this area demonstrated that while a significant proportion of the asset base of the Council had been revalued (79%), there remained a potential material uncertainty of £33m in the value of the assets that had not been revalued in year.</p> <p>As a result, we agreed with officers that further revaluations would be undertaken to ensure that the valuations within the accounts were materially fairly stated. This work has led to a number of adjustments to the financial statements, including a revision to the net book value of assets of £25.2m.</p> <p>As part of reviewing the work of the valuer we identified that the valuer had not, in certain respects, carried out the work exactly in line with the instructions given by the Council. Upon further challenge, the reason for this was that the asset records used by the valuer were incorrect, with one asset valued at £8m being incorrectly classified as a secondary school, when it should have been classed as an office building. This has not impacted on the valuation within the accounts, but does reinforce the need for officers to appropriately challenge the work of external experts and the asset records held.</p>

Audit of the Accounts

Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation, gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our work did not identify any issues to report.</p>
<p>New Financial System Implementation The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. 	<p>The implementation of the new financial system has presented the finance team with significant challenges in terms of preparation of the financial statements. There have been problems experienced with the reporting of the journal populations, and there were delays in the completion the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p> <p>The area that has had the biggest impact on the impact on the audit is the reporting functions within the finance system. Officers have found it difficult to produce detailed transactions listings for balances within the accounts, which in a number of instances has resulted in the audit team having to test more transactions.</p>

Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under IS 240 (UK) here is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is o risk of material misstatement due to fraud relating to revenue recognition</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, • the culture and ethical frameworks of local authorities, including Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable. 	<p>We do not consider this to be a significant risk for Worcestershire County Council Pension Fund.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness, – Obtained a full listing of journal entries, – Identified and tested unusual journal entries for appropriateness – Evaluated the rationale for changes in accounting policies or significant unusual transactions, and – reviewed significant related party transactions outside the normal course of business 	<p>One of the key areas where the reporting functions of the new financial system have created difficulties is in relation to journal entries. Fundamental to this test, is the ability of the finance team to demonstrate that the reports produced from the financial system are complete and have not been subject to manipulation. It was necessary to consider a number of different ways to achieve this, however after working with finance officers a solution was found. Testing of the journal entries did not identify any issues.</p>

Audit of the Accounts

Pension Fund Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<ul style="list-style-type: none"> • As part of our work in this area we have <ul style="list-style-type: none"> – gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of associated controls; – Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; – Considered the competence, expertise and objectivity of any management experts used; – Reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and – For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that data. We have reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>New Financial System Implementation</p> <p>The Council introduced a new financial system via an outsourced contract with Liberata in April 2017. This poses a risk to the Council for producing accurate and timely financial reporting and the production of the financial statements.</p> <p>We identified the implementation of the new financial system as a risk requiring special audit consideration.</p>	<p>As part of our work in this area we have;</p> <ul style="list-style-type: none"> • reviewed the project plan for the system implementation and reviewed any problems with the implementation and how these have been resolved, • completed tests of data transfer to ensure the data has been transferred completely and accurately into the new financial system including opening balances, • reviewed the control account and bank reconciliations to ensure that appropriate financial control was maintained throughout the period; and • reviewed the arrangements in place for financial reporting and the mechanism in place to produce the financial statements and working papers. 	<p>Given the more ‘contained’ nature of the pension fund, and the reliance on information from third parties for a significant proportion of the data needed to produce the financial statements, the impact of the new financial system on the pension fund has not been as great as for the Council financial statements. As for the County Council, there have been problems experienced with the reporting of the journal population, and there were delays in the completion of the bank reconciliations during the early part of the 2017/18 financial year. Detailed working papers were produced on the data migration, and testing of these has not identified any errors in relation to opening balances.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided working papers to support them. The finance team responded to our queries during the course of the audit.

While there is evidence that members of the finance team have worked hard to mitigate the impact that the new financial system has had on the accounts production process, it has presented significant challenges to both the finance team and the audit team. In previous years, finance officers were able to run detailed transaction listings directly from the ledger. This enabled members of the finance team to have a clear understanding of the transactions in each balance and for the audit team to test transactions in an efficient way. While transaction listings were produced, this was often a time consuming process, or led to the need for the audit team to test additional transactions to gain the required level of assurance. The process was also made more complicated as a result of the finance team needing to work with the provider of the financial system, as this function had been outsourced to the third party provider.

Our interim reporting to members highlighted that some improvements had been made to working papers from the prior year, and this continued to some extent during the final accounts visit. There remain areas that still require substantial improvement to enable the audit visit to be completed efficiently and in line with the timescales set out. In particular, improved working papers are required when providing evidence for transaction testing. Officers are aware of the key improvements required for future years and we will continue to work with them to ensure a smoother closedown and audit process.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 26 July 2018 and followed this up with an update letter on 31 July 2018 confirming changes made since the Committee meeting.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 28 August 2018.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Worcestershire Pension Fund on 31 July 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 26 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to use our additional powers under the Act for the current financial year.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Worcestershire County Council in accordance with the requirements of the Code of Audit Practice. We certified the audit as completed on 28 August 2018, following the completion of both our work on WGA and the pension fund annual report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in 26 July 2018, we agreed recommendations to address our findings. We noted that the Council has a detailed action plan to respond to the Ofsted report, which continues to be monitored through a variety of mechanisms. Similarly a written response is required following the SEND inspection, which again will be monitored in due course, and therefore we have not made detailed recommendations in respect of these risks.

Similarly we have discussed our findings in relation to Commissioning with both the s151 officer and Chief Executive and understand that this is an area of focus for both of them in the current year, and therefore we have not made detailed recommendations in this area.

The financial environment faced by the authority remains challenging and as a result we have made the following recommendation;

- Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matters we identified in respect of Children's Services and Commissioning, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Children's Services</p> <ul style="list-style-type: none"> Children's services was assessed by Ofsted as inadequate at its most recent inspection in January 2017 We will review the Council's response to the report and the progress made, including the plans for an Alternative Delivery Model 	<ul style="list-style-type: none"> The Council have continued to work hard to implement the service improvement plan agreed with Ofsted. During the period under review there have been four separate monitoring visits by Ofsted. The outcome of the most recent was published in May 2018. This report concluded that the local authority is making progress in improving services for children and young people. Essex County Council were appointed as an improvement partner to the Council. Working in partnership they have undertaken a number of diagnostic visits. Their most recent report in February 2018 recognised the hard work that the Council had undertaken and the positive commitment from all levels. It also went on to highlight that there remains a significant number of areas where improvement is needed. On 19 September 2017 the Council were issued with a direction which required them to develop an options analysis for alternative models for provision of children's services. Following a full business case, the Council have approved the implementation of a wholly owned Council Company for the provision of Children's services, with an anticipated go-live date of 1 April 2019. In addition to the Ofsted visits for Children's Services, the Council also received a separate inspection visit during March 2018 in relation to Special Educational Needs and Disabilities (SEND). The outcome of the inspection was to require a written statement of action because of significant areas of weakness in the local area's practice. The Council is now working with NHS Worcestershire Clinical Commissioning Groups to produce and submit an action plan to Ofsted that details how they are going to improve the arrangements and address the weaknesses identified. 	<p>While the Council is making progress in this area there still remains evidence of weaknesses in proper arrangements for Children's Services, and therefore we have issued an except for VFM conclusion.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability of the Council</p> <ul style="list-style-type: none"> The budget position for the Council in the medium term remains challenging with a funding gap of £23m identified in the next 3 years. This is in addition to savings already planned in 2018/19 of £31.6m <p>We will review the Council's arrangements for identifying and agreeing savings plans, and communicating key findings to the Council and key decision making committees.</p>	<ul style="list-style-type: none"> Historically the Council has a strong track record of meeting its financial targets, and this has continued in 2017/18 with a small surplus being delivered. The Council continues to actively monitor its budget and understand the cost pressures, which continue to be the demand led services for both adults and children. The overspends reported in these services are £6m for adults and £8.3m for children's services and reflect the increased demand for services, but also the complexity of the care required. These overspends have been mitigated by the use of reserves and a number of one off measures, such as reviewing the policy on capitalisation of highways expenditures, reviewing the approach to the Minimum Revenue Provision and using surplus cash to fund a pre-payment on pension contributions in exchange for a discount. The 2017/18 budget included a savings target of £26.5m, £5.2m of which would be met from a planned use of reserves. Taking this into account and then adding unachieved savings from previous years the actual target for the year was £27.9m. The Council achieved savings of £19.1m, which equates to 68% of the target. This is a further deterioration from the savings achieved in prior years, with the Council achieving 74% of its savings target in 2016/17. The Council recognise that savings are becoming more difficult to achieve, and in July 2017 commissioned a review by CIPFA of their financial planning and sustainability. The key finding from the review was to challenge the achievability of savings plans. As a result a central review was undertaken by the finance team of the savings plans agreed and £6.1m of savings plans were effectively written off as unachievable, adding to the level of savings needed in 2018/19 and beyond. The s151 officer has assessed the level of reserves as appropriate as part of the most recent budget setting round. At year end, the general fund balance sits at £12.2m. Excluding this general fund balance the Council also has £84.4m of earmarked reserves. Removing earmarked reserves relating to schools and the public health grant leaves a balance of £64m. While these are set aside for specific purposes, they could be used in the short term to help balance the budget. This £64m equates to almost double the saving target for 2018/19 and is 20% of net expenditure for the Council. The 2018/19 budget includes a savings target of £31.6m. £15.4m of this savings plan related to accounting adjustments and alternative sources of funding and is therefore considered achievable. £9.7m related to existing reforms and the remaining £6.5m are new proposals which remain subject to review and challenge. Like many other similar local authorities, the financial outlook remains challenging. In addition to savings of £31.6m in 2018/19, further savings of £19.6m in 2019/20 and £14m in 2020/21 are needed to achieve a balanced budget. For 2018/19 plans are in place for achieving the target, with work advancing on how savings could be achieved in future years. In recent years the Council has been able to compensate for non-achievement of savings targets through use of reserves and various one off measures. This is not a sustainable position. Difficult decisions will be needed going forward to ensure that the Council is able to meet its objectives and balance the budget. 	<p>While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The ability to produce accurate and timely financial reporting</p> <ul style="list-style-type: none"> The Council implemented a new financial system via an outsourced provider in April 2017. The implementation did not go to plan which impacted on the production and completion of the financial statements for 2016/17. We will review the arrangements for budget reporting in 2017/18 and the impact that the implementation of the financial system had on these arrangements. We will also consider the arrangements in place for the timely production of the 2017/18 financial statements. 	<ul style="list-style-type: none"> It has been well documented that the implementation of the new financial system has created challenges across the Council. In particular there have been errors made in both payments to suppliers and in payments to staff. Officers reacted promptly to these issues, and there is no evidence of material loss to the Council as a result of the errors made, however as discussed on previous occasions this has resulted in officers' time being diverted from other key tasks, such as the preparation of the financial statements for 2016/17. We have reviewed the impact that the new financial system has had on the Council's ability to monitor its budget and ensure that a sound control environment remained in place. Overall, at a strategic level, arrangements for monitoring and reporting on budgets were unaffected by the problems with the implementation of the new system. There is clear evidence that on more detailed level, budget holders, particularly schools, struggled with the new system and how best to obtain the information that they had previously relied on. Again this has been recognised by the Council, with alternative arrangements being put in place in the short term, while longer term solutions of further training and support are implemented. A key aspect of the control environment in relation to the new financial system are reconciliations between the ledger and the other sub systems, in particular the bank reconciliation. There were delays in these reconciliations on inception of the new system, with the bank reconciliation for April 2017 not being completed in July 2017. There is evidence that this improved during the year, with key reconciliations being completed for the year end preparation of the financial statements. A further aspect of the control environment is the assurance given by internal audit. As anticipated the implementation of a new financial system was a key focus for the internal audit plan for 2017/18, with eight reviews scheduled. In addition to the work planned by the County Council's internal auditors, work was also scheduled by AuditWest, as the auditors of the Council's contractors, Liberata. As at the end of May, only one final report had been issued by Internal Audit, and there had been no reporting by the auditors of Liberata. While work has remained ongoing, this has resulted in a reduced level of assurance being provided than anticipated on the operation of the new financial system in the current financial year. As highlighted elsewhere in this AFR, the Council were able to produce financial statements for 2017/18 in line with their timetable for publication and draft accounts were provided for audit as anticipated. The new system has created some difficulties in terms of reporting, particularly understanding how information is presented and can be used. This has caused delays in the audit process, and in some areas created additional testing, the details of which are included as part of the earlier part of this report to avoid duplication. 	<p>The Council has appropriate arrangements in place to produce accurate and timely financial reporting. There remain areas where improvements can be made in future years.</p>

Value for Money conclusion continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Commissioning arrangements</p> <ul style="list-style-type: none"> The Council has outsourced a number of its key contracts during the last 12 months We will review the arrangements for outsourcing these contracts, and how they have been managed and monitored. 	<ul style="list-style-type: none"> The Council have embraced the idea to be a commissioning Council, with over 75% of its services provided externally to the Council. In recent years a number of major contracts have been let, some of which have encountered severe delays and or disruption to services and members of the public. We considered the arrangements in place around these contracts, in particular, the Evesham Abbey Bridge replacement, Malvern Link Railway project, Bromsgrove Railway project, the Learning and Achievement contract with Babcock and the HR and Financial Services contract with Liberata. As these related to major contracts, the commissioning process has, not unexpectedly, spanned a number of years. In that time, the arrangements at the Council have changed, with the introduction of a Commissioning Toolkit, and a more centralised commissioning function. The introduction of the centralised commissioning function was as a result of the need to bring greater expertise and experience into this area and support the service departments commissioning the services. These arrangements have been developing during the period under which these contracts were let. In all but one of the contracts reviewed, Council officers have undertaken a review of the issues encountered during the procurement, often resulting in a 'lessons learned report' or limited assurance report from internal audit. These reports do not identify one persistent theme, or weakness in the arrangements. Instead they point to areas where contractors' assumptions could have been more robustly challenged, or where greater experience from the commissioning department could have led to better initial contract management. For the contracts we examined, the key driver for putting them out to tender was to fit with the agreed corporate objective to become a commissioning Council. As a result the potential disadvantages of providing these services from outside of the Council was not considered in reports to members. This remains consistent with our previous reporting on commissioning arrangements in 2014/15, where we highlighted that reports to members on the new operating model focused heavily on the potential advantages and savings that could be possible, but provided limited discussion on the risks and disadvantages. In all cases, the Council have acted positively and proactively to support the commissioning department, putting in extra resource to help rectify problems and minimise service disruption and delivery. This should however be the exception rather than the rule. While there is training available and guidance on the Council's intranet, the responsibility for the Commissioning of services lies with the individual service. There is no clear evidence that the lessons learned from major contracts are being considered and included in the appropriate training for officers engaged in procurement activity and as a result there remains a risk that further issues could be encountered with other major contracts. 	<p>While the Council is making progress in the area of commissioning there remains a risk that lessons learned from the implementation of major contracts are not being appropriately disseminated to all officers. There is a risk that commissioning departments do not have the necessary skills and expertise to secure the best outcome for the users of the service. As a result we have issued an except for VFM conclusion.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	95,446	123,631	130,518
Audit of Pension Fund	24,963	30,163	24,963
IAS 19 Assurance to other auditors	1,193	1,193	1,193
Total fees	121,602	154,987	156,674

The fee variation for IAS 19 takes account of the work we are required to undertake for admitted bodies within the PSAA regime.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

The assumptions within the audit plan assumes that draft financial statements and working papers are provided at the agreed date in accordance with the agreed upon information required list. As previously highlighted we have needed to undertake additional work as a result of the challenges of the reporting from the new financial system, and as a result of the quality of the working papers initially provided. We have also encountered significant issues with the valuations of property, plant and equipment, which has resulted in additional time needed to complete the audit. We have discussed an additional fee with the Chief Finance Officer, and this has been included within the actual fees column above. This is subject to agreement from PSAA.

Fees for non-audit services

Service	Fees £
Audit related services	
- TPA certification (2017/18)	4,200
Non-Audit related services	
- CFO insights subscription	12,500

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	The reporting output from the new financial system should be reviewed and tested to ensure that the appropriate information can be obtained to produce the financial statements in a more timely and efficient manner.	<p>Officers need to continue to work to understand the reporting mechanisms that the new financial system has. In particular it should work with the supplier or other local authorities that utilise the same system to ascertain how key reports can be obtained.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Officers will be working with Liberata over the coming months to address all of the issues identified at audit.
●	Working papers. The working papers provided to support the transaction testing lacked the appropriate level of detail, and in many cases required officers to undertake additional work prior to audit staff being able to test the transaction. This has led to significant delays in the process.	<p>The working papers that support the financial statements need to be improved. A particular area of focus needs to be the evidence provided to support individual transaction testing.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Finance Leadership will be reviewing steps to improve working papers and holding discussions with external audit early in 2019.
●	Property, plant and equipment. The Council use an external valuer to value property, plant and equipment at year end. While a significant proportion of the assets had been valued at the year end, there remained a material uncertainty at year end over the value of assets that hadn't been revalued. There was no evidence of challenge of the work of the valuer by the finance team, which resulted in additional work needed by the finance team, the valuer and the audit team.	<p>Instructions to the valuer need to be clearly communicated, and there needs to be evidence that the output from the valuer has been reviewed for reasonableness and compliance with the initial instructions. Where asset movements are out of line with finance officers' expectations, there should be evidence that these movements are clearly understood, and consideration given as to how these valuations would impact on any assets that have not been valued in year.</p> <p>Officers need to provide a clear working paper demonstrating that assets that haven't been revalued in year are not materially misstated.</p> <p>Management response</p> <p>Agreed. Finance Leadership will be addressing all valuation and working paper issues identified at audit and will look to provide earlier closedown of capital for 2018/19.</p>
●	VFM – Financial Sustainability	<p>Continue to review and closely monitor the delivery of the savings plans for 2018/19 and robustly challenge the deliverability of savings plans for future years.</p> <p>Management response</p> <ul style="list-style-type: none"> Agreed. Senior leadership will continue to review the Council's financial sustainability on a frequent basis and direct resources and actions accordingly. These will be reported to councilors on a regular and prompt basis, with inclusions of decisions for action.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported that, in our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of qualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

In our audit report for the year ended 31 March 2018 issued on 31 July 2018 we reported a qualified conclusion in the following terms:

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

Children's Services

In January 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that:

there are widespread and serious failures in the services provided to children in Worcestershire who need help and protection and children looked after;

services for care leavers are inadequate, because young people leaving care do not consistently receive the necessary support to make a successful transition to adulthood;
services for children in need of adoption require improvement; and
elected members and senior leaders have not taken sufficient action to ensure the protection of vulnerable children.

