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# **Draft Statement of Accounts 2021/22**

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## **Worcestershire Pension Fund (the Fund) Financial Statements 2021/22**

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### **Independent Auditors Report to the Members of Worcestershire Pension Fund (the Fund).**

## About the Accounts

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### **BASIS OF PREPARATION**

The Statement of Accounts summarises the Fund's transactions for the 2021 / 2022 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2021/22 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 2021/22**

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

### **The Fund Account**

Details the money received and spent within the Pension Fund during 2021/22.

### **Net Assets Statement**

Statement showing the Fund's financial position at 31 March 2022.

### **Notes to the Fund Accounts**

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

### **Statement of Accounting Policies**

These are shown against the relevant note.

The accounts have been prepared on a going concern basis.

# 1. Explanatory Foreword and a Review of the Year 2021/22

## Foreword by the Chief Financial Officer

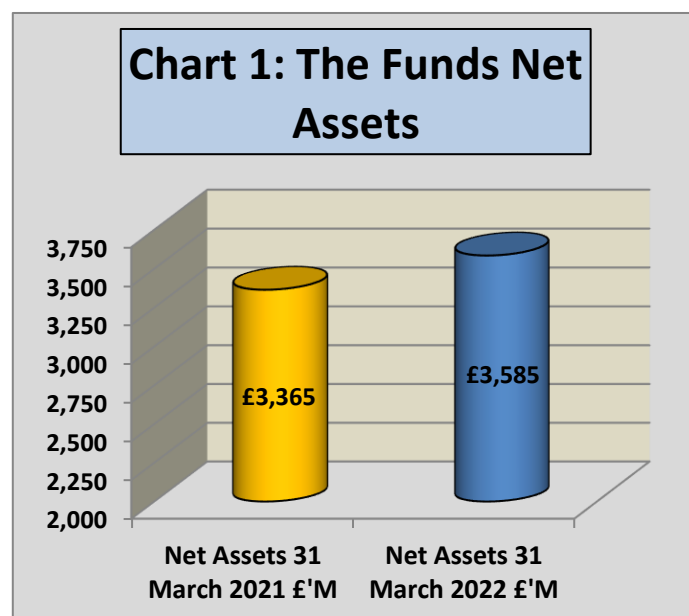
Welcome to the Fund's 2021/22 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also administer the LGPS 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 Fund

The aims of the Fund are to:	
•	Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost.
•	Manage employers' liabilities effectively.
•	Ensure that sufficient resources are available to meet all liabilities as they fall due.
•	Maximise the returns from investments within reasonable risk parameters.
The purpose of the Fund is to:	
•	Receive monies in respect of contributions, transfer values and investment income.
•	Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

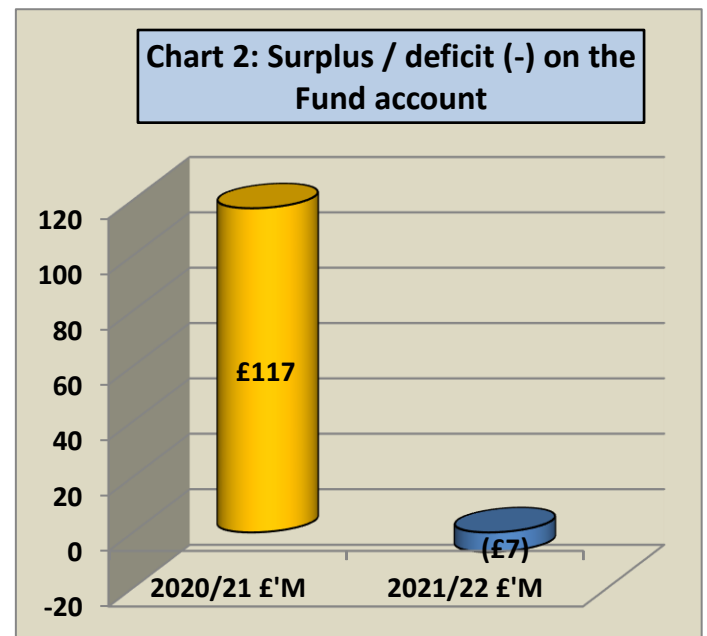
## Key headlines

- Chart 1 shows that the value of the Fund's net assets increased by £219.8 million from £3,364.8 million at 31 March 2021 to £3,584.6 at 31 March 2022:
- Income from contributions decreased to £90.7 million, from £201.2 million, due largely to a number of main employers providing 3-year contribution prepayments in one instalment in 2020/21).
- Net investment returns increased by £264.2 million compared to 2020/21 which was mainly due to the continuing recovery in the financial markets following the impact of COVID 19.



Contributions from staff and employers were less than the benefits paid as well as administration and management expenses in 2021/22 by £44.4 million. This was expected due mainly to some employers paying their 3-year pension contributions upfront this financial year to reduce their overall 3 year costs.

- Chart 2 shows that during the year a deficit resulted on the Fund Account (aside from the net investments returns) totalling £7.4 million, a decrease of £109.2 million from the 2020/21 total of £116.6 million due to reasons stated above.



**Table 2 analysis of changes within the Fund's membership profile**

	31 March 2021	31 March 2022	Change	Change %
Contributors to the Fund	23,070	23,078	8	0.0
Pensions paid	19,533	20,273	740	3.8
Deferred members	22,167	23,248	1,081	4.9
	<b>64,770</b>	<b>66,599</b>	<b>1,829</b>	<b>2.8</b>

Table 2 above shows that the scheme membership has continued to grow. Active employer numbers have increased from 183 to 204 at the end of March 2022 due mainly to an increase in the designated employers and some employer contractual arrangements increases. Given the administrative challenges presented by this continued growth, the Fund regularly review its systems and processes and importantly, the way it engages with, and receives data from scheme employers.

### **Pensions Administration**

Throughout 2021/22 the Administration Team continued to work flexibly but maintained excellent performance monitoring achieving its average turnaround targets for all the twelve key performance indicators it measures. This is also set in a context whereby in 2021/22 the team processed its highest volumes.

Activity / Process	Target turnaround (working days)	2020 / 2021 average turnaround (working days)	2021/2022 average turnaround (working days)
Joiners notification of date of joining	40	25	19
Calculate and notify deferred benefits	30	13	8
Letter notifying actual retirement benefits	15	4	2
Letter notifying estimate of retirement benefits	15	4	3
Process and pay lump sum retirement grant	23	15	10

	2020/21	2021/22
Total Number of staff FTE	<b>20.7</b>	<b>22.3</b>
Admin Cost per member*	<b>£31.46</b>	<b>£25.38</b>

“\*” the higher administration costs per member in 2020/21 was mainly due to one off costs incurred on the pensions administration system to deliver increased data security and efficiency

## Governance

The Council has established a Pensions Committee to exercise the Administering Authority's responsibility for the management of the Fund. The Pensions 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 Pensions Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Sub Committee. Note, it is the Audit and Governance Committee that is charged with governance for the purpose of the accounts.

The Council established a Pension Board in July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager. 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 Fund's Governance Policy Statement is published on the Council's website. It complies with LGPS Regulations and is aligned to prescribe best practice guidance.

The Fund also reports quarterly to the Pensions Committee on the Fund's progress towards delivering the recommendations arising from the Scheme Advisory Board's (SAB) 'Good Governance project.

