Worcestershire Pension Fund

Draft Unaudited Statement of Accounts 2018/19

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About the Accounts

BASIS OF PREPARATION

The statement of Accounts summarises the Fund's transaction for the 2018 / 2019 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

Explanatory Foreword and a Review of the Year 2018/19

Contains a review of the year and other general information about the accounts.

The Worcestershire Pension Fund Account

Details the money received and spent within the Pension Fund during 2018/19

Net Assets Statement

Statement showing the Pension Fund's financial position at 31 March 2019.

Notes to the Pension Fund Accounts

Notes providing additional information for the Fund Account and Net Assets Statement.

Statement of Accounting Policies

These are now shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts.

The accounts have been prepared on a going concern basis

1. Explanatory Foreword and a Review of the Year 2018/19

Foreword by the Chief Financial Officer

Welcome to the Worcestershire Pension Fund 2018/19 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Table 1 Aim and Purpose of the Scheme

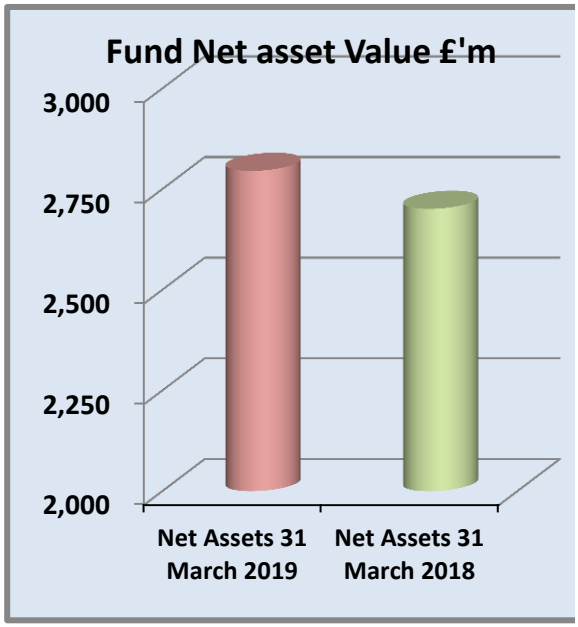
The aims of the Scheme are to:	
•	**enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies**
•	**manage employers' liabilities effectively**
•	**ensure that sufficient resources are available to meet all liabilities as they fall due, and**
•	**Maximise the returns from investments within reasonable risk parameters.**
The purpose of the Scheme is to:	
•	**receive monies in respect of contributions, transfer values and investment income,**
•	**Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.**

Key headlines

- The value of the Fund's net assets increased by £94.3 million from £2,701.0 million at 31 March 2018 to £2,795.3 million at 31 March 2019:

- Income from contributions decreased by 48%, (£94.7 million from £195.6 million) due mainly to some employers paying their 3 year pension contributions upfront in 2017/18 to reduce the overall costs. This change in income level has had a knock on impact to a number of notes to the accounts.

- Net investment returns decreased by 10%, due to market volatility, tempered somewhat by the equity protection strategy. There was also some disinvestment from passively managed pooled funds to Infrastructure and property funds in line with the investment strategy.



- The investment income associated with the passive managed pooled funds and Equity Protection is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.

- Contributions from staff and employers were less than the benefits paid and management expenses in 2018/19 by £33million due mainly to explanation provided above

- During the year a surplus resulted on the Pension Fund account (aside from the change in investments market value) totalling £16.8 million for 2018/19 million, a decrease of £98 million from the surplus of £114.8 million for 2017/18. This was mainly due to some employers paying their 3 year pension contributions upfront in 2017/18

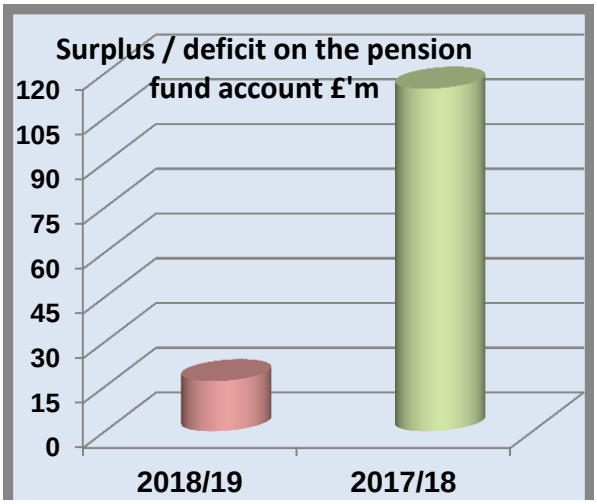


Table 2 analysis of changes within the fund's membership profile

	31 March 2018		31 March 2019	Change	Change %
Contributors to the fund	22,478		23,436	958	4.3
Pensions paid	17,507		18,089	582	3.3
Deferred members	20,351		20,729	378	1.9
	60,336		**62,254**	**1,918**	**3.2**