Following the inspection the Council put in place a service improvement plan. The plan was accepted by Ofsted and subsequently Ofsted published four letters summarising their findings from monitoring visits. The most recent was published in May 2018 and concluded that while the Council continues to improve, many of the processes put in place are still new and will need time to embed.

In addition the Council also received a separate visit from Ofsted in relation to services for Special Education Needs and Disabilities. The visit was undertaken in March 2018, with the results published in May 2018. The outcome of the inspection was that a written statement of action is required because of significant areas of weakness in the local area's practice.

These matters are both evidence of weaknesses in proper arrangement for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Commissioning

In recent years the Council has awarded a number of major contracts which have not delivered the anticipated outcomes, resulting in service disruption and the need for the Council to input additional resources to ensure that services are delivered in line with expectations. The most recent was the contract for HR and Finance Services. While the Council has in each case investigated the cause of the problems, it is not clear how the learning is being understood and disseminated to all staff involved within Commissioning, or that the relevant staff all have appropriate skills to ensure contracts are procured and implemented effectively.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities. This matter is evidence of weaknesses in proper arrangement for commissioning services effectively to support the delivery of strategic priorities.

Certificate

In our report dated 31 July 2018, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2018 and had issued our report on the consistency of the pension fund financial statements included in the Pension Fund Annual Report of Worcestershire Pension Fund with the pension fund financial statements included in the Statement of Accounts. We have now completed this work and issued the consistency opinion for the Pension Fund Annual Report.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

J Gregory

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

28 August 2018

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Michael Hudson,
Chief Finance Officer
Worcestershire County Council
Spetchley
Worcestershire
WR5 2NP

28 August 2018

Dear Michael

Grant Thornton UK LLP
Colmore Plaza
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B4 6AT

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Worcestershire County Council and Pension Fund: Closure of the audit for 2017/18

Further to our letter dated 31 July 2018 we are pleased to be able to advise you that we have now completed our work on your Whole of Government accounts and issued our opinion on the consistency of the pension fund financial statements in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts

Our certificate of completion of the 2017/18 audit is attached. Please publish this certificate on your website alongside the audited Statement of Accounts (which incorporates our auditor's report thereon). Please ensure that you do not reproduce the signature of the auditor in any electronic format for any other purpose.

Please note that Regulation 16(1) of The Accounts and Audit Regulations 2015 requires the Council to publish (which must include publication on its website) a notice of conclusion of the audit. This notice can now be issued. It should include a statement that the audit has been concluded and that the statement of accounts has been published and of the rights of inspection conferred on local government electors by section 25 of the Act.

Please feel free to contact me if you like clarification on any point.

Yours sincerely

J Gregory

John Gregory

For Grant Thornton UK LLP

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PENSIONS COMMITTEE
5 OCTOBER 2018**PENSION FUND TRAINING PROGRAMME FOR PENSIONS**
COMMITTEE MEMBERS AND PENSION BOARD

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **The proposed Training Programme including the suggested timescales set out in the Appendix 1 be reviewed and approved;**
 - b) **The feedback from the Pensions Training event on the 18 September 2018 attached as Appendix 2 be noted;**
 - c) **Further topics be identified for future training events; and**
 - d) **The overall outcome of the skills questionnaire completed by Pensions Committee members set out in Appendix 3 be noted.**

Reason for Recommendations

2. **To ensure that an appropriate approach to training is in place that ensures strong governance of the Fund.**

Purpose of Report

3. **This report addresses the training requirements of the Pensions Committee.**

Background

4. **A report was presented to Committee on the 5 June 2018 on Training for Pension Committee Members that provided details on:-**
 - a) **The adopted Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its Training Policy and Programme;**
 - b) **Training Policy;**
 - c) **CIPFA Framework;**
 - d) **Fund documents and training materials;**
 - e) **Pensions regulator training toolkit; and**
 - f) **Training programme for 2018/19.**

5. Following on from this, a proposed training programme has been developed for Pension Committee and Board Members up to March 2020 based on the suggested topics detailed in the report in June.
6. The timescales for delivery of the training is proposed to be around the same time as the Committee and the suggested topics have been split between a mix of Pensions Administration and Investment areas
7. Members are asked to comment on the suggested training programme, suggest any other topics for future training and if agreed steps will be taken to formalise the training events.
8. A training event was provided to members of the Committee and the Pension Board on the 18 September and the formal feedback from this event is detailed in Appendix 2. On the whole the event was well received and attended (12 out of a possible 15 members) providing a good starting point for future training days.
9. Members of the Pensions Committee were also asked back in June 2018 to complete a skills questionnaire which will be used to inform future training events. The overall outcome is attached as Appendix 3.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix 1 - Training Programme
- Appendix 2 – Training event feedback
- Appendix 3 – Overall outcome of completed skills questionnaires

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the background papers relating to the subject matter of this report are detailed in the 'Training for Pensions Committee Members report to Pension Committee on the 22 June 2018

Worcestershire County Council Pension Fund
Proposed Training Programme for Pension committee & Board Members

Appendix 1

<u>Training Topics</u>	Sep-18	Nov-18	Mar-19	Jun-19	Oct-19	Dec-19	Mar-20
<u>Investments</u>							
1	Investment pooling – An update on progress	Y					
2	Joint working – An update on progress	Y					
3	An overview of the main asset classes e.g. equities, bonds, private equity, trade finance, global property, infrastructure	Y					
4	Transitioning of Assets to the LGPS Pool		Y				
5	Equities		Y				
6	Fixed Income (Private Debt, Bonds etc.)		Y				
7	Alternatives (Property & Infrastructure)			Y			
8	Sustainable Investing					Y	
9	Alternative Indexation						Y
10	China; a new horizon					Y	
11	Financial Markets			Y			
12	De risking of the Investment Strategy		Y				
13	Responsible Investment				Y		
14	The Investment Regulations				Y		
15	Performance and risk management of a pension fund (PEL & CEM Benchmarking)			Y			
<u>Administration and Governance</u>							
16	Guaranteed Minimum Pension (GMP)	Y					
17	The role of the Pensions Regulator						
17	Administrative Authority Lifecycle overview	Y					
18	Covenant Monitoring	Y					
19	General Data Protection Regulations (GDPR)					Y	
20	Actuarial valuations and Triennial Review			Y			
21	Administrative processes		Y				
22	Additional Voluntary Contributions					Y	
23	Demonstration of the proposed website developments and online functionality for scheme members				Y		
24	knowledge of the duties and responsibilities of committee members					Y	
25	Data quality		Y				
26	Role of the Trustee			Y			
27	Pension accounting and audit requirements			Y			
28	Corporate Governance and shareholder activism, including the Myners Principles					Y	

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Training Evaluation Form

Title of event: Pensions Admin & Investment Training

Date of event: 18th September 2018

Location of event: Lakeview Room, County Hall, Worcestershire

Trainers:

Instructions: Please tick your level of agreement with the statements listed below	Strongly Agree	Agree	Disagree	Strongly Disagree	Not relevant to this event
1. The objectives of the training were met	2	6		1	
2. The presenters were engaging	2	7			
3. The presentation materials were relevant	4	5			
4. The content of the course was organised and easy to follow	4	5			
5. The trainers were well prepared and able to answer any questions	4	5			
6. The course length was appropriate	3	6			
7. The pace of the course was appropriate to the content and attendees	3	6			
8. The exercises/role play were helpful and relevant	N/A	N/A	N/A	N/A	N/A
9. The venue was appropriate for the event	4	4		1	

10. What was most useful?

- UBS Presentation on Portfolio and risk management and asset allocation
- Comparison to other funds and history from Philip
- USB presentation on asset types was very informative and also guaranteed minimum pensions was very good
- For me the later items in general
- Agenda items 2,3 and 6 were difficult to assess and wanted a better understanding, but found it difficult to grasp (see below)
- Liability section
- All of it
- Discussion about covenants
- LGPS presentation

11. What was least useful?

- Pensions Admin was too lengthy
- Investment pooling was too detailed and graveyard shift
- 6 – only because it was difficult to grasp and do not come from a financial background
- None of it
- Explanation of equities and gilts, but fully understand why covered
- Admin authority lifecycle

12. What else would you like to see included in this event? Are there any other topics that you would like to be offered training courses in?