## Management of the Fund's assets

The management of the Fund's assets is operated through fourteen specialist external managers with nineteen mandates in total. The Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Sub Committee, which includes an independent investment 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. A strategic asset allocation review took place in December 2019 and was endorsed by the Pensions Committee in March 2020 and the following recommendations arising from the review continued to be progressed during 2021/22, and will continue over the medium term:

- a) Increase in the allocation to infrastructure or a mix of infrastructure and real estate by 5% from the current strategic allocation of 15% of the Fund to up to 20%.
- b) Maintain the Fund's allocation to fixed income at 10%.
- c) Decrease in the Fund's strategic asset allocation to passive equities by 5% from 55% to 50%. The active equities allocation of 20% remained the same.

During 2021/22 the 2019 strategic asset allocation review's recommendation of a 20% commitment to 'alternatives including property' continued to be implemented following investments into:-

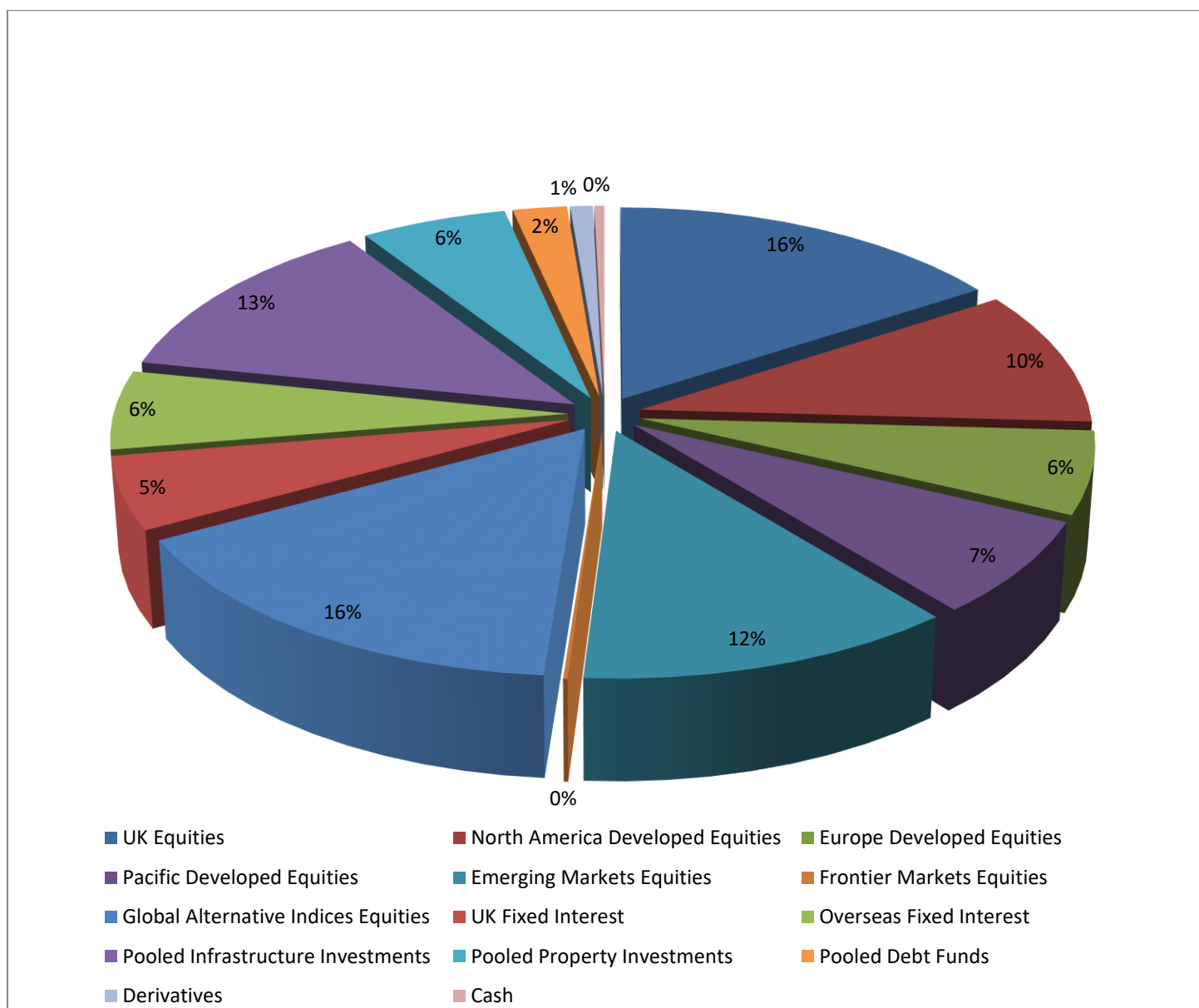
- Gresham House British Strategic Infrastructure Fund II: £75m in September 2021.
- Gresham House Forestry Growth & Sustainability Fund: £50m in November 2021.
- First Sentier (Now Igneo) European Diversified Infrastructure Fund III: £50m in November 2021.
- Stonepeak Infrastructure Fund IV: £75m in November 2021.
- Gresham House Forestry Fund VI: £75m in March 2022.

To enhance the Fund's investment returns whilst reducing its carbon footprint, the Fund also disinvested from passive equity LGIM 'low Volatility' factor funds and invested £200m in LGPS Central Limited's (LGPSC) All World Equity Climate Multi Factor Fund.

The Fund retained River and Mercantile to deliver its equity protection strategy that was originally implemented during early March 2018 and continues to provide some asset valuation protection for the market cap passive equity portfolio.

The following chart details the distribution of the Fund's assets as at 31 March 2022:

**Chart 3 Distribution of the Fund's Assets**



### **Environmental, Social & Governance (ESG) & Responsible Investment (RI)**

The Fund has continually looked to develop and improve its approach to RI and conducted an ESG audit last year which included mapping the Fund's entire portfolio to the United Nations' sustainable development goals (SDGs). The Fund conducted an ESG workshop for its Pensions Committee on the 2<sup>nd</sup> February 2022 to review progress against the identified actions and was found to have made significant headway.

In January 2022 the Fund's second annual [Climate Risk Report](#) delivered a view of the climate risk of the Fund's entire equity asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. The results were used in the Fund's public-facing [Climate related Financial Disclosures](#) for the second year.



The Fund was particularly pleased to see that our initial focus on transitioning out of our passive mandates with the greatest carbon footprint has resulted in the Fund's overall listed market portfolio now being 28% (23% in 2020) more carbon efficient than the benchmark. To build on this the Fund is looking to transition a further £200m (6% of its portfolio) from its passive mandates into active sustainable equity funds by May 2022.

The Fund recognises that its investments in private markets also have a significant role to play in addressing climate related issues and the Fund has committed £175m towards a forest and sustainability fund and £200m to a number of sustainable infrastructure and housing investments which will have a long term environmental and social impact. This builds on the existing assets we have in this space.

### **Impact of COVID 19**

Ongoing discussions throughout the year have taken place with existing fund managers and our actuary to continue to consider and understand the implications of COVID 19 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. This helped cushion somewhat the initial impact on the Fund's market valuations, which has since recovered, but the Fund has seen a reduction in dividends. Excessive volatility in market risk is also managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities as well as equity protection. Funding and risk is kept under constant review.