Scheme membership has continued to grow and is now in excess of 62,000. Active employer numbers have decreased from 208 to 196 at the end of March 2019 mainly due to a number of schools merging as Academies. The administrative challenges presented by this continued growth are considerable, given the additional data requirements of the 2014 Career Average Revalued Earnings (CARE) Scheme, and the increased emphasis on data quality demanded by the General Data Protection Regulation (GDPR) from May 2018 and new compliance standards introduced by the Pensions Regulator. In view of these challenges the Fund continues to review its systems and processes and importantly, the way it engages with, and receives data from scheme employers

Governance

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

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

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

Management of the fund's assets

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

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Corporate Private Debt, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2017/18 and have continued during 2018/19:

a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

As at 31st March 2019 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into a pooled Infrastructure Fund; First State European Diversification Fund, implementation of the commitments to Hermes II a pooled infrastructure fund and a Corporate Private Debt mandate with EQT. Further commitments to property debt funds for Walton Street and Venn were agreed by Committee in 2018/19 and are due to be implemented in 2019/20.

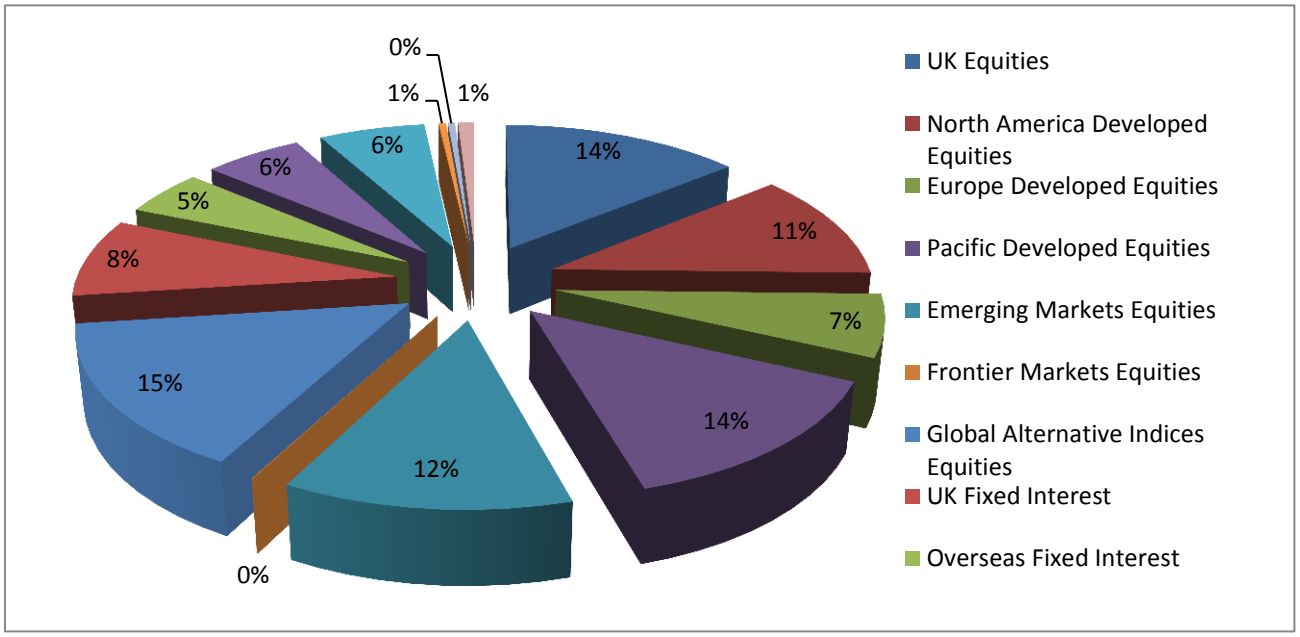
The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation and

- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

River and Mercantile continued to manage the Equity Protection Strategy using a 'static' options hedge solution that was implemented during late February / early March 2018, providing asset valuation protection for the passive equity portfolio covering a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2019:

Table 3 Distribution of the Funds Assets



Impact of Brexit

Ongoing discussions have taken place throughout the year with existing fund managers and our actuary to consider the implications of Brexit particularly on the market valuation of the fund. As detailed above the fund had already taken steps to diversify some of its asset allocations from equities into property and infrastructure as well as implementing an equity protection strategy to guard against major market fluctuations. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Meetings were held with the actuary to potentially update the Employers IAS19 Pension statements at year end. However, the announcement that the UK's membership of the EU has been extended until the 31st October 2019 has minimised this risk, but continuing risk management steps will be taken leading up to this date.

LGPS Central

The 2017/18 accounts highlighted the government's approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicles called LGPS Central.