- Actuarial assumptions
- Options to keep fund near to 100% funded
- How we compare to other funds on assumptions / percentage of fund valued. Are we to risk averse or opposite in comparison
- Seems very comprehensive
- Risk v reward
- Use of Infrastructure funds
- Simple explanation of GMP and implications for fund and members

13. Would you recommend this course to colleagues? Yes/No Why?

- Informative & Helpful
- Very useful
- Possibly but dependent on their role and interest
- Yes good coverage of important aspects of pensions
- It covered all key points

14. Any other comments?

- Good overall presentations to provide introduction to provide an induction to pension's admin. Good mix of speakers – variety made it enjoyable. LGPS Central and UBS presentations were particularly interesting.
- Constructive and helpful afternoon

Appendix 3

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled				
	1	2	3	4	5
1 – Pensions legislation					
A general understanding of the pensions legislative framework in the UK.		2	4	2	
• An overall understanding of the legislation and statutory guidance specific to the scheme and the main		2	4	2	
• An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the		2	5	1	
A regularly updated appreciation of the latest changes to the scheme rules.		2	4	2	
2 – Pensions governance					
Knowledge of the role of the administering authority in relation to the LGPS.		2	2	4	
An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	1	2	2	2	1
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.		2	2	3	1
A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers			3	2	3
An awareness of the role and statutory responsibilities of the treasurer and monitoring officer	1	1	2	3	1
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance		3	1	3	1
A detailed knowledge of the duties and responsibilities of pension board members		2	1	3	1
Knowledge of the stakeholders of the pension fund and the nature of their interests		1	2	3	1
Knowledge of how pension fund management risk is monitored and managed		2	2	1	3
An understanding of how conflicts of interest are identified and managed		2	2	2	2
An understanding of how breaches in law are reported	1	3	2	2	
3. Pension Administration					
An understanding of best practice in pensions administration eg performance and cost measures.	1	2	2	3	
Understanding of the required and adopted scheme policies and procedures relating to:					
• member data maintenance and record-keeping processes		3	1	4	

Appendix 3

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled				
	1	2	3	4	5
<ul style="list-style-type: none"> • internal dispute resolution • contributions collection • scheme communication and materials. 		1	2	4	
		2		5	1
			4	3	1
Knowledge of how discretionary powers operate.		2	3	3	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	1	1	1	5	
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	1	3	2	1	1
An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.		3	2	2	1
4 – Pensions accounting and auditing standards					
An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	1	1	2	2	2
An understanding of the role of both internal and external audit in the governance and assurance process.	1			5	2
An understanding of the role played by third party assurance providers.	1	1	2	2	2
5 – Pensions services procurement and relationship management					
An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.		2	3	2	1
A general understanding of the main public procurement requirements of UK and EU legislation.		2	3	2	1

Appendix 3

Do I possess...?	Rate my skills 1 – no knowledge 5 – highly skilled				
	1	2	3	4	5
An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.		1	2	5	
An understanding of how the pension fund monitors and manages the performance of their outsourced providers.		1	1	6	
6 – Investment performance and risk management					
An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.		1	1	6	
An awareness of the Myners principles of performance management and the approach adopted by the administering authority.	1	3	1	1	1
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	1	1	2	4	
An understanding of the various asset classes and investment opportunities, for example from Bonds to equities to currency hedging.			3	3	2

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PENSIONS COMMITTEE
5 OCTOBER 2018**WORCESTERSHIRE COUNTY COUNCIL PENSION FUND**
ADMINISTRATION BUDGET 2018/19

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **the Pension Fund Administration Budget for 2018/19 shown in the Appendix totalling £9.931m be approved;**
 - b) **the indicative budget allocations for 2019/20 and 2021/21 be noted;**
 - c) **variations against budget will be monitored and reported to Committee on a regular basis; and**
 - d) **the Chief Financial Officer to the Pension Fund be granted delegated authority to approve variations up to £0.5m.**

Purpose of the report

2. This report seeks Members' approval for the 2018-19 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. Actual costs for 2017-18 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2019/20 and 2020/21. These budgets are indicative and incorporate the actions to meet the next Triennial valuation, the Investment Strategy and improved communication and engagement.

Background

4. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.

5. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

Key features of the proposed 2018/19 budget

6. The budget now proposed for 2018/19 is £9.831m, an increase of £1,584m (+19.0%) from 2017-18 (see Appendix). The largest proportion of the budget (£7.943m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions. This includes the management fees for the Equity Protection that has been implemented and the contribution towards LGPS Central.

7. The Investment Management Fees budget presented now also includes annual fees for the LGPS Central Partnership totalling £0.541m per year from April 2018. LGPS Central has advised that in time these fees will be offset by reductions in Investment Managers' fees. However, it is not expected that this will break even until 2032 as per the original pooling business case.

8. The Fund's "controllable" budget (i.e. excluding investment management fees) is £1.988m, which is a £0.266m (15.4%) net increase. The key reasons for this increase are:

- a. An appointment of a Communications and Engagement Officer from October 2018 at a cost of £43k per annum.
- b. New developments in the Pensions administration systems provided by Altair. This is anticipated to initially add circa £5k to system costs in 2018/19 and a further £15k thereafter for years 2019/20 onwards.
- c. The Guaranteed Minimum Pension Exercise which was approved by Committee on the 22 June 2018 has been included as a one off exercise in 2018/19 totalling £191k.
- d. An additional provision of £20k is made for actuarial costs following the experience of the last few years. Growing costs have been seen each year due to increasing employer numbers, additional complexity and fund developments (e.g. the implementation of employer investment strategies).
- e. Similar to how the County Council provides for elections that occur over a longer period, we have provided an additional provision of £80k for 2019/20 for the cost of the triennial actuarial valuation of the fund as at April 2019.

Summary

9. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs.

10. The budgeted Worcestershire Pension Fund administration costs are currently £19.50 per member for 2017/18. The proposed budget will take these costs to £23.69 per member (0.05% of the market value of the Fund's assets).

11. In terms of investment costs, the budget indicates spend of 32p per £1,000 (0.32% of market value) on managing its assets for 2018-19, including all pooled mandate costs

12. We have previously compared this with the older CEM Benchmarking report which indicates that the total investment cost for an LGPS fund was on average 0.65%. The budget being proposed ensures the Fund remains well below this figure.

Risk Assessment

13. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. They may go up or down, depending on market conditions.

14. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.07% of the total Fund value.

15. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

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Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix detailing the proposed 2018/19 Administration Budget and indicative budget allocations for 2019/20 and 2020/21

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Annual Report 2017/18

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Worcestershire County Council Pension Fund Administration Budget 2019-22

2017.18 <i>Actual</i>	<i>Description</i>	2018.19 <i>Budget</i>	2019.20 <i>Annual Change</i>	2020.21 <i>Annual Change</i>	<i>Comments</i>
£	£	£	£	£	
Fund Investment					
6,624,842	INVESTMENT MANAGEMENT FEES	7,942,600	8,802,500	10,089,500	<i>Includes LGPS central Fees, Equity Protection and increasing commitment to Property & Infrastructure</i>
126,402	Investment Administration Recharge	128,900	131,500	134,100	
359,236	Investment Custodial and related services	360,000	367,200	374,544	
52,911	Investment Professional fees	55,100	55,100	55,100	
6,580	Performance Measurement	14,600	14,600	14,600	<i>CEM Benchmarking</i>
545,129	INVESTMENT ADMINISTRATION COSTS	558,600	568,400	578,344	
Scheme Administration					
925,915	Pension scheme Administration recharge	1,157,900	1,041,600	1,066,300	<i>GMP one off exercise, New Altair developments, change to team structure. Website development</i>
180,000	Actuarial services	200,000	300,000	240,000	<i>Triennial valuation allowed for April 2019</i>
26,156	Audit	27,500	27,500	27,500	
33,500	Legal Fees	33,500	33,500	33,500	
11,000	Committee and Governance recharge	11,000	11,000	11,000	
1,176,571	SCHEME ADMINISTRATION COSTS	1,429,900	1,413,600	1,378,300	
1,721,700	GRAND TOTAL (Excluding Investment Mgt Fees)	1,988,500	1,982,000	1,956,644	
8,346,542	GRAND TOTAL (Including Investment Mgt Fees)	9,931,100	10,784,500	12,046,144	

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PENSIONS COMMITTEE

5 OCTOBER 2018

RISK REGISTER

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) The Risk Register be approved and adopted for annual review;**
 - b) The Committee particularly note and comment on the amber risks identified in the risk evaluation table within the Appendix; and**
 - c) An update to the Risk Register be provided to each future Committee.**

Background

2. Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.
3. Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the Fund's risks in a single document.