### **LGPS Central Limited (LGPSC)**

The Fund's 2017/18 accounts highlighted the government's requirements and reasoning (opportunities for collaboration, cost savings and efficiencies) for asset pooling NB responsibility for asset allocation stays with the Fund. The Fund is a partner fund along with Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire and Nottinghamshire in a collective investment vehicle called LGPSC. The company is authorised to operate as an alternative investment fund manager (AIFM) and became formally operational from the 1 April 2018.

Each partner fund approved the regulatory capital requirements for LGPSC and its introduction on the 31 January 2018. As all FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity, £16m of capital was introduced ("Capital Introduced") by the eight shareholders to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each partner fund provided £2million of capital on 31st January 2018, with the Fund's share consisting of £1.3million of equity and £0.7million of debt.

LGPSC has been in operation just over 4 years and the Fund has 21% of its assets in LGPSC's Emerging Markets Equity Active Multi Manager Fund / Global Corporate Bonds Fund / Global All World Equity Climate Multi Factor Fund. This increases to 63% when including the Pooling undertaken by the 'Shire' Pension Funds for passive equities just before LGPSC was formed which is included in the DLUHC pooling return.

## **Management of the Fund's liabilities**

The Funds' funding strategy is kept under regular review by the Pensions Committee and the Fund's actuary assesses at three yearly intervals the Fund's assets and its liabilities. An actuarial valuation of the Fund was carried out by Mercer's as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. The key outcomes of the valuation at that point in time are detailed below:

- The Fund's assets of £2,795 million represented 90% of the Fund's past service liabilities of £3,090 million (the "Funding Target") at the 31<sup>st</sup> March 2019 valuation date. This was an increase on the 75% funded position at the previous valuation at 2016.
- A common rate of contribution of 17.5% of pensionable pay per annum was required from employers covering 2020-23. 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. Different rates apply across fund employers based on specific factors. This ranges from 13.6% to 26.5%.
- The deficit of £295 million would be eliminated by a contribution addition of £28 million per annum increasing at 3.9% per annum for 15 years.

The next actuarial valuation will take place with an effective date of 31 March 2022, and any changes to the employers' contribution rates will be implemented with effect from 1<sup>st</sup> April 2023.

To meet the requirements of the Regulations, 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 2021/22)

For the year ended 31 March 2022

2020/21		2021/22
£m	Notes	£m
<b>Dealings with members, employers and others directly involved with the Fund</b>		
201.2 Contributions	4	90.7
29.0 Transfers in from other pension funds	5	13.7
<b>230.2</b>		<b>104.4</b>
(112.6) Benefits	6	(115.6)
(9.5) Payments to and on account of leavers	7	(10.0)
<b>(122.1)</b>		<b>(125.6)</b>
<b>108.1</b>	<b>Net additions / (withdrawals) from dealings with members</b>	<b>(21.2)</b>
(2.0) Administrative expenses	8	(1.7)
(18.2) Management expenses	9	(21.5)
<b>87.9</b>	<b>Net additions / (withdrawals) including fund management and administrative expenses</b>	<b>(44.4)</b>
<b>Returns on investments</b>		
29.1 Investment income	10	37.2
(0.4) Taxes on income	11	(0.2)
Profit and (losses) on disposal of investments and		
602.8 Changes in the market value of investments	12a & 15b	227.2
<b>631.5</b>	<b>Net return / (loss) on investments</b>	<b>264.2</b>
<b>719.4</b>	<b>Net increase / (decrease) in the net assets available for benefits during the year</b>	<b>219.8</b>
<b>2,645.4</b>	<b>Opening net assets</b>	<b>3,364.8</b>
<b>3,364.8</b>	<b>Closing net assets</b>	<b>3,584.6</b>

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 market valuations is mainly due to the continuing recovery of the financial markets following the impact of COVID 19.

### 3. Net Assets Statement for the year ended 31 March 2022 (showing the financial position at 31 March 2021 and 2022)

2020/21		Notes	2021/22
£m			£m
1.4	Long term Investment Assets	12	1.4
2,861.5	Investment Assets -Internally Managed	12 &15	2,960.1
562.1	Investment Assets -LGPSC Managed	12 &15	736.0
13.6	Cash Deposits	12	13.0
<b>3,438.6</b>			<b>3,710.5</b>
(156.3)	Investment Liabilities	12	(167.1)
86.9	Current Assets	17	46.2
1.6	Non-Current Assets	18	1.5
(6.0)	Current Liabilities	19	(6.5)
<b>3,364.8</b>	<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>3,584.6</b>

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 apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. 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 were 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** 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 apart from those financial instruments that are held solely for the payments of principal and interest (SPPI) such as cash and debtors which are measured at amortised cost. 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)**

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These comprise of a summary of significant accounting policies against the relevant note as opposed to a prescribed list of accounting policies. Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows: -

## NOTE 1: DESCRIPTION OF FUND

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### 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 and Herefordshire, 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 Sub Committee, which includes an independent investment adviser.

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 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 Fund's Investment Strategy Statement.

### b) Membership

Organisations participating in the 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 2021	31 March 2022	Diff
Number of employers	183	204	21
<b>Employee Members of the Fund</b>			
County Council	7,460	7,467	7
Other Employers	15,610	15,611	1
<b>Total</b>	<b>23,070</b>	<b>23,078</b>	<b>8</b>
<b>Pensioner Members of the Fund</b>			
County Council	5,869	6,143	274
Other Employers	13,664	14,130	466
<b>Total</b>	<b>19,533</b>	<b>20,273</b>	<b>740</b>
<b>Deferred Members of the Fund</b>			
County Council	8,787	9,034	247
Other Employers	13,380	14,214	834
<b>Total</b>	<b>22,167</b>	<b>23,248</b>	<b>1,081</b>
<b>Total Number of Members in the Fund</b>	<b>64,770</b>	<b>66,599</b>	<b>1,829</b>

The member numbers have increased mainly due to an increase in pensioners and deferred members.

#### 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 2022. Employee contributions are in addition to employer contributions which are set based on actuarial valuations. The last valuation conducted was at 31 March 2019 which took effect from 1<sup>st</sup> April 2020, and currently, employer contribution rates range from 13.6% to 26.5% of pensionable pay. The common 2021/22 employer contribution rate for the Fund is 17.5%.

#### 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 1/49<sup>th</sup>. 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](#).

#### Actuarial present value of promised retirement benefits

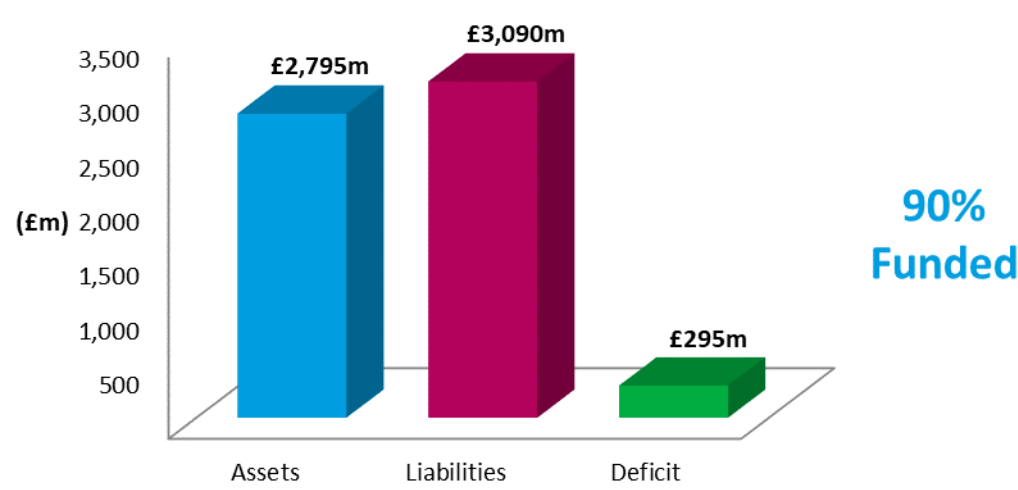
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2 below).