The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

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

LGPS Central has been in operation just for 12 months and a number of the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF first transfer of funds is likely to be triggered by the launch of LGPS Central's Global Active Emerging Market managed mandate which is expecting to start operating from July 2019. WPF currently has two actively managed emerging market mandates with a total value of £355.3m as at the 31st March 2019.

Management of the fund's liabilities

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

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.

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

- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

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

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

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

2. Fund Account (money received and spent during 2018/19)

For the year ended 31 March 2019

2017/18 £m		Notes	2018/19 £m
	Dealings with members, employers and others directly involved with the Fund		
185.2	Contributions	4	81.8
10.4	Transfers in from other pension funds	5	12.9
195.6			**94.7**
(98.0)	Benefits	6	(106.3)
(8.8)	Payments to and on account of leavers	7	(8.7)
(106.8)			**(115.0)**
88.8	**Net additions / (Withdrawals) from dealings with members**		**(20.3)**
(0.8)	Administrative expenses	8	**(1.1)**
(9.0)	Management expenses	9	**(12.0)**
79.0	**Net additions / (Withdrawals) including fund management and administrative expenses**		**(33.4)**
	Returns on investments		
37.2	Investment income	10	51.7
(1.4)	Taxes on income	11	(1.5)
105.3	Profit and losses on disposal of investments and changes in the market value of investments	12a & 15b	77.5
141.1	**Net return on investments**		**127.7**
220.1	**Net increase / (decrease) in the net assets available for benefits during the year**		**94.3**
2,480.9	**Opening fund net assets of the scheme**		**2,701.0**
2,701.0	**Closing fund net assets of the scheme**		**2,795.3**

The key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020. Management expenses have increased mainly due to disinvesting some existing passive equity funds into Infrastructure and Property funds which by their nature have larger management fees. The increase in investment income is mainly due to dividends from the managed Equity Protection fund which is retained within the pooled funds and reinvested to maintain the collateral required for the strategy.

3. Net Assets Statement for the year ended 31 March 2019 (showing the financial position at 31 March 2018 and 2019)

2017/18		Notes	2018/19
£m			£m
1.9	Long term Investment Assets	12	1.4
2,692.6	Investment Assets	12 &13	2,753.1
27.1	Cash Deposits	12	32.9
2,721.6			**2,787.4**
(32.2)	Investment Liabilities	12	(29.0)
25.6	Current Assets	17	39.2
1.8	Non-Current Assets	18	1.5
(15.8)	Current Liabilities	19	(3.8)
2,701.0	**Net Assets of the Fund available to fund benefits at the period end**		**2,795.3**

These Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (note 2 to the Accounts). Note 14 to the Accounts provide details on the Fair Value of assets

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

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

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

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

   a. **Valuations of delisted securities** are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

   b. **Securities subject to takeover offer** – the value of the consideration offered under the offer, less estimated realisation costs.

c. **Directly held investments** include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. **Investments in unquoted property and infrastructure pooled funds** are valued at the net asset value or a single price advised by the fund manager.

e. **Investments in unquoted listed partnerships** are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

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

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

Financial Liabilities

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

4. Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These now comprise of a summary of significant accounting policies (shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts). Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:-

NOTE 1: DESCRIPTION OF FUND

a) General

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

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent investment adviser and the Scheme Manager.

The Pensions Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee.

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in Worcestershire County Council Pensions Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the fund. These include county councils, district councils, foundation schools / colleges and academies

- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector

- Designated bodies which are organisations that have passed resolutions with town or parish councils

Membership details are set out below:

	31 March 2018	31 March 2019
Number of employers	208	196
Employee Members of the Fund		
County Council	8,083	8,256
Other Employers	14,395	15,180
Total	**22,478**	**23,436**
Pensioner Members of the Fund		
County Council	4,968	5,240
Other Employers	12,539	12,849
Total	**17,507**	**18,089**
Deferred Members of the Fund		
County Council	8,296	8,379
Other Employers	12,055	12,350
Total	**20,351**	**20,729**
Total Number of Members in the Fund	**60,336**	**62,254**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2019. Employee contributions are matched by employer contributions which are set based on actuarial valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2018 / 2019 employer contribution rate for the Fund is 15.3%. In order to ensure employer contribution increases, required by the Fund's Actuary following the 31 March 2013 actuarial valuation, remained affordable, the Administering Authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