Risk Register

4. In line with CIPFA best practice guidance, the risk register for the Fund will be reviewed and if necessary updated by the Pension Board on the 31 October 2018. It sets out the risks associated with the governance, investments, funding, administration and communications objectives of the fund. The risk register also details the mitigating actions in place to reduce the impact and probability related to each specific risk. Risk scores have been set in relation to each risk to help identify key risks to the fund and each risk has been assigned to a risk owner.
5. The key objectives of the Risk Register are to:
 - identify key risks to the achievement of the Fund's objectives
 - consider the risks identified
 - assess the significance of the risks
6. The risk evaluation table in the appendix to the report has been designed in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the

probability value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register.

Key Risks

7. Of the risks identified in the risk evaluation table (Appendix), eight risks are currently listed as having a residual risk score rated as '**amber**', which indicates an outstanding medium level risk to the Fund.

8. Four of the eight risks have associated mitigating actions, detailed in the Appendix, that are currently being undertaken by the Fund but remain a medium risk. These risks relate to ensuring the fund has sufficient assets to pay liabilities as they fall due whilst maintaining as nearly constant employer contributions as possible. The Fund mitigates these risks through triennial strategic asset allocation reviews, regular reviews of active external asset manager performance and the implementation of a Funding Strategy Statement following triennial Actuarial Valuations. The residual risk is the inherent risk that can only be mitigated to a certain level, for example volatility in investment returns is partially mitigated through actions such as diversification of investments.

9. The remaining four 'amber' risks have outstanding actions associated with them, as detailed in the Appendix (highlighted in light pink references I16, I17, F19 and F20).

10. The first actionable risk (reference I16) relates to pool assets with the newly formed pool LGPS central from the 1 April 2018. For Worcestershire this is still in its infancy and will begin to transition its assets over a 2 to 3 year period starting from early 2019.

11. The first actionable risk (reference I17) relates to ensuring the fund has sufficient information on the performance of its asset valuations that it transitions across to the pool. A dedicated client and performance monitoring working group is in place with representatives of the partner funds and LGPS central to ensure that this happens.

12. The third and fourth risks (reference F19 and 20) relate to minimisation of unrecoverable debt on termination of employer participation. Fund officers will be implementing an ongoing covenant review and assessment process for all fund employers by 31 December 2018.

Supporting Information

Appendix – Risk Evaluation Table

Contact Point for this report

Michael Hudson, Chief Financial Officer
Tel: 01905 846268
Email: MHudson@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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WCC Pension Fund Risk Register
September 2018

Mitigating Actions - Key

Mitigating Actions - Don't currently undertake - not started
Mitigating Actions - Started work - part complete
Mitigating Actions - We currently implement control(s) - complete and ongoing

NB: Risk scoring system is in-line with CIPFA best practice guidance for the LGPS .

Objectives area at risk	Objective at risk	Risk ref	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score	Assigned to (Risk Owner)	Date of Review	Direction of Travel
Governance Risks															
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G1	Failure of Governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice.	Strategic threat	Governance / reputational	3	2	6	The Fund's governance arrangements comply with best practice guidance, as set out in the Fund's Governance Compliance Statement.	3	1	3	Chief Financial Officer	03-Sep-18	➡
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G2	Ultra vires pension fund actions lead to financial loss and damage reputation.	Strategic threat	Financial / Reputational	2	2	4	The Fund's governance arrangements comply with best practice guidance, as set out in the Fund's Governance Compliance Statement.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Provide a high quality 'gold standard' service whilst maintaining value for money	G3	Failure to disclose relevant facts in the report and accounts or during the audit	Directorate threat	Governance	2	3	6	Robust review and sign off processes in place to check the disclosure of relevant facts. Accounts are reviewed by the Senior Finance Manager and Chief Financial Officer prior to sending to external audit. The accounts are also checked against the CIPFA example accounts and external audit accounts checklist.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G4	Change to LGPS e.g. move to part DC and lack of Pension Committee expertise in this area.	Strategic threat	Governance	3	2	6	Training plan has previously been implemented for Pension Committee members and is being updated. The Fund uses specialist advisers to provide relevant information and recommendations to the Committee.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Governance	Provide a high quality 'gold standard' service whilst maintaining value for money	G5	Production of incorrect accounts, notices and publications	Directorate threat	Governance	2	2	4	Robust review and sign off processes in place to check the disclosure of relevant facts. Accounts are reviewed by the Senior Finance Manager and Chief Financial Officer prior to sending to external audit. The accounts are also checked against the CIPFA example accounts and external audit accounts checklist.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G6	Low knowledge amongst Pension Committee members and Pension Investment Advisory Panel members due to high member turnover.	Directorate threat	Governance	2	3	6	Training policy and plans has been implemented in line with best practice guidance. This is also being reviewed. The Fund also runs induction training sessions for new members.	2	2	4	Chief Financial Officer	03-Sep-18	⬆
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G7	Failure of Succession planning for key roles on the Pension Committee	Directorate threat	Governance	3	2	6	The committee's approach to training, where members are working toward compliance with the CIPFA knowledge and skills framework (KSF), should help minimise any adverse impacts of failure in succession planning because there should be a greater number of candidates for Pension Committee positions with appropriate knowledge and skills in depth.	3	1	3	Chief Financial Officer	03-Sep-18	➡

WCC Pension Fund Risk Register
September 2018

Mitigating Actions - Key

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Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G8	Failure of officers to maintain sufficient level of competence to discharge their duties	Directorate threat	Governance	3	3	9	Officers are appropriately qualified and attend external conferences / workshops to keep up-to-date on pensions issues along with reviewing specialist publications. Officers also attend meetings with peers to share knowledge.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G9	Failure to delegate matters which should be performed by officers	Directorate threat	Governance	2	3	6	Clear delegation policies / procedures are in place and reviewed regularly. The policies are in-line with best practice and are reviewed by external audit annually.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G10	Failure to appoint relevant advisors and review their performance	Directorate threat	Governance / Reputational	2	2	4	Pension Investment Advisory Panel monitors performance of the Fund's investment adviser. The Pension Committee and Fund officers carry out a subjective review and objective analysis of Fund assets performance resulting from actions taken by the Pension Committee following advice from the specialist advisers and the Pension Investment Advisory Panel.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G11	If there is inadequate succession planning, staff could leave or go on long term absence and others may not have the skills to pick up those areas of work	Service threat	Staff	3	3	9	Cover is in place regarding investment management and Fund contract management (Chief Financial Officer / Finance Manager - Pensions) and accounting and investment administration (Finance Manager - Pensions / Accountancy Technician). Cover is in place on pension administration side through Pensions Manager and two Senior Pension Assistants. Mentoring with Key officers with a high level of knowledge and experience is in place	2	2	4	Chief Financial Officer and HR Service Centre Manager	03-Sep-18	⬆
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	G12	Insufficient staff resource causes failure to free up time to look for other best practice areas, then opportunities may be missed	Service threat	Financial / Customer / Stakeholder related	2	3	6	Functions are reviewed to ensure they are sufficiently staffed and officers review operations to identify areas of inefficiency and potential solutions.	2	1	2	Chief Financial Officer and HR Service Centre Manager	03-Sep-18	➡
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G13	Failure to recognise conflicts of interest	Directorate threat	Governance	3	2	6	Committees are regularly trained to recognise conflicts and ensure frequent discussions take place as part of business as normal.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G14	If conflict of interests arise within Pension Committee then lower contribution rates could be set that put future solvency at risk	Strategic threat	Financial	3	3	9	Committees are regularly trained to recognise conflicts and ensure frequent discussions as part of business as normal.	2	1	2	Chief Financial Officer	03-Sep-18	➡