**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 Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund’s assets of £2,795 million represented 90% of the Fund’s past service liabilities of £3,090 million (the “Solvency Funding Target”) at the 31<sup>st</sup> March 2020 valuation date. The deficit at the valuation was therefore £295 million.



The valuation also showed that a Primary contribution rate of 17.5% of pensionable pay per annum was required from employers. The Primary 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. Equally, where there is a surplus, it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 15 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) is an addition of approximately £29m per annum in ‘£’ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS). Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.



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 funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g., with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.05% per annum	4.65%** per annum
Rate of pay increases (long term)*	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

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

\*\*This is the discount rate for the "growth pot", and applies to the majority of the Fund's assets. Certain employers have a more cautious investment strategy, and so a lower discount rate

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

## The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £29 million and an increase in the Primary contribution rate of 0.6% of pensionable pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund secondary rate shown above).

## Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and associated cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

## 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.4% per annum
Rate of pay increases*	4.2% per annum	4.9% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.5% per annum

\* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the exception of mortality where we have updated the assumption to use the most recent CMI future improvement tables (CMI 2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1% p.a.). In isolation, this would have led to a significantly lower value placed on the liabilities, but it was offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.4% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £4,987 million including the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by £104 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by £83 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £26 million due to "actuarial gains" (i.e., the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £5,148 million.

	31 March 2021	31 March 2022
	£m	£m
Present value of promised retirement benefits	4,987	5,148
Fair value of Fund assets	3,365	3,585
Net liability	1,622	1,563

## GMP Indexation

Public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS 26 liabilities calculated last year and is again included in the overall liability figure above.

**Paul Middleman**  
**Mercers Ltd**  
**Fellow of the Institute and**  
**Faculty of Actuaries**  
**May 2022**

**Laura Evans**  
**Mercers Ltd**  
**Fellow of the Institute and**  
**Faculty of Actuaries**

## 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.

It is anticipated that the future value of investments may continue to be exposed to increased market volatility as a result of COVID-19 and more recently the effects of the Russia / Ukraine conflict as well as inflation rises which may impact on the value of the Fund in the short to medium term; however, it is not possible to reliably estimate the financial impact of this on the position and performance of the Fund in future periods.

The impact of inflation and consequent price rises on fuel and the cost of living is likely to impact on increasing budgetary pressures and it is unlikely that the level of funding that local government bodies receive in future years will keep pace with pressures being faced. This will need to be taken into account for employer's contributions to the Fund

The Fund Accounts include more detail regarding the impact of COVID-19, the Russia / Ukraine conflict and inflation in the accompanying disclosure notes concerning Funding Arrangements and Accounting Assumptions and the Chief Financial Officer's foreword.

## 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 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: -

	2020/21	2021/22
By Category	£m	£m
Employers		
Normal contributions	119.2	47.6
Deficit recovery contributions	54.0	14.6
Augmentation contributions	2.5	2.6
Additional contributions	0.0	0.0
Employees		
Normal contributions	25.0	25.6
Additional contributions	0.5	0.3
	<b>201.2</b>	<b>90.7</b>

	2020/21	2021/22
By authority:	£m	£m
Worcestershire County Council	89.2	11.2
Scheduled bodies	99.0	68.3
Community admission bodies	5.2	3.8
Transferee admission bodies	6.9	6.4
Designated bodies	0.9	1.0
	<b>201.2</b>	<b>90.7</b>

The reduction in contributions in 2021/22 was due to a number of major employers paying three years of contributions upfront.

## 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. Individual transfers in and from other pension funds are as follows: -

	2020/21	2021/22
	£m	£m
Individual transfers	12.5	13.7
Bulk transfers	16.5	0.0
	<b>29.0</b>	<b>13.7</b>

## 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:	2020/21	2021/22
	£m	£m
Pensions	92.8	95.5
Commutations and lump sum retirement benefits	16.8	17.4
Lump sum death benefits	3.0	2.7
	<b>112.6</b>	<b>115.6</b>

By authority:	2020/21	2021/22
	£m	£m
Worcestershire County Council	41.9	40.9
Scheduled bodies	58.2	61.2
Admitted bodies	1.6	1.7
Community admission bodies	7.0	7.1
Transferee admission bodies	3.1	4.1
Designated bodies	0.8	0.6
	<b>112.6</b>	<b>115.6</b>

## NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020/21	2021/22
	£m	£m
Individual transfers	9.5	10.0
Group transfers	0.0	0.0
	<b>9.5</b>	<b>10.0</b>

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.

	2020/21	2021/22
	£m	£m
Employee expenses	0.6	0.6
Support services	0.5	0.5
Actuarial services	0.5	0.4
Other expenses	0.4	0.2
	<b>2.0</b>	<b>1.7</b>

The audit fee (included in support services above) for work completed by the Fund's external auditors for the year ended 31 March 2022 was £32,743 (31 March 2021: £33,743), 1.8% (31 March 2021: 1.7%) of total admin costs. In addition, a non audit service fee of £8,500 included in support services above was incurred relating to IAS19 requirements.

## 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.

	2020/21	2021/22
	£m	£m
<b>Oversight and Governance</b>	0.2	0.4
LGPSC*	0.7	0.7
<b>Investment Management Expenses</b>		
Administration, management and custody fees	17.3	20.4
Other expenses	0.0	0.0
	<b>18.2</b>	<b>21.5</b>

\*LGPS is the governance and management costs the Fund contributes towards the Pooling company

## 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 oversight and governance. All investment management expenses are accounted for on an accruals basis. The management costs are as follows: -

2021/22	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.2	1.0	0.0	1.2
LGPS Central (Emerging Markets)	1.5	1.6	0.0	3.1
LGPS Central (Global Climate Fund)	0.1	0.0	0.0	0.1
Nomura Asset Management UK Ltd	0.7	0.4	0.0	1.1
Legal & General Asset Management	0.5	0.0	0.0	0.5
Green Investment Bank	0.6	0.0	0.0	0.6
Hermes	0.7	0.0	0.0	0.7
Invesco	0.8	0.0	0.0	0.8
VENN	0.3	0.0	0.0	0.3
Walton Street	0.1	0.0	0.0	0.1
AEW	0.1	0.0	0.0	0.1
Stonepeak	8.0	0.0	0.0	8.0
Igneo (Was First Sentier)	0.9	0.0	0.0	0.9
Bridgepoint (was EQT)	1.0	0.0	0.0	1.0
River and Mercantile	0.5	0.1	0.0	0.6
Gresham Forestry	0.3	0.0	0.0	0.3
Gresham (BSIF)	0.5	0.0	0.0	0.5
Closed Mandates & one off advisory fees	0.4	0.0	0.0	0.4
<b>Subtotal</b>	<b>17.2</b>	<b>3.1</b>	<b>0.0</b>	<b>20.3</b>
Custody Fees				0.1
<b>Total Fees</b>				<b>20.4</b>