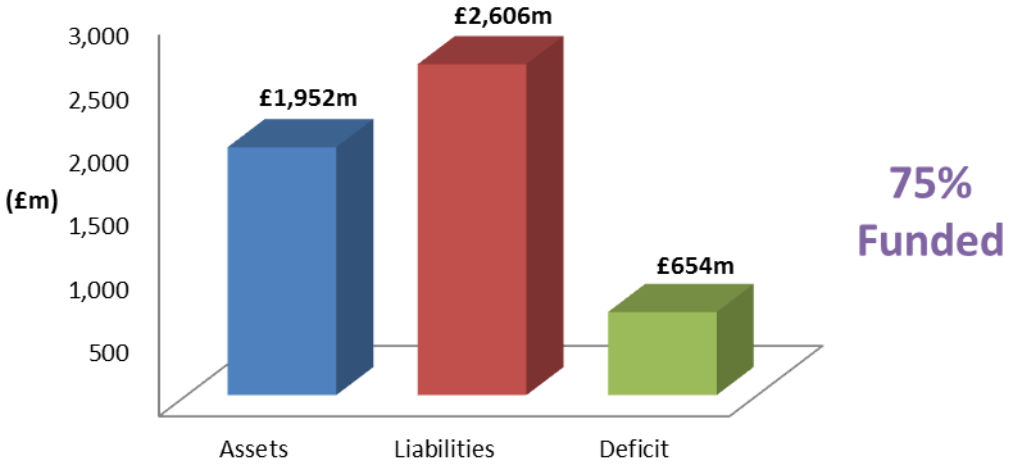
NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Funding Arrangements

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

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

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



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £37 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.
Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

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

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

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

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

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefits revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors combined served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,826 million. Interest over the year increased the liabilities by c£100 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£34 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £218 million made up of "actuarial losses" (given the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £4,178 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2016 actuarial valuation results rather than being a full recalculation, and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Laura Evans
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2019

NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

NOTE 4: CONTRIBUTIONS RECEIVABLE

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

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

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

	2017/18	2018/19
By Category	**£m**	**£m**
Employers		
Normal contributions	52.9	36.5
Deficit recovery contributions	36.5	18.8
Augmentation contributions	2.0	3.2
Additional contributions	71.2	0.0
Employees		
Normal contributions	22.3	23.0
Additional contributions	0.3	0.3
	185.2	**81.8**

	2017/18	2018/19
By authority:	**£m**	**£m**
Worcestershire County Council	77.9	9.4
Scheduled bodies*	91.6	58.2
Community admission bodies	6.5	5.4
Transferee admission bodies	8.2	7.8
Designated bodies	1.0	1.0
	185.2	**81.8**

The Key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next Triennial valuation due to take effect from the 1st April 2020

NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. The Transfers in and from other Pension Funds are as follows:-

	2017/18	2018/19
	£m	£m
Individual transfers	10.4	12.9
	10.4	**12.9**

NOTE 6: BENEFITS PAYABLE

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

By category:	2017/18	2018/19
	£m	£m
Pensions	80.4	85.5
Commutations and lump sum retirement benefits	15.7	18.7
Lump sum death benefits	1.9	2.1
	98.0	**106.3**

By authority:	2017/18	2018/19
	£m	£m
Worcestershire County Council	36.8	39.1
Scheduled bodies	50.5	55.7
Admitted bodies	1.9	1.7
Community admission bodies	5.5	6.4
Transferee admission bodies	2.6	2.8
Designated bodies	0.7	0.6
	98.0	**106.3**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18	2018/19
	£m	£m
Individual transfers	8.8	8.7
Group transfers	0.0	0.0
	8.8	**8.7**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: ADMINISTRATIVE EXPENSES

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

	2017/18	2018/19
	£m	£m
Employee expenses	0.5	0.6
Support services	0.1	0.1
Actuarial services	0.2	0.4
Other expenses	0.0	0.0
	0.8	**1.1**

The audit fee for work completed by the Fund's external auditors for the year ended 31 March 2019 was £19,244 1.9% of total admin costs (£26,156 for the year ended 31 March 2018 3.25% of total admin costs).

NOTE 9: MANAGEMENT EXPENSES

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

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

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

	2017/18	2018/19
	£m	£m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	8.9	11.9
Other expenses	0.0	0.0
	9.0	**12.0**

NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

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

The cost of obtaining investment advice from the Fund's Independent Investment Adviser is included in investment management charges. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:-

	2017/18	2018/19
	£m	£m
Management fees	7.7	10.7
Custody fees	0.3	0.4
Transaction costs	0.9	0.8
	8.9	**11.9**

The £11.9m management expenses incurred in 2018/19 represent 42% or 42 basis points (bps) of the market value of the Fund's assets as at 31st March 2019 (0.33% or 33bps 31 March 2018).