WCC Pension Fund Risk Register
September 2018

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Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G15	Infringement of contracts for the supply of services (investment management, investment advice, actuarial services, custodial services, etc.) to the pension fund leads to reputational and financial loss	Directorate threat	Financial / Reputational	2	2	4	Contract service reviewed quarterly by Pension Investment Advisory Panel and approved by Pension Committee. Finance Manager - Pensions reviews Investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G16	Failure to produce proper signed notes of relevant meetings	Directorate threat	Governance	1	3	3	Full minutes are taken at all committee and panel meetings. Agenda and reports for the Pension Committee are available on the Council's website.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G17	Failure of Pension Committee members to leave their prejudices behind	Strategic threat	Reputational	2	3	6	Regularly review performance of Pension Committee members and committee actions	2	2	4	Chief Financial Officer	03-Sep-18	➡
Governance	Understand and monitor risk and compliance	G18	Failure of business continuity planning	Service threat	Financial	3	2	6	The Council has a Business Continuity Plan in place, which also applies to the Pension Fund and is regularly tested.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Governance	Understand and monitor risk and compliance	G19	New risks are not identified or risk register is not kept up-to-date	Service threat	Governance	3	2	6	Finance Manager - Pensions updates risk register and highlights outstanding risks to the Chief Financial Officer. Updates and risks are then reported to Pension Committee as required.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Continually measure and monitor success against our objectives	G20	Failure to have formal monitoring of KPI's in place leads to officers being unable to produce accurate performance management reports	Service threat	Financial	2	3	6	KPI report is maintained and updated by the Finance Manager - Pensions and is reviewed by the Pension Board and Pension Committee on a regular basis	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Continually measure and monitor success against our objectives	G21	Risk of manual intervention when producing management reports leading to lack of the audit trail	Service threat	Governance	2	1	2	Investment performance independently confirmed by Statesmen. E5 management reports available and pensions administration system implemented with automatic reporting. Recent completion of CEM Benchmarking survey will also assist in monitoring future performance	2	1	2	Chief Financial Officer	03-Sep-18	➡
Governance	Pursue socially responsible business practices	G22	Failure to manage the fund in line with policies	Strategic threat	Governance	1	3	3	Contract performance reviews are held annually, by the Finance Manager - Pensions, for contracts excluding external investment managers. The Pension Investment Advisory Panel and Fund officers review performance of the external investment manager contracts on a quarterly basis. A KPI report is maintained and updated by the Finance Manager - Pensions and is reviewed by the Pension Board and Pension Committee on an annual basis.	1	1	1	Chief Financial Officer	03-Sep-18	➡

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Investment Risks															
Investments	To maximise the returns from investments with reasonable risk parameters	I1	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	4	3	12	The Fund has a diversified portfolio and the Pension Committee carries out triennial strategic asset reviews. The Fund implements a policy of extended recovery periods to smooth contribution increases. Qualified advisers are contracted and the funding position is reviewed as part of the actuarial valuation process. Equity Protection has been implemented to protect level of returns up to the next revaluation	3	3	9	Chief Financial Officer	03-Sep-18	➡
Investments	To maximise the returns from investments with reasonable risk parameters	I2	Inefficiencies within the portfolio can result in unintended risk	directorate threat	financial	3	3	9	The Fund holds a diversified portfolio and the Pension Committee carries out triennial strategic asset reviews with quantification of individual components of financial risks. The Fund hedges some risks and obtains expert qualified advice.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Investments	To maximise the returns from investments with reasonable risk parameters	I3	If investment returns are below peer group funds, or risk levels are excessive relative to peer group, this could lead to reputational damage for the fund or member/admitted body dissatisfaction	Directorate Threat	Reputational	2	3	6	Regular annual monitoring against peer group takes place and is reviewed by the Pension Investment Advisory Panel.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Investments	To maximise the returns from investments with reasonable risk parameters	I4	Risk of missing opportunities to maximise returns	Directorate Threat	Financial	2	3	6	Regular quarterly monitoring by Pension Investment Advisory Panel. Fund officers meet with investment managers to encourage new ideas and also carryout peer group discussions. In addition the Fund gains advice from an independent financial adviser.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Investments	To maximise the returns from investments with reasonable risk parameters	I5	If investment strategy is inconsistent with funding plan then it can lead to employers paying the incorrect contribution rate	Directorate Threat	Financial / Reputational	4	3	12	Triennial asset allocation reviews take place and are linked with the Fund's funding strategy and investment strategy. The Fund publishes a Statement of Investment Strategy and holds interim reviews where required. The Actuary reviews the Fund's investment strategy and advises the Chief Financial Officer and the Pension Committee on the value of the Fund's liabilities and funding strategy.	2	1	2	Chief Financial Officer	03-Sep-18	➡

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Investments	To maximise the returns from investments with reasonable risk parameters	16	Fund managers underperform their benchmarks	Directorate Threat	Financial	2	3	6	Quarterly monitoring of managers by Fund officers and the Pension Investment Advisory Panel. Manager selection is carried out by suitably qualified officers and independent expert advisors with final selection by the Pension Committee. Assets are diversified as per the Fund's SIP and reviewed at triennial asset allocation reviews. Benchmarks are advised by the Fund's qualified independent financial adviser.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	17	Inappropriate or uninformed decisions, e.g. due to lack of understanding / training	Directorate Threat	Financial / reputational	3	3	9	Pension Committee members are provided training and Fund officers monitor knowledge and understanding. The Fund has appointed an independent financial adviser. The in house team is experienced and qualified. Papers are prepared in advance of discussions being made and annual strategy review sets plan for year. Training plan has also been agreed by Committee	2	2	4	Chief Financial Officer	03-Sep-18	⬆
Investments	To ensure the fund is properly managed	18	Insufficient management information about the position of the fund e.g. level of risk, amount of assets, performance of managers	Directorate Threat	Financial / Reputational	3	3	9	Regular quarterly reporting and monitoring by Pension Investment Advisory Panel regarding asset performance and investment manager performance. The Fund also holds annual strategy reviews with benchmark performance and risk compared against the LGPS peer group.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	19	Failure to take expert advice or risk of poor advice	Directorate Threat	Financial / Reputational	2	3	6	The Fund has appointed an independent financial adviser who attends quarterly meetings. The Fund also contracts a performance benchmark provider and an Actuary.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	110	Delays in implementation of decisions reduces the effectiveness of the decision	Directorate Threat	Financial / Reputational	2	3	6	The Fund uses a passive manager or transition manager to implement change. The Pension Committee also delegates certain duties and actions to the Chief Financial Officer to ensure decisions are taken and implemented effectively.	1	2	2	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	111	If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable	Directorate Threat	Financial / Reputational	2	2	4	Finance Manager - Pensions monitors Fund cash flow on a monthly basis. The Fund currently has under 10% of total net assets exposure to illiquid assets.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	112	Insufficient scrutiny of manager mandates and terms of business may lead to inappropriate fee levels or other costs	Directorate Threat	Financial / Reputational	2	2	4	Quarterly monitoring takes place by Pension Investment Advisory Panel. The panel also reviews fees versus peer group and fee reductions are negotiated as a result of poor performance.	1	1	1	Chief Financial Officer	03-Sep-18	➡

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Investments	To ensure the fund is properly managed	I13	Failure of manager or custodian	Directorate Threat	Financial / Reputational	3	1	3	Quarterly monitoring takes place by Pension Committee and Pension Investment Advisory Panel. Finance Manager - Pensions reviews managers' SAS70 audit reports. An investment financial adviser is appointed to review performance and fees. The Fund has a diversified portfolio investment mandates and diversification of Custody via pooled funds.	2	1	2	Chief Financial Officer	03-Sep-18	➡
Investments	To ensure the fund is properly managed	I14	Failure to react to major change in the market / economic conditions	Directorate Threat	Financial	3	2	6	Quarterly monitoring takes place by Pension Investment Advisory Panel with updates provided from an independent financial adviser. Appropriate mandates are procured based on the outcome of triennial asset allocation reviews and independent financial adviser advise. Fund officers hold regular meetings with investment managers to gain up-to-date information of market / economic conditions. Equity Protection has been implemented to protect level of returns up to the next revaluation	2	1	2	Chief Financial Officer	03-Sep-18	➡
Investments	Ensure all significant fund investment issues are communicated properly to all interested parties	I15	Inappropriate communication of risks involved in the pension fund and strategy adopted and actions taken by the Pension Committee may lead to questions and challenge and unexpected increases in contributions	Directorate Threat	Reputational	2	3	6	The Fund holds bi-annual Pension Forum's to which all Fund employers are invited. The Employee and Employer representatives of the Pension Committee attend the Forum meetings and the representatives details are provided to all Fund employers.	1	2	2	Chief Financial Officer and HR Service Centre Manager	03-Sep-18	➡
Investments	Ensure that the Fund meets the Government's asset pooling criteria	I16	Failure to pool assets in a regulated CIV starting from 1st April 2018	Directorate Threat	Governance / Reputational / Regulatory Compliance	4	3	12	The Fund is a working member and shareholder of the LGPS Central pool. The pool went live from the 1st April and met the government's pooling timetable and to the required standard. It also complied with FCA regulations. Each Fund member has an equal share in the pool and the first Shareholders meeting and central committee have taken place. There is a Practitioners Advisory Form (PAF) with the Funds Investment managers that meet monthly and a number of work streams which meet regularly and aims to work closely with LGPS central to ensure that all the funds requirements are met. These work streams cover: Investments; Client Reporting; Finance; Responsible Investment; & Governance The pool maintains and manages a separate risk register.	3	2	6	Chief Financial Officer	03-Sep-18	➡