2020/21	Management Fees	Transaction Costs	Performance Related Fees	Total
			£m	£m
LGPS Central (Bonds)	0.1	1.3	0.0	1.4
LGPS Central (Emerging Markets)	1.4	0.6	0.0	2.0
Nomura Asset Management UK Ltd	1.2	0.3	0.0	1.5
Legal & General Asset Management	0.5	0.0	0.0	0.5
Green Investment Bank	0.5	0.0	0.0	0.5
Hermes	0.5	0.0	0.0	0.5
Invesco	0.8	0.0	0.0	0.8
VENN	0.4	0.0	0.0	0.4
Walton Street	0.1	0.0	0.0	0.1
AEW	0.1	0.0	0.0	0.1
Stonepeak	2.7	0.0	0.0	2.7
First State	0.7	0.0	0.0	0.7
Bridgepoint (was EQT)	0.7	0.0	0.0	0.7
River and Mercantile	0.4	2.5	0.0	2.9
BSIF	2.2	0.0	0.0	2.2
Closed Mandates & one off advisory fees	0.2	0.0	0.0	0.2
<b>Subtotal</b>	<b>12.5</b>	<b>4.7</b>	<b>0.0</b>	<b>17.2</b>
Custody Fees				0.1
<b>Total Fees</b>				<b>17.3</b>

The £20.2m investment management expenses incurred in 2021/22 represent 0.57% or 57 basis points (bps) of the market value of the Fund's assets as at 31<sup>st</sup> March 2022 (0.52% or 52bps as 31 March 2021). The cash for pooled property investments, pooled infrastructure investment and equity protection strategy drawdowns was transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison.

The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled funds mature.

\* The 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 £13.0 million to £20.2 million for 2021/22 (£14.4 million to £18.2 million for 2020/21). 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.

	2020/21	2021/22
	£m	£m
Fixed interest securities	3.5	(0.3)
Equity dividends	9.1	11.6
Pooled property investments	7.4	10.4
Pooled infrastructure investments	8.9	15.6
Interest on cash deposits	0.1	(0.1)
Securities lending	0.1	0.0
	<b>29.1</b>	<b>37.2</b>

## 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.

	2020/21	2021/22
	£m	£m
Withholding tax – equities	(0.4)	(0.2)
	<b>(0.4)</b>	<b>(0.2)</b>

## NOTE 12: INVESTMENTS

	Market value 31 March 2021	Market Value 31 March 2022
	£m	£m
<b>Long term Investment Assets</b>		
LGPS Central shares	1.4	1.4
<b>Investment Assets -LGPS Central Managed</b>		
Equities	402.4	322.5
Pooled investment vehicles	0.0	207.1
Fixed Interest Securities	159.7	206.4
<b>Investment assets -WPF Managed</b>		
Fixed interest securities	192.7	190.4
Equities	448.8	332.9
Pooled investment vehicles	1,518.7	1,508.8
Pooled property investments	160.7	221.9
Pooled infrastructure investments	332.6	426.7
Pooled debt Assets	42.2	76.3
Derivatives - futures	160.5	198.7
Derivatives - forward FX	0.0	0.0
Cash deposits	13.6	13.0
Investment income due	5.3	4.4
Amounts receivable for sales	0.0	0.0
<b>Total investment assets</b>	<b>3,438.6</b>	<b>3,710.5</b>
<b>Investment liabilities</b>		
Derivatives - futures	(156.3)	(167.1)
Derivatives - forward FX	(0.0)	(0.0)
Amounts payable for purchases	(0.0)	(0.0)
<b>Total investment liabilities</b>	<b>(156.3)</b>	<b>(167.1)</b>
<b>Net investment assets</b>	<b>3,282.3</b>	<b>3,543.4</b>

## NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2021 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Change in market value during the year £m	Market value 31 March 2022 £m
-					
<b>Long-term Investment Assets</b>					
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>
<b>Investment Assets -LGPS Central Managed</b>					
Fixed Interest Securities	159.7	60.0	(1.1)	(12.2)	206.4
Pooled investment vehicles	0.0	212.8	(0.1)	(5.6)	207.1
Equities	402.4	0.0	(43.1)	(36.8)	322.5
	<b>563.5</b>	<b>272.8</b>	<b>(44.3)</b>	<b>(54.6)</b>	<b>737.4</b>
<b>Investment Assets -WPF Managed</b>					
Fixed interest securities	192.7	196.7	(198.6)	(0.4)	190.4
Equities	448.8	207.2	(296.9)	(26.2)	332.9
Pooled investment vehicles	1,518.7	263.4	(489.2)	215.9	1,508.8
Pooled property investments	160.7	75.6	(18.2)	3.8	221.9
Pooled infrastructure investments	332.6	63.4	(33.9)	64.6	426.7
Pooled debt investments	42.2	36.9	(4.5)	1.7	76.3
	<b>3,259.2</b>	<b>1,116.0</b>	<b>(1,085.6)</b>	<b>204.8</b>	<b>3,494.4</b>
<b>Derivative contracts:</b>					
Futures	4.2	375.4	(370.8)	22.8	31.6
Forward currency contracts	0.0	0.0	0.0	0.0	0.0
	<b>3,263.4</b>	<b>1,491.4</b>	<b>(1,456.4)</b>	<b>227.6</b>	<b>3,526.0</b>
<b>Other investment balances:</b>					
Cash deposits	13.6			(0.4)	13.0
Investment income due	5.3				4.4
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
<b>Net investment assets</b>	<b>3,282.3</b>			<b>227.2</b>	<b>3,543.4</b>

**Prior year comparators:**

	Market value 31 March 2020	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 2021
-	£m	£m	£m	£m	£m
<b>Long-term Investment Assets</b>					
LGPSCentral – Shares	1.4	0.0	0.0	0.0	1.4
	<b>1.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>
<b>Investment Assets -LGPS Central Managed</b>					
Fixed Interest Securities	285.2	0.0	(1.9)	119.1	<b>402.4</b>
Equities	143.6	0.0	(1.4)	17.5	<b>159.7</b>
	<b>430.2</b>	<b>0.0</b>	<b>(3.3)</b>	<b>136.6</b>	<b>563.5</b>
<b>Investment Assets -WPF Managed</b>					
Fixed interest securities	<b>211.2</b>	397.2	(412.4)	(3.3)	<b>192.7</b>
Equities	<b>307.9</b>	123.9	(108.4)	125.4	<b>448.8</b>
Pooled investment vehicles	<b>1,126.0</b>	91.5	(69.9)	371.1	<b>1,518.7</b>
Pooled property investments	<b>149.8</b>	20.7	(15.3)	5.5	<b>160.7</b>
Pooled infrastructure investments	<b>299.1</b>	45.8	(17.4)	5.1	<b>332.6</b>
Pooled debt investments	<b>38.0</b>	8.9	(4.1)	(0.6)	<b>42.2</b>
	<b>2,562.2</b>	<b>688.0</b>	<b>(630.8)</b>	<b>639.8</b>	<b>3,259.2</b>
<b>Derivative contracts:</b>					
Futures	<b>21.4</b>	367.0	(360.4)	(23.8)	<b>4.2</b>
Forward currency contracts	<b>0.0</b>	0.0	0.0	0.0	<b>0.0</b>
	<b>2,583.6</b>	<b>1,055.0</b>	<b>(991.2)</b>	<b>616.0</b>	<b>3,263.4</b>
<b>Other investment balances:</b>					
Cash deposits	25.5			(13.2)	13.6
Investment income due	5.3				5.3
Amount receivable for sales of investments	0.0				0.0
Amounts payable for purchases of investments	0.0				0.0
<b>Net investment assets</b>	<b>2,614.4</b>			<b>602.8</b>	<b>3,282.3</b>

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. The changes in purchases and sales in derivatives relate to transactions made within the equity protection strategy maintained by River and Mercantile.