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature. The Equity Protection Strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £9.7 million to £12.0 million for 2018/19 (£7.2 million to £9.0 million for 2017/18). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: INVESTMENT INCOME

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

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

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

	2017/18	2018/19
	£m	£m
Fixed interest securities	5.0	14.4
Equity dividends	22.0	23.8
Pooled property investments	5.1	7.3
Pooled infrastructure investments	4.7	5.5
Interest on cash deposits	0.4	0.6
Securities lending	0.0	0.1
	37.2	**51.7**

NOTE 11: TAXES ON INCOME

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

	2017/18	2018/19
	£m	£m
Withholding tax – equities	(1.4)	(1.5)
	(1.4)	**(1.5)**

NOTE 12: INVESTMENTS

	Market value 31 March 2018	Market Value 31 March 2019
	£m	£m
Long term Investment Assets		
LGPS Central –AFIM	0.5	0.0
LGPS Central shares	1.4	1.4
Investment assets		
Fixed interest securities	359.8	361.5
Equities	752.5	715.7
Pooled investment vehicles	1,292.0	1291.0
Pooled property investments	128.5	171.8
Pooled Infrastructure investments	96.1	159.4
Pooled Debt Assets	0.0	12.4
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
-	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.5	0.0	(0.5)	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.9	**0.0**	**(0.5)**	**0.0**	**1.4**

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
-	£m	£m	£m	£m	£m
Investment Assets					
Fixed interest securities	359.8	90.9	(88.3)	(0.9)	**361.5**
Equities	752.5	301.8	(304.5)	(34.1)	**715.7**
Pooled investment vehicles	1,292.0	1.7	(131.3)	128.6	**1,291.0**
Pooled Property investments	128.5	64.2	(22.8)	1.9	**171.8**
Pooled Infrastructure Investments	96.1	77.9	(16.0)	1.4	**159.4**
Pooled Debt investments	0.0	15.0	(2.9)	0.3	**12.4**
	2,628.9	**551.5**	**(565.8)**	**97.2**	**2,711.8**
Derivative contracts:					
Futures	24.5	1.4	(1.3)	(13.3)	**11.3**
Forward currency contracts	1.6	13.7	(7.3)	(10.7)	**(2.7)**
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	27.1			4.3	32.9
Investment income due	6.5				7.3
Amount receivable for sales of investments	0.7				1.8
Amounts payable for purchases of investments	(1.8)				(5.4)
Net investment assets	**2,689.4**			**77.5**	**2,758.4**

Prior year comparators:

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
-	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	**1.8**	**0.0**	**0.0**	**1.9**
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	**359.8**
Equities	676.2	277.7	(258.0)	56.6	**752.5**
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	**1,292.0**
Pooled Property investments	101.5	51.6	(27.2)	2.6	**128.5**
Pooled Infrastructure Investments	98.6	7.8	(16.5)	6.2	**96.1**
	2,444.6	**776.9**	**(676.2)**	**83.6**	**2,628.9**

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
-	£m	£m	£m	£m	£m
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	**24.5**
Forward currency contracts	1.0	10.4	(16.5)	6.7	**1.6**
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases of investments	(4.8)				(1.8)
Net investment assets	**2,470.7**			**105.3**	**2,689.4**

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

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2018 / 2019 year amounted to £0.8 million, (2017 / 2018 £0.8 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31 March 2019 (3bps at 31 March 2018).

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

NOTE 12B ANALYSIS OF INVESTMENTS (EXCL. DERIVATIVE CONTRACTS, CASH AND OTHER BALANCES)

	31 March 2018	31 March 2019
	£m	£m
Long term Investment Assets		
LGPS Central – AFIM	0.5	0.0
LGPS Central – shares	1.4	1.4
	1.9	**1.4**
Fixed interest securities		
UK Gilts	228.3	220.1
UK corporate quoted	10.9	7.3
Overseas public sector quoted	0.0	0.0
Overseas corporate quoted	120.6	134.1
	359.8	**361.5**
Equities		
UK quoted	13.1	13.2
Overseas quoted	739.4	702.5
	752.5	**715.7**
Pooled Investment Vehicles		
Other UK managed funds – UK equities	398.0	375.0
– Overseas equities	485.2	483.5
– Global equities	387.1	417.8
Other overseas managed funds – Overseas equities	21.7	14.7
	1,292.0	**1,291.0**
Pooled Funds - Additional Analysis		
Pooled property investments - UK	45.1	86.8
Pooled property investments - overseas	83.4	85.0
	128.5	**171.8**
Pooled Infrastructure investments	96.1	159.4
	96.1	**159.4**
Pooled Debt investments	0.0	12.4
	0.0	**12.4**
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12C: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

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

External Fund Manager	2017/18		2018/19	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	139.8	5	144.6	5
JP Morgan Asset Management (Emerging Markets)	173.5	6	165.4	6
Nomura Asset Management UK Ltd	420.5	16	382.8	14
Schroder Investment Management	187.3	7	189.9	7
Legal and General Asset Management	1,270.3	47	1276.2	46
Green Investment Bank	49.2	2	48.3	2
Hermes (Fund I and II)	44.1	2	48.6	2
Invesco (Euro and a UK Property Fund)	70.2	3	108.2	4
VENN	26.3	1	26.7	1
Walton Street	17.3	1	17.0	1
AEW	18.8	1	19.9	1
Stonepeak	2.8	0	10.6	0
First State	0.0	0	51.9	2
EQT	0.0	0	12.4	0
River and Mercantile	255.8	9	241.8	9
WCC Managed Account	5.1	0	5.4	0
	2,681.0	**100**	**2,749.7**	**100**

The above excludes £1.4m (2017/18 £1.9m Invested in LGPS Central and £7.3m (2017/18 £6.5m) of Investment Income due.