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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 funds investment strategy	I17	Failure to ensure the Fund transfers its assets and has insufficient information on the performance of its asset valuations	Directorate Threat	Governance / Reputational / Financial	4	3	12	Monthly PAF meetings take place and representatives from LGPS central are invited to discuss and address operational issues. Formal Transition procedures are in place and the end to end process is currently being refined. There is also an Investment workstream group (IWG) which is and will be used to ensure as smooth a process as possible. Each month the LGPS Investment managers come to PAF and the IWG to discuss mandates and to ensure they meet the funds investment strategies. The Client reporting workstream group meets regularly with the Head of Client monitoring for LGPS central to ensure that client and reporting is in place	3	2	6	Chief Financial Officer	03-Sep-18	➡
Investments	To maximise the returns from investments with reasonable risk parameters and to ensure that the Fund meets the Government's asset pooling criteria	I18	MiFID II will default categorise all LGPS Funds to Retail client status from January 2018. The criteria (tests) enabling LGPS Funds to acquire Elective Professional status will be finalised by the FCA around June 2017. If the Fund is unable to obtain Professional status then the Fund would be unable to invest in certain investment asset classes and unable to access the required investment funds to achieve the target returns required.	Directorate Threat	Financial / Reputational	4	3	12	All MiFID work has been completed to enable the fund to be treated as a professional client. This will need to be maintained and updated on a regular basis	4	1	4	Chief Financial Officer	03-Sep-18	⬇
Funding Risks															
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	4	2	8	The Fund holds a diversified asset portfolio which is regularly monitored against targets. The Fund holds triennial Strategic Asset Allocation Reviews. The Fund's independent financial adviser contributes to the review along with specialist portfolio risk modelling providers.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F2	Market yields move at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	4	2	8	Interim reviews are commissioned to enable consideration of the funding position and the continued appropriateness of the funding / investment strategies. The Fund also phases contribution increases over a three year period for most Fund Employers.	3	2	6	Chief Financial Officer	03-Sep-18	➡

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Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and requires increases in employer contributions	Strategic Threat	Financial / Reputational	3	3	9	The Fund holds a diversified investment structure and the Pension Committee and Pension Investment Advisory Panel review investment manager performance quarterly. Reduced fees are negotiated with investment managers where under performance has occurred and managers are changed if confidence is lost in their ability to outperform the market index.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F4	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	3	3	9	Mortality rates are monitored by the Fund's actuary and the Actuary liaises with the Chief Financial Officer if significant changes are expected. The Fund phases contribution increases over a three year period for most Fund Employers and can manage employer contribution affordability through adjusting deficit recovery periods and negotiating assumptions with the actuary during the actuarial valuation process.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted, resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	3	9	Employers are required to pay lump sums to fund costs for non-ill health cases. The Actuary monitors early retirement (including on the grounds of ill-health) experience being exhibited by the Fund's members and consequently adjusts the actuarial assumption. The Fund ensures that employers are made aware of consequences of their decisions and that they are financially responsible.	2	2	4	Sean Pearce / Mark Forrester	03-Sep-18	➡
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	Strategic Threat	Financial / Reputational	4	3	12	The Fund has a diversified investment structure and carries out frequent monitoring against asset performance targets to adjust funding plans accordingly through the Funding Strategy Statement. Employers are kept informed through the Pension Forum meetings. The large majority of the Fund's employers have strong covenant strength and therefore the Fund takes a long-term view with regards to its investment strategy and can therefore access volatility and illiquidity premiums to help reduce the deficit through increased investment returns, whilst reducing pressure on contributions.	3	2	6	Chief Financial Officer	03-Sep-18	➡

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Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	2	6	At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate. The Fund holds discussions with employers through the Pension Forum over expected progression of pay in the short and long term. This information is then fed back to the Fund's Actuary with Medium Term Financial Plan budget evidence provided, if required.	2	2	4	Chief Financial Officer / Rob Wilson	03-Sep-18	➡
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	Strategic Threat	Financial / Reputational	3	3	9	Risk profile analysis is performed to understand the strength of individual employers covenant strength when setting terms of admission agreements (including bonds) and in setting the term of deficit recovery periods during the actuarial valuation process, whilst attempting to keep employers contributions as stable and affordable as possible. The Fund pursues a policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most Fund Employers and allowances are provided for short term pay restraint where evidence is provided.	2	2	4	Chief Financial Officer / Rob Wilson	03-Sep-18	➡
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers contributions or fund cash flow requirements	Strategic Threat	Financial / Reputational	4	2	8	The Fund responds to government consultations to ensure that Fund concerns are considered by decision makers. Employers and interested parties are kept informed through the Pension Forum and other Fund communication channels, as set out in the Fund's Communication Policy Statement. The Fund monitors the potential impact for employers in conjunction with the Fund's Actuary.	3	1	3	Chief Financial Officer	03-Sep-18	➡
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F11	Adverse changes to other legislation, tax rules, etc., resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	2	6	The Fund responds to government consultations to ensure that fund concerns are considered by decision makers. Employers and interested parties are kept informed through the Pension Forum and other Fund communication channels. The Fund monitors the potential impact for employers in conjunction with the Fund's Actuary.	2	1	2	Chief Financial Officer	03-Sep-18	➡

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Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F12	Administering authority unaware of structural changes in an employers membership, or not being advised of an employer closing to new entrants, meaning that the individual employers contribution level becomes inappropriate requiring review and increase	Partnership Threat	Financial / Reputational	3	3	9	The fund monitors membership profiles and changes and ensures that employers are reminded of their responsibilities through sending reminders of employers responsibilities where this is appropriate. The Fund carries out risk profile analysis and officers meet with employers to discuss concerns.	2	2	4	Bridget Clark / Linda Probin	03-Sep-18	➡
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	Strategic Threat	Financial / Reputational	3	3	9	The Fund at each triennial valuation pursues a policy of positive engagement with a view to strengthening employer covenant strength wherever possible. The Fund takes advice from the Actuary and also the Fund's independent financial adviser.	2	2	4	Chief Financial Officer / Rob Wilson	03-Sep-18	➡
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	Partnership / Strategic Threat	Financial / Reputational	3	3	9	At each triennial actuarial valuation an analysis is carried out to assess employer covenant strength and affordability on a proportional basis. Dialogue with employers is carried out by the Fund wherever possible.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F15	Over or under cautious determination of employer funding requirements due to inconsistent approach or failing to recognise the impact of the investment strategy on funding	Strategic Threat	Financial / Reputational	3	3	9	The Fund benchmarks its assumptions and maximum recovery period against peers. The analysis of employer covenant strength and affordability is consistent across all Fund employers. The fund takes advice on the impact of its investment strategy on funding level from the Fund's Actuary and independent financial adviser.	2	2	4	Chief Financial Officer	03-Sep-18	➡
Funding	Maintain liquidity in order to meet projected net cash flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	Strategic Threat	Financial	3	2	6	The Fund holds less than 10% of its net assets in illiquid assets. If the proportion increased substantially an upper limit would be implemented to ensure liquidity is available to make pension payments as they fall due.	2	1	2	Chief Financial Officer	03-Sep-18	➡
funding	Maintain liquidity in order to meet projected net cash flow outgoings	F18	Unanticipated onset of cash flow negative position, potentially requiring ad hoc repositioning of assets	Strategic Threat	Financial	3	3	9	The Finance Manager - Pensions monitors Fund cash levels on a monthly basis. Investment income can be repatriated to the Fund from the Fund's Global Custodian in order to maintain positive cash flow. The Fund currently holds less than 10% of its net assets in illiquid assets.	2	1	2	Chief Financial Officer	03-Sep-18	➡

WCC Pension Fund Risk Register
September 2018

Mitigating Actions - Key

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Mitigating Actions - Started work - part complete
Mitigating Actions - We currently implement control(s) - complete and ongoing

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Objectives area at risk	Objective at risk	Risk ref	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score	Assigned to (Risk Owner)	Date of Review	Direction of Travel
Funding	Minimise unrecoverable debt on termination of employer participation	F19	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 / Reputational	4	3	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.	3	2	6	Chief Financial Officer	03-Sep-18	➡
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	Strategic Threat	Financial / Reputational	4	3	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 guarantees for the handful of old employers where no protection was built into the original admission agreements.	3	2	6	Chief Financial Officer	03-Sep-18	➡
Funding	Maintain liquidity in order to meet projected net cash flow outgoings	F21	Employee participation in the LGPS reduces (possibly in response to changes in contribution rate/benefit structure or changes in patterns of service delivery)	Strategic Threat	Financial/Customer/Stakeholder related	4	3	12	The Fund communicates with both employers and employees over the benefits of the LGPS, both before and after any structural change. Membership levels are monitored by the Pension Committee and are published in the Fund's Annual Report.	3	2	6	Chief Financial Officer	03-Sep-18	➡
Administration Risks															
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A1	Failure to administer scheme in line with regulations and policies	Directorate threat	Regulatory Compliance/Reputational	4	3	12	The Pensions Manager and Finance Manager - Pensions attend regular workshops and conferences to ensure knowledge is up-to-date with regards to LGPS regulations and policies. The Fund also receives updates from CIPFA and the LGA.	3	1	3	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A2	Unable to deliver a service for pensions administrator and pensioner payroll because of system failure or unavailability	Service threat	IS (Technological)	4	2	8	Fund Business Continuity and Recovery Plans are in place including the ability to access systems from remote locations.	4	1	4	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A3	Unable to deliver a service for pensions administrator and pensioner payroll because of staff unavailability (e.g. sickness)	Service threat	Staff	4	2	8	The Fund has multi-skilled staff so can cover other roles if required. Systems can also be accessed from remote locations.	4	1	4	HR Service Centre Manager	03-Sep-18	➡