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 Fund such as fees, commissions, and other fees.

Transaction costs incurred during the 2021/22 year amounted to £3.0 million, (2020/21: £4.7 million). These transaction costs represent 0.08% or 8bps of the market value of the Fund's assets as at 31 March 2022 (1.4bps at 31 March 2021).

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: 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	2020/21		2021/22	
	£m	%	£m	%
LGPS Central (Bonds)	159.7	5	206.4	6
LGPS Central (Emerging Markets)	402.4	12	322.5	9
LGPSC (Global All World Climate Factor Fund)	0.0	0	207.1	6
JP Morgan Asset Management (Bonds)	0.2	0	0.2	0
JP Morgan Asset Management (Emerging Markets)	1.4	0	1.5	0
Nomura Asset Management UK Ltd	455.0	14	365.8	10
Schroder Investment Management	1.3	0	1.4	0
Legal & General Asset Management	1,514.5	47	1,480.1	43
Green Investment Bank	40.2	1	44.7	1
Hermes (Fund I and II)	104.9	3	103.6	3
Invesco (Euro and a UK Property Fund)	105.1	3	107.6	3
VENN (Fund I & II)	19.4	1	25.2	1
Walton Street (Fund I & II)	9.5	0	10.2	0
AEW	18.8	1	19.9	1
Stonepeak	81.1	2	134.9	4
Igneo (was First Sentier)	100.4	3	114.7	3
Bridgepoint Fund II & III (was EQT)	42.2	1	76.3	2
River and Mercantile	200.6	6	223.4	6
WCC Managed Account	5.0	0	5.4	0
Gresham House (BSIF)	13.9	1	44.2	1
Gresham House Forestry	0.0	0	42.5	1
	<b>3,275.6</b>	<b>100</b>	<b>3,537.6</b>	<b>100</b>

The above excludes £1.4m (2020/21: £1.4m) Invested in LGPSC and £4.4m (2020/21: £5.3m) of investment income due. The following investments represent more than 5% of the net assets of the Fund:

	Market value	% of	Market value	% of
	31 March	total	31 March	total
	2021	Fund	2022	Fund
Security	£m		£m	
LGIM – UK Equity Index Pooled Fund	396.8	12.1	556.1	15.7
LGIM – North America Index Pooled Fund	410.8	12.6	355.2	10.1
LGIM - Client Specific unitised Fund -STAJ	195.2	6.0	352.6	10.0
LGPS Central Emerging Market Equity Pool	402.4	12.3	322.6	9.1
LGIM – Europe (ex-UK) Index Pooled Fund	209.8	6.4	216.1	6.1
LGPS Central All World Equity Climate Factor Fund	0.0	0.0	207.1	5.9
River and Mercantile UK Gilts	192.7	5.9	190.3	5.4
LGIM - MSCI World Mini Volatility Index	188.9	5.8	0.0	0.0

## NOTE 12 C 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 £0.8 million (2020/21: £2.8 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 £0.8 million (2020/21: £2.9 million) representing 105.6% of stock lent.

Income received from stock lending activities was £0.0 million for the year ending 31 March 2022 (2020/21: £0.1 million). 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 a futures contract 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 2019/20 the Fund entered into a contract with River and Mercantile, to hedge the gains in equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts and the strategy has been maintained.

### 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 2021	Economic Exposure	Market Value 31 March 2022
Type of future	Expiration	£m	£m	£m	£m
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	64.6	0.0	138.4
EUROSTOXX exchange traded option	Under one year	0.0	33.1	0.0	21.4
US S+P exchange traded option	Under one year	0.0	62.8	0.0	38.9
Overseas exchanged traded	under one year				
Total assets			160.5		198.7

<b>LIABILITIES</b>		<b>Economic Exposure Value</b>	<b>Market Value 31 March 2021</b>	<b>Economic Exposure Value</b>	<b>Market Value 31 March 2022</b>
<b>Type of future</b>	<b>Expiration</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
UK Gilt exchange traded	Under one year				
UK FTSE exchange traded option	Under one year	0.0	(55.8)	0.0	(98.7)
EUROSTOXX exchange traded option	Under one year	0.0	(34.0)	0.0	(29.0)
US S+P 500 exchange traded option	Under one year	0.0	(66.5)	0.0	(39.4)
Overseas exchanged traded	Under one year				
<b>Total liabilities</b>			<b>(156.3)</b>		<b>(167.1)</b>
<b>Net futures</b>			<b>4.2</b>		<b>31.6</b>

## OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2022

<b>Settlement</b>	<b>Currency Bought</b>	<b>Local Currency Value</b>	<b>Currency Sold</b>	<b>Local Currency Value</b>	<b>Asset Value</b>	<b>Liability Value</b>
		<b>£m</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>
There were no open contracts as at the 31 <sup>st</sup> of March 2022						
					<b>0.0</b>	<b>(0.0)</b>
<b>Net forward currency contracts at 31 March 2022</b>						<b>0.0</b>
<b><u>Prior year comparative:</u></b>						
<b>Open forward currency contracts at 31 March 2021</b>					<b>0.0</b>	<b>0.0</b>
<b>Net forward currency contracts at 31 March 2021</b>						<b>0.0</b>

## 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. Please see Note 16 for further analysis of Cash Instruments.

	<b>2020/21</b>	<b>2021/22</b>
<b>Cash</b>	<b>£m</b>	<b>£m</b>
Cash deposits	7.0	5.4
Cash instruments	6.6	7.6
	<b>13.6</b>	<b>13.0</b>



## 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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
				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 Fund into levels 1 to 3, based on the level at which the fair value is observable:

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2022	£m	£m	£m	£m
<b>Fair Value Financial assets</b>				
Financial assets at fair value through profit and loss	1,056.6	1,914.6	724.9	3,696.1
<b>Total fair value financial assets</b>	<b>1,056.6</b>	<b>1,914.6</b>	<b>724.9</b>	<b>3,696.1</b>
<b>Fair Value Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(167.1)	0.0	(167.1)
<b>Total fair value financial liabilities</b>	<b>0</b>	<b>(167.1)</b>	<b>0.0</b>	<b>(167.1)</b>
<b>Net fair value financial assets</b>	<b>1,056.6</b>	<b>1,747.5</b>	<b>724.9</b>	<b>3,529.0</b>