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

	Market value 31 March 2018	% of total Fund	Market value 31 March 2019	% of total Fund
Security	**£m**		**£m**	
LGIM – UK Equity Index Pooled Fund	398.0	15.0	375.0	13.7
LGIM – North America Index Pooled Fund	293.1	11.0	307.5	11.2
River and Mercantile UK Gilts	228.3	8.6	220.1	8.0
LGIM – Europe (ex-UK) Index Pooled Fund	192.1	7.2	176.0	6.4
LGIM - FTSE Developed Equity Pooled Fund	155.3	5.8	159.6	5.8

NOTE 12 D STOCK LENDING

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

The total amount of stock lent at the year-end was £25.9 million (2018 £35.9 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £28.1 million (2018 £38.3 million) representing 108.3% of stock lent.

Income received from stock lending activities was £0.1 million for the year ending 31 March 2019 (2018 £0.1million). This is included within the 'Investment Income' figure detailed on the Fund Account.

Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13A: ANALYSIS OF DERIVATIVES

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

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

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

In 2018/19 the Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

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

b) Forward Foreign Currency

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

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

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2018	Economic Exposure	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	0	0.0	1.9	0.0
UK FTSE exchange traded option	More than 1 year	0	25.9	0.0	23.5
EUROSTOXX exchange traded option	More than 1 year	0	14.3	0.0	4.5
US S+P exchange traded option	More than 1 year	0	14.3	0.0	3.8
Overseas exchanged traded	under one year	24.9	0.2	27.6	0.3
Total assets			**54.7**		**32.1**

LIABILITIES		Economic Exposure Value	Market Value 31 March 2018	Economic Exposure Value	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	(1.4)	0.0	0.0	0.0
UK FTSE exchange traded option	More than 1 year	0.0	(10.0)	0.0	(12.8)
EUROSTOXX exchange traded option	More than 1 year	0.0	(11.3)	0.0	(2.7)
US S+P 500 exchange traded option	More than 1 year	0.0	(8.7)	0.0	(5.1)
Overseas exchanged traded	Under one year	(19.6)	(0.2)	(21.4)	(0.2)
Total liabilities			**(30.2)**		**(20.8)**
Net futures			**24.5**		**11.3**

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2019

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
		£m		£m	£m	£m
One to six months	GBP	1.1	EUR	1.2	0.0	
One to six months	GBP	0.7	USD	0.9	0.0	
One to six months	USD	5.2	GBP	3.9	0.1	
One to six months	GBP	0.3	CAD	0.6		0.0
One to six months	GBP	60.2	EUR	70.1		(0.2)
One to six months	GBP	207.5	USD	274.0		(2.6)
					0.1	**(2.8)**
Net forward currency contracts at 31 March 2019						**(2.7)**
Prior year comparative:						
Open forward currency contracts at 31 March 2018					**1.8**	**(0.2)**
Net forward currency contracts at 31 March 2018						**1.6**

ANALYSIS OF CASH

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

	2017/18	2018/19
Cash	**£m**	**£m**
Cash deposits	19.4	18.2
Cash instruments	7.7	14.7
	27.1	**32.9**

NOTE 14: FAIR VALUE

NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Derivatives - Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14 B: FAIR VALUE HIERARCHY

Level 1

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

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

Level 2

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

Level 3

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

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

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

Values at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,086.3	1,323.2	343.6	2,753.1
Financial Assets at Amortised Cost	74.9			74.9
Total fair value financial assets	**1,161.2**	**1,323.2**	**343.6**	**2,828.0**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(29.0)		(29.0)
Total fair value financial liabilities	**0.0**	**(29.0)**	**0.0**	**(29.0)**
Net fair value financial assets	**1,161.2**	**1,294.2**	**343.6**	**2,799.0**

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

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Sensitivity Analysis	Valuation range	Value as at 31st March 2019	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	6.1%	171.8	183.8	159.8
Pooled Investments - Infrastructure Funds	6.1%	159.4	170.6	148.2
Pooled Investments - Debt Funds	6.1%	12.4	13.3	11.5
Total		**343.6**	**367.7**	**319.5**

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	£m	£m		£m
Market Value 1st April 2018	128.5	96.1	**0.0**	**224.6**
Transfers into Level 3	0.0	0.0	0.0	**0.0**
Transfers out of Level 3	0.0	0.0	0.0	**0.0**
Purchases and derivative Pymts	64.2	77.9	15.0	**157.1**
Sales and derivative receipts	(22.8)	(16.0)	(2.9)	**(41.7)**
Unrealised gains/(losses)	1.7	(1.4)	(0.2)	**0.1**
Realised gains/(losses)	0.2	2.8	0.5	**3.5**
Market value 31st March 2019	**171.8**	**159.4**	**12.4**	**343.6**