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Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A4	Fraud by scheme members	Directorate threat	Financial / Reputational	2	3	6	The Fund carries out NFI and payroll slips / communications at intervals through the year to home addresses and requires sight of certificates (e.g. birth certificate). There are very few cheque payments.	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A5	Fraud by staff	Directorate threat	Financial / Reputational	2	3	6	Manager checking is in place. Citrix has log-in security and AXIS has multiple login protections. Month end reconciliations are also carried out. Declarations by staff of personal relationships / family members is required.	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Lack or reduction of skilled resources. Significant increase in the number of employing bodies, e.g. Academies	Service threat	Customer/ Stakeholder related	3	3	9	The Fund's managers continually monitor pension administration staffing position. The impact of the volume of employers admitted to the fund is also monitored and resources are increased as required following sign-off from the Pension Committee.	2	2	4	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A7	Excessive costs of administration lead to lack of VFM	Directorate threat	Financial / Reputational	1	2	2	The Fund benchmarks pension administration costs against peers and regularly looks for efficiency savings. Administration performance is benchmarked annually and reported in the Fund's Annual Report.	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A8	Failure to invest surplus contributions	Directorate threat	Financial	1	2	2	The Finance Manager - Pensions monitors Fund cash balances monthly and provides updates to the Chief Financial Officer and Pension Committee if surplus cash develops.	1	1	1	Chief Financial Officer	03-Sep-18	➡
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A9	Failure to collect pension contributions in line with regulatory guidelines	Directorate threat	Regulatory Compliance	3	3	9	All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. The Fund monitors contributions payable and paid against the Actuary set rate on a monthly basis and also reconciles to E5 on a monthly basis.	2	2	4	Chief Financial Officer / HR Service Centre Manager	03-Sep-18	➡
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A10	Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors	Service threat	Customer/ Stakeholder related	2	3	6	The Fund engages with employers and employer manuals are in place. The Fund also carries out year end data cleansing and officer checking.	2	1	2	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A11	Failure to deal with complaints appropriately	Directorate threat	Customer/ Stakeholder related	1	2	2	Fund staff pass complaints to a specific senior officers and they are then referred to the management team to decide appropriate response. Details of complaints are reported in Fund's Annual Report, so there is incentive to deal with complaints appropriately.	1	1	1	HR Service Centre Manager	03-Sep-18	➡

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Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A12	Failure to deliver the LGPS properly results in lots of complaints and/or IDRPs	Directorate threat	Customer/ Stakeholder related	2	2	4	The Fund carries out a significant amount of engagement with employers through employer guide and the Pension Forum. Staff check calculations and perform data checks. Staff also receive training and performance is benchmarked against peers. Internal Audit carry out annual audits and external audit also review annually.	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A13	Incorrect calculation of members benefits through, for example, inadequate testing of systems	Service threat	IS (Technologica l)	3	2	6	The Fund has a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked.	2	1	2	HR Service Centre Manager	03-Sep-18	➡
Administration	Data is protected to ensure security and authorised use only	A14	Potential of data to get into wrong hands or lost (in the post)	Directorate threat	(IS or other)	2	2	4	The Fund conforms with WCC data policy, for example through the use of data encryption and password protection. Systems are reviewed by internal and external audit and setup inline with data protection regulations. Updates have been made to comply with GDPR	2	1	2	HR Service Centre Manager	03-Sep-18	➡
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A15	ABS errors (e.g. wrong address, layout and printing errors) due to external supplier	Service threat	(IS or other)	1	2	2	Procurement of external suppliers is in line with WCC procurement rules and references are taken. Contract performance is monitored regularly. Internal reviews are also carried out and processes are strengthened if weaknesses are detected.	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A16	Inconsistencies in delivery due to failure to properly document processes and procedures	Service threat	Customer/ Stakeholder related	2	2	4	Document Pension Administration processes and procedures	1	1	1	HR Service Centre Manager	03-Sep-18	➡
Communications Risks															
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C1	Increased workload for pensions team or increased opt outs if communications not clear and easily understood	Service threat	Customer/ Stakeholder related	2	3	6	The Fund has a communication policy in place and published. Current resource is insufficient for a dedicated communication manager. Press communications are directed through the WCC communications team. Performance is benchmarked and complaints are detailed in the Fund's Annual Report.	2	1	2	Rob Wilson / Bridget Clark / Linda Probin	03-Sep-18	➡
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C2	Issuing incorrect or inaccurate communications	Service threat	Customer/ Stakeholder related	2	3	6	The Fund has a communication policy in place and published. Current resource is insufficient for a dedicated communication manager. Press communications are directed through the WCC communications team.	1	1	1	Rob Wilson / Bridget Clark / Linda Probin	03-Sep-18	➡

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Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C3	Failure to maintain employer database leading to information being lost or sent to wrong person	Directorate threat	IS (technological)	3	3	9	The Fund developed and maintains a master electronic list of employer contacts. Most changes are through regular communications with employers including reminders to let the fund know about any changes to contact details.	2	1	2	Bridget Clark / Linda Probin	03-Sep-18	➡
Communications	Deliver information in a way that suits all types of stakeholder	C4	Risk some members may not receive relevant communications if addresses and/or contact details incorrect	Service threat	Customer/ Stakeholder related	2	2	4	Complete address update is done regularly by employers. Other processes include: addresses are checked by a dedicated checker and also Fund communication takes place with member/ employer before payment is made. All post office returns are investigated and followed up and nothing is sent out if new address is not found. Tracing agencies are used for members aged 65+. Life Certificates are also used.	1	1	1	Bridget Clark / Linda Probin	03-Sep-18	➡
Communications	Deliver information in a way that suits all types of stakeholder	C5	Discrimination cases if information not supplied in suitable format	Directorate threat	Financial	2	2	4	The Fund arranges communications with Braille or other formats, as required. The Fund offers alternate formats on all communications and a log is kept of individuals with specific requirements.	1	1	1	Bridget Clark / Linda Probin	03-Sep-18	➡
Communications	Deliver information in a way that suits all types of stakeholder	C6	Failure to include all required information in documents issued to members under disclosure regulations	Directorate threat	Regulatory compliance	3	2	6	The Pensions Manager keeps up-to-date with disclosure requirements through workshops and conferences. Online courses are used also to keep all staff members up to date.	3	1	3	Bridget Clark / Linda Probin	03-Sep-18	➡

PENSIONS COMMITTEE
5 OCTOBER 2018**FORWARD PLAN**

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Committee comment and approve the Forward Plan and that this be reviewed at each Committee.**

Background and Forward Plan

2. It is good practice to plan ahead for the Pensions Committee to highlight the key areas that are anticipated to be reported in the future. A proposed Forward Plan is attached as an Appendix and Committee are asked to comment and approve the plan.
3. This will be a standard agenda item in future and updated as and when required.

Supporting Information

Appendix – Forward Plan

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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Pensions Committee Proposed Forward Plan

Appendix 1

Pension committee Items	05/10/2018	28/11/2018	19/03/2019	21/06/2019	04/10/2019	06/12/2019
LGPS Central Update	Y	Y	Y	Y	Y	Y
Pension investment Update	Y	Y	Y	Y	Y	Y
Pension Key Performance Indicators			Y	Y	Y	Y
Pension fund Unaudited Annual Report				Y		
Pensions Final External Audit Report on Annual Report	Y				Y	
Pension fund administration Budget Approval	Y		Y			
Pension fund administration Budget Monitoring			Y		Y	
Government Actuary Dept (GAD) review update	Y	Y				
Members Training update		Y		Y		Y
Investment Strategy Statement update	Y		Y			
Administrative Authority update	Y	Y	Y	Y	Y	Y
Equity Protection update			Y			
Risk Register	Y	Y	Y	Y	Y	Y
Actuarial Valuation and Funding Strategy Statement					Y	Y
Business Plan			Y		Y	
internal Audit Report				Y		Y
Local pension Board updates including such areas as Regulatory Scheme Advisory Board (SAB) updates			Y	Y	Y	Y
Stewardship Code Compliance Statement		Y				Y
Pensions Committee & Investment advisory Panel terms of Reference			Y			
Admin Strategy (Flows into Business Plan where actions are)		Y				

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