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Values at 31 March 2021	£m	£m	£m	£m
<b>Fair Value Financial assets</b>				
Financial assets at fair value through profit and loss	1,208.9	1,679.2	535.5	3,423.6
<b>Total fair value financial assets</b>	<b>1,208.9</b>	<b>1,679.2</b>	<b>535.5</b>	<b>3,423.6</b>
<b>Fair Value Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss		(156.3)		(156.3)
<b>Total fair value financial liabilities</b>	<b>0.0</b>	<b>(156.3)</b>	<b>0.0</b>	<b>(156.3)</b>
<b>Net fair value financial assets</b>	<b>1,208.9</b>	<b>1,522.9</b>	<b>535.5</b>	<b>3,267.3</b>

## NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges. This sets out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Sensitivity Analysis	Valuation range +/- %	Value as at 31 <sup>st</sup> March 2022 £m	Valuation Increase £m	Valuation Decrease £m
Pooled Investments - Property Funds	2.7	221.9	227.9	215.9
Pooled Investments - Infrastructure Funds	5.2	426.7	449.1	404.3
Pooled Investments - Debt Funds	2.7	76.3	78.4	74.2
<b>Total</b>		<b>724.9</b>	<b>755.4</b>	<b>694.4</b>

The valuation for these asset classes are based on the volatility over three years of monthly investment returns. The return is based upon the market value and income and trades supplied by our underlying managers and grouped accordingly

### 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 1 <sup>st</sup> April 2021	160.7	332.6	42.2	535.5
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	75.6	63.4	36.9	175.9
Sales and derivative receipts	(18.2)	(33.9)	(4.5)	(56.6)
Unrealised gains/(losses)	3.8	64.6	1.7	70.1
Realised gains/(losses)	0.0	0.0	0.0	0.0
<b>Market value 31<sup>st</sup> March 2022</b>	<b>221.9</b>	<b>426.7</b>	<b>76.3</b>	<b>724.9</b>

## NOTE 15: FINANCIAL INSTRUMENTS

### 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.

Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21		Fair value through profit and loss 2021/22	Financial Instruments at Amortised Cost 2021/22
£m	£m		£m	£m
		<b>Financial assets</b>		
	1.4	Other share capital		1.4
562.1		LGPS Central Managed	736.0	
192.7		Fixed interest securities	190.4	
448.8		Equities	332.9	
1,518.7		Pooled investment vehicles	1,508.8	
160.7		Pooled property investments	221.9	
332.6		Pooled Infrastructure investments	426.7	
42.2		Pooled Debt investments	76.3	

Fair value through profit and loss 2020/21	Financial Instruments at Amortised Cost 2020/21		Fair value through profit and loss 2021/22	Financial Instruments at Amortised Cost 2021/22
£m	£m		£m	£m
160.5		Derivatives - Futures	198.7	
0.0		Derivatives - Forward FX	0.0	
	88.1	Cash		49.4
5.3		Other investment Balances	4.4	
	12.4	Current assets		9.8
	1.6	Non-current assets		1.5
<b>3,423.6</b>	<b>103.5</b>		<b>3,696.1</b>	<b>62.1</b>
		<b>Financial liabilities</b>		
(156.3)		Derivatives - Futures	(167.1)	
(0.0)		Derivatives - Forward FX	0.0	
(0.0)		Other investment balances	0.0	
	(6.0)	Current liabilities		(6.5)
<b>(156.3)</b>	<b>(6.0)</b>		<b>(167.1)</b>	<b>(6.5)</b>
<b>3,267.3</b>	<b>97.5</b>		<b>3,529.0</b>	<b>55.6</b>

## NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022
£m		£m
	<b>Financial assets</b>	
639.8	Fair value through profit and loss	204.8
(13.2)	Financial Assets at Amortised Cost	(0.4)
	<b>Financial liabilities</b>	
(23.8)	Fair value through profit and loss	22.8
<b>602.8</b>	<b>Total</b>	<b>227.2</b>

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 2022:

- 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 Fund'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 and the absolute and relative risk for each portfolio 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 Sub Committee, 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 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	6.9%
Global bonds	6.9%
UK equities	15.4%
Overseas equities	12.4%
UK pooled investment vehicles	15.4%
Overseas pooled investment vehicles	11.5%
Global pooled investment vehicles	11.5%
Emerging markets pooled equities	11.5%
Pooled property investments	2.7%
Pooled infrastructure investments	5.2%
Pooled debt investments	2.7%

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 2022	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.0	0	13.0	13.0
<b>Investment portfolio assets:</b>				
UK fixed interest securities	190.2	6.9	203.3	177.1
Overseas fixed interest securities	0.0	6.9	0.0	0.0
Global bonds	206.5	6.9	220.7	192.3
UK equities	4.5	15.4	5.2	3.8
Overseas equities	323.5	12.4	363.6	283.4
UK pooled investment vehicles	556.1	15.4	641.7	470.5
Overseas pooled investment vehicles	576.4	11.5	642.7	510.1
Global pooled investment vehicles	559.7	11.5	624.1	495.3
Emerging market pooled equities	351.2	11.5	391.6	310.8
Pooled property investments	221.9	2.7	227.9	215.9
Pooled infrastructure investments	426.7	5.2	449.1	404.3
Pooled debt investments	76.3	2.7	78.4	74.2
Net derivative assets	31.6	0.0	31.6	31.6
Investment income due	4.4	0.0	4.4	4.4
Amounts receivable for sales	0.0	0.0	0.0	0.0
Amount payable for purchases	0.0	0.0	0.0	0.0
<b>Total</b>	<b>3,542.0</b>		<b>3,897.3</b>	<b>3,186.7</b>



## Prior-year comparators

Asset Type	Value as at 31 March 2021	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	13.6	0.0%	13.6	13.6
<b>Investment portfolio assets:</b>				
UK fixed interest securities	192.7	5.9%	204.1	181.3
Overseas fixed interest securities	0.0	5.9%	0.0	0.0
Global bonds	159.7	5.9%	169.1	150.3
UK equities	4.3	16.2%	5.0	3.6
Overseas equities	433.9	13.4%	492.0	375.8
UK pooled investment vehicles	396.8	16.2%	461.1	332.5
Overseas pooled investment vehicles	631.2	14.9%	725.3	537.1
Global pooled investment vehicles	497.1	14.9%	571.2	423.0
Emerging market pooled equities	406.6	14.9%	467.2	346.0
Pooled property investments	160.7	3.8%	166.8	154.6
Pooled infrastructure investments	332.6	3.8%	345.3	319.9
Pooled debt Investments	42.2	3.8%	43.8	40.6
Net derivative assets	4.2	0.0%	4.2	4.2
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	0.0	0.0%	0.0	0.0
Amount payable for purchases	0.0	0.0%	0.0	0.0
<b>Total</b>	<b>3,280.9</b>		<b>3,674.0</b>	<b>2,887.8</b>

## 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 2021	Value as at 31 March 2022
	£m	£m
Cash and cash equivalents	13.6	13.0
Cash balances	74.5	36.4
Fixed interest securities	192.7	190.4
<b>Total</b>	<b>280.8</b>	<b>239.8</b>

## 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 Fund's performance reporting advisor, Portfolio Evaluation Limited, 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 to happen.