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

NOTE 15: FINANCIAL INSTRUMENTS

In line with the adoption of IFRS 9 in the 2018/19 financial year, there were some presentational changes resulting from the removal of the "Loans and Receivables" classification. This concerned items such as Cash, Current Assets (Debtors and Income receivable) and Non-current assets. All such items gave rise to solely payments of principal and interest and the Pension Fund's business model is solely concerned with collecting the payments. Therefore the Assets concerned will be classified at Amortised Cost. The below table reconciles the presentation between IFRS 9 and IAS 39. Assets and Asset classes not shown below are unaffected and shall be disclosed as in previous years:

IAS 39 2017/18 SOA			IFRS 9 Starting position in 2018/19 SOA
Loans and Receivables 2017/18	Financial instruments at amortised cost 2017/18		Financial instruments at amortised cost 2017/18
£m	£m		£m
		Financial assets	
	1.9	Other share capital	1.9
39.2		Cash	39.2
13.5		Current Assets	13.5
1.8		Non-Current Assets	1.8
54.5	**1.9**		**56.4**
		Financial liabilities	
	(15.8)	Current Liabilities	(15.8)
0.0	**(15.8)**		**(15.8)**
54.5	**(13.9)**		**40.6**

NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. The Loans and Receivables category was removed when IFRS 9 was adopted and the presentational changes are discussed above.

Fair value through profit and loss 2017/18	Financial Instruments at Amortised Cost 2017/18		Fair value through profit and loss 2018/19	Financial Instruments at Amortised Cost 2018/19
£m	£m		£m	£m
		Financial assets		
	1.9	Other share capital		1.4
359.8		Fixed interest securities	361.5	
752.5		Equities	715.7	
1,292.0		Pooled investment vehicles	1,291.0	
128.5		Pooled property investments	171.8	
96.1		Pooled Infrastructure investments	159.4	
		Pooled Debt investments	12.4	
54.7		Derivatives - Futures	32.1	
1.8		Derivatives - Forward FX	0.1	
	39.2	Cash		58.7
7.2		Other investment Balances	9.1	
	13.5	Current assets		13.4
	1.8	Non-current assets		1.5
2,692.6	**56.4**		**2,753.1**	**75.0**
		Financial liabilities		
(30.2)		Derivatives - Futures	(20.8)	
(0.2)		Derivatives - Forward FX	(2.8)	
(1.8)		Other investment balances	(5.4)	
	(15.8)	Current liabilities		(3.8)
(32.2)	**(15.8)**		**(29.0)**	**(3.8)**
2,660.4	**40.6**		**2,724.1**	**71.2**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£m		£m
	Financial assets	
83.6	Fair value through profit and loss	97.2
0.6	Financial Assets at Amortised Cost	4.3
	Financial liabilities	
21.1	Fair value through profit and loss	(24.0)
105.3	**Total**	**77.5**

Fair value through profit and loss is the combination of realised and unrealised profit and loss.

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

NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2019:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

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

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An Equity Protection Strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

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

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

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

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's Independent Investment Adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.3%
UK equities	9.3%
Overseas equities	12.1%
UK pooled investment vehicle	9.3%
Overseas pooled investment vehicle	10.5%
Global pooled investment vehicle	10.5%
Pooled property investments	6.1%
Pooled Infrastructure investments	6.1%
Pooled Debt Investments	6.1%

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

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	32.9	0.0%	32.9	32.9
Investment portfolio assets:				
UK fixed interest securities	227.4	3.3%	234.9	219.9
Overseas fixed interest securities	134.1	3.3%	138.6	129.6
UK equities	13.2	9.3%	14.4	12.0
Overseas equities	702.5	12.1%	787.4	617.6
UK pooled investment vehicle	375.0	9.3%	409.7	340.3
Overseas pooled investment vehicle	498.2	10.5%	550.5	445.9
Global pooled investment vehicle	417.8	10.5%	461.7	373.9
Pooled property investments	171.8	6.1%	182.3	161.3
Pooled Infrastructure investments	159.4	6.1%	169.1	149.7
Pooled Debt Investments	12.4	6.1%	13.2	11.6
Net derivative assets	8.6	0.0%	8.6	8.6
Investment income due	7.3	0.0%	7.3	7.3
Amounts receivable for sales	1.8	0.0%	1.8	1.8
Amount payable for purchases	(5.4)	0.0%	-5.4	-5.4
Total	**2,757.0**		**3,007.0**	**2,507.0**

Prior-year comparators

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

Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2018	Value as at 31 March 2019
	£m	£m
Cash and cash equivalents	27.1	32.9
Cash balances	12.1	25.8
Fixed interest securities	359.8	361.5
Total	**399.0**	**420.2**