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 2022 of a +/- 100 basis points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.0	13.1	12.9
Cash balances	36.4	36.8	36.0
Fixed interest securities	190.4	192.3	188.5
<b>Total change in assets available</b>	<b>239.8</b>	<b>242.2</b>	<b>237.4</b>

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	13.6	13.7	13.5
Cash balances	74.5	75.2	73.8
Fixed interest securities	192.7	194.7	190.7
<b>Total change in assets available</b>	<b>280.8</b>	<b>283.6</b>	<b>278.0</b>

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. Changes 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 2021	Asset value as at 31 March 2022
	£m	£m
Overseas quoted securities	433.9	323.5
Overseas pooled investment vehicles	631.2	576.4
Global pooled investment vehicles	497.1	559.7
Global bonds and pooled EM equities	566.3	557.7
Overseas pooled property investments	73.1	104.5
<b>Total overseas assets</b>	<b>2,201.6</b>	<b>2,121.8</b>

Overseas bonds are 100% hedged to GBP as at 31 March 2022.

### 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 6.5% (as measured by one standard deviation).

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

An 6.5% 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 2022	Change to net assets available to pay benefits	
		+6.5%	-6.5%
	£m	£m	£m
Overseas quoted securities	323.5	344.5	302.5
Overseas pooled investment vehicles	576.4	613.9	538.9
Global pooled investment vehicles	559.7	596.1	523.3
Global bonds and pooled EM equities	557.7	594.0	521.4
Overseas pooled property investments	104.5	111.3	97.7
<b>Total change in assets available</b>	<b>2,121.8</b>	<b>2,259.8</b>	<b>1,938.8</b>

Currency exposure - asset type	Asset value as at 31 March 2021	Change to net assets available to pay benefits	
		+7.4%	-7.4%
	£m	£m	£m
Overseas quoted securities	433.9	466.0	401.8
Overseas pooled investment vehicles	631.2	677.9	584.5
Global pooled investment vehicles	497.1	533.9	460.3
Global bonds and pooled EM equities	566.3	608.2	524.4
Overseas pooled property investments	73.1	78.5	67.7
<b>Total change in assets available</b>	<b>2,201.6</b>	<b>2,364.5</b>	<b>2,038.7</b>

### 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 Sub Committee, 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 Fund invests in Cash Instruments, which facilitate management of assets under custody. All liquidity funds chosen have an 'AAA' rating from a leading rating agency. Swap collateral is held to support our equity protection hedge.

The Fund's cash holding at 31 March 2022 was £50.6 million (31 March 2021: £88.1 million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2021	Balances as at 31 March 2022
		£m	£m
<b>Cash Instruments</b>			
BNY Mellon US Dollar Liquidity Fund	AAA	6.3	7.7
JP Morgan Swap Collateral	A+	0.3	0.0
<b>Bank deposit accounts</b>			
The Bank of New York Mellon	A-1+	7.0	5.3
<b>Bank current accounts</b>			
Barclays Bank PLC	A-1	74.5	36.4
<b>Total</b>		<b>88.1</b>	<b>49.4</b>

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 Fund has adequate cash resources to meet commitments.

## NOTE 17: CURRENT ASSETS

	2020/21	2021/22
	£m	£m
Contributions due from employer in respect of:		
Employer	6.2	6.4
Members	1.8	2.0
Cash balances	74.5	36.4
Other Debtors	4.4	1.4
	<b>86.9</b>	<b>46.2</b>

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

## NOTE 18: NON-CURRENT ASSETS

	2020/21	2021/22
	£m	£m
*LGPSC capital advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.3	0.5
Contributions from employers	0.2	0.1
Augmentation	0.4	0.2
	<b>1.6</b>	<b>1.5</b>

\*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

	2020/21	2021/22
	£m	£m
Investment management expenses	(1.0)	(0.9)
Payroll and external vendors	(0.8)	(0.6)
Other expenses	(4.2)	(5.0)
	<b>(6.0)</b>	<b>(6.5)</b>

## 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 £1.4 million in 2021/2022 (2020/2021: £1.5 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 £11.2 million to the Fund in 2021/2022 (2020/2021: £89.2 million 90% 3 year prepayment).

LGPSC has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight Funds participating.

The Fund's share of LGPSC annual running costs of £0.7 million was charged to the Fund in 2021/2022 by LGPSC (£0.7 million in 2020/2021).

### Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and Head of Pensions Administration are deemed to be key management personnel. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2020/21	2021/22
	£000	£000
Short term benefits*	61	78
Long term/ post-retirement benefits**	826	213
	<b>887</b>	<b>291</b>

\*This is annual salary, benefits in kind and employer contributions.

\*\*This is the accrued pension benefits, expressed as cash equivalent transfer value. The main reason for the reduction is that the previous Head of Pensions Administration left the Fund in February 2021 and has been replaced by an interim until the post is filled permanently,

### 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 2022 totalled £493.4 million (31 March 2021: £163.7 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in pooled property investments, pooled infrastructure investments and pooled debt investments. 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

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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 more than £195,000 (which the Fund considers to be material for these purposes) are: -

- HALO Leisure (£1.273million), Herefordshire **Council**.
- Wychavon Leisure Community Association (£0.509million), **Wychavon District Council**.
- Bromsgrove District Housing Trust (£0.679 million), **Bromsgrove District Council**.
- Community Housing Group (£5.835 million), **Wyre Forest District Council**.

There are a further 13 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. There are also 17 organisations with a guarantee via pass through arrangements. As new contractors, these employers will all commence fully funded with no initial funding deficit. In line with the 'Initial pension guarantee' employers above, we are assuming that the active members would remain active on termination of the contract and be transferred back to the relevant school/academy or to the new service provider. On this basis, the amount for all these employers is reflected as nil for this year's accounts.

Three 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 the existing bonds and guarantees from the previous financial year have all been discussed with the actuary and updated where necessary.

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2021/2022 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Utmost 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 Fund Account in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2020/21	2021/22
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.4	0.1
Retirement benefits paid or transferred	(0.2)	(0.6)

The combined value of the AVC funds as at 31 March 2022 was £2.9 million (31 March 2021: £3.1 million).

## 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 Account but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2020/21	2021/22
	£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 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.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code).



## 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 considering 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 as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 2)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, inflation, 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.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"><li>• a 0.25% real investment return lower than assumed would result in an 4.2% increase in the pension liability, which is equivalent to £131m.</li><li>• a 0.25% increase in assumed earnings inflation would result in a 0.2% increase in the value of liabilities, which is equivalent to £7m.</li><li>• a 0.25% increase in assumed life expectancy would result in a 0.5% increase in the value of liabilities, which is equivalent to £17m.</li></ul>

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Property and infrastructure valuations. (Level 3 investments)</b>	<p>The Fund's directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. There is continuing uncertainty regarding the property and infrastructure valuations due to the time that it will take to fully realise the impact of COVID-19 upon these illiquid assets as well as the growing concerns as to inflation rises. The valuations have been updated based on the information available as at 31 March 2022 and may be subject to variations as further market information becomes available. Investments are valued each month as per the latest quarterly statements available to our custodian, which are usually received between 45 and 60 days after quarter end, +/- any activity post statement date</p>	<p>The total value of indirect property investments in the financial statements is £221.9m (£160.7m in 2020/21). There is a risk that this investment may be under or overstated in the accounts.</p> <p>The total value of direct infrastructure investments in the financial statements is £426.7m (£332.6m in 2020/21). There is a risk that this investment may be under or overstated in the accounts.</p>

### 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 well as the details in the table above, further detail is provided in Notes 14a to c above.

**Independent auditor’s report to the members of Worcestershire  
County Council on the pension fund financial statements of  
Worcestershire Pension Fund**

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