Interest Rate Risk Sensitivity Analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2019 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	32.9	33.2	32.6
Cash balances	25.8	26.1	25.5
Fixed interest securities	361.5	365.1	357.9
Total change in assets available	**420.2**	**424.4**	**416.0**

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	12.1	12.2	12.0
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	**399.0**	**402.9**	**395.0**

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

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2018	Asset value as at 31 March 2019
	£m	£m
Overseas quoted securities	739.4	702.5
Overseas pooled investment vehicle	506.9	483.0
Global pooled investment vehicle	387.1	433.0
Overseas pooled property investments	83.4	85.0
Total overseas assets	**1,716.8**	**1,703.5**

Overseas bonds are 100% hedged to GBP at 31 March 2019.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.0% (as measured by one standard deviation).

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

An 11.0% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2019	Change to net assets available to pay benefits +11.0%	-11.0%
	£m	£m	£m
Overseas quoted securities	702.5	779.9	625.1
Overseas pooled investment vehicle	483.0	553.1	443.3
Global pooled investment vehicle	433.0	463.8	371.8
Overseas pooled property investments	85.0	94.4	75.6
Total change in assets available	**1,703.5**	**1,891.2**	**1,515.8**

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

Credit Risk

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

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

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

The fund's cash holding at 31 March 2019 was £58.4 million (31 March 2018: £39.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2018	Balances as at 31 March 2019
		£m	£m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	2.7	0.0
BNY Mellon US Dollar Liquidity Fund	AAA	3.2	6.4
JPM liq-ster Liquidity-x	AAA	0.8	0.0
JPM GBP Liquidity LVNAV	AAA	0.0	6.7
JPM liq-USD Liquidity-XDI	AAA	1.1	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	19.3	17.8
Bank current accounts			
Barclays Bank PLC	A-1	12.1	25.8
Total		**39.2**	**58.4**

The above Assets are held at Amortised Cost and are either liquid or very short dated securities in high-quality counterparties. Therefore the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

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

NOTE 17: CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Contributions due from employer in respect of:		
Employer	5.5	8.8
Members	2.1	1.7
Magistrates Courts Bulk Transfer Payment Due	0.4	0.6
Augmentation	0.9	0.1
Cash balances	12.1	25.8
Other Debtors	4.6	2.2
	25.6	**39.2**

The above Assets are carried at Amortised cost, other than cash balances and other debtors (see below), the funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	0.8	0.0
*LGPS Central Capital Advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.0	0.2
Augmentation	0.3	0.6
	1.8	**1.5**

*This was part of the regulatory capital required to set up the company LGPS Central Limited.
**This includes debtor in relation to the lifetime tax allowance limit as the fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time

NOTE 19: CURRENT LIABILITIES

	2017/18	2018/19
	£m	£m
Investment management expenses	(7.0)	(3.6)
Payroll and external vendors	(5.1)	(0.2)
Other expenses	(3.7)	(0.0)
	(15.8)	**(3.8)**

NOTE 20: RELATED PARTY TRANSACTIONS

Worcestershire County Council

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

The Council incurred costs of £1.0 million in 2018/2019 (2017/2018: £0.8 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £9.4 million to the Fund in 2018/2019 (2017/2018: £77.6 million of which £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation).

LGPS Central Limited has been established to manage investment assets on behalf of nine LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Administering Authorities participating.

A total of £0.5 million was refunded to the Fund by LGPS Central during 2018/2019 reflecting the cost of setting up the enterprise to the end of March 2018. The annual running costs of £0.5m was charged to the fund in 2018.19 by LGPS Central

Key Management Personnel

The posts of Chief Financial Officer, Finance Manager – Pensions and Treasury Management and HR Service Centre Manager are deemed to be key management personnel with regards to the Fund. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2017/18	2018/19
	£000	£000
Short term benefits*	33	50
Long term/ post-retirement benefits**	418	389
	451	**439**

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

Governance

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

NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2019 totalled £294.5 million (31 March 2018: £260.4 million).

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

NOTE 22: CONTINGENT ASSETS

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

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

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

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

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

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

Note that although there have been no changes to the existing bonds and guarantees from the previous financial year; they have all been discussed with the Actuary ' Mercers'. It has been agreed that these will be reviewed as part of the next Triennial valuation which takes effect from the 1st April 2020 and the framework to review them going forward will also be agreed at that point.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2018 / 2019 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

The amounts administered under AVC arrangements are as follows:

	2017/18	2018/19
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.3	0.2
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2019 was £2.8 million, (31 March 2018 £2.9 million).

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

NOTE 24: AGENCY SERVICES

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

	2017/18	2018/19
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The item in the notes to the accounts at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ● a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m ● a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m ● a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

VALUATION OF INVESTMENTS LEVEL 3

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

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions as detailed in Note 14b.

Independent Auditor’s Report

To be inserted