

Explanatory Foreword and a Review of the Year 2014/15

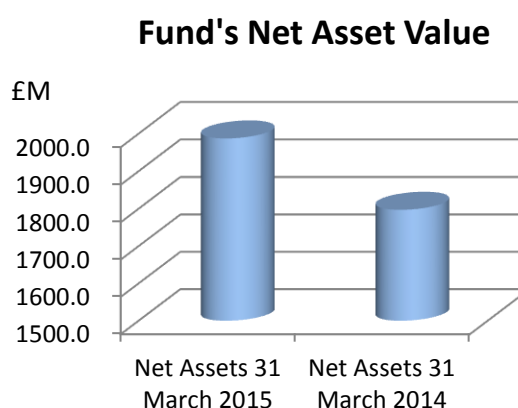
Foreword by the Chief Financial Officer

Welcome to the Worcestershire County Council Pension Fund 2014/15 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

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

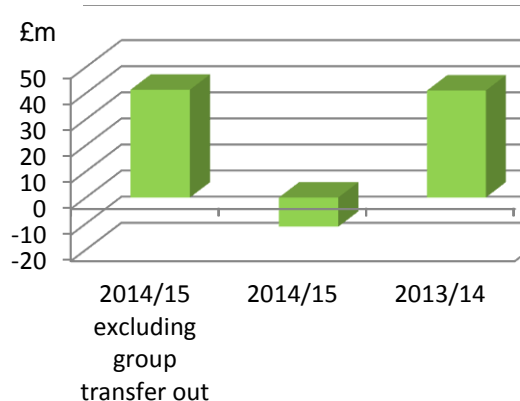
Key headlines

- The value of the Fund's net assets increased £190.2million from £1,797.1 million at 31 March 2014 to £1,987.3 million at 31 March 2015:
- Recurring income from contributions increased by 8.9%, as a result of an increased number of contributors to the fund, partly due to the impact of Auto Enrolment, combined with an uplift in contribution rates following the 2013 actuarial valuation. Net investment earnings decreased by 3.1%, whilst ongoing expenditure increased by 2.9%.
- Contributions from staff and employers plus interest and dividends received exceeded benefits paid in 2014/15 by £47.6 million. It is expected that an operating surplus will exist in the foreseeable future.



Surplus / Deficit on pension fund account

- During the year a deficit resulted on the Per Fund account totalling £ (11.2)million for 2014/15, a decrease of 52.1 million from the surplus of £41.0 million for 2013/14. A group transfer out of the Probation Service to the Greater Manchester Pension Fund of £52.3million took place in February 2015 due to the national restructuring of the National Offender Management Service, without which surplus of £41.3million would have resulted the pension fund account (£0.2million increase compared to 2013/14).



- An analysis of changes within the fund's me

| | 31 March 2014 | 31 March 2015 | Change | Change % |
|---------------------------|------------------|------------------|--------|-------------|
| Contributors to the fund* | 20,739 | 21,569 | 830 | +4.0 |
| Pensions paid | 15,308 | 15,768 | 460 | +3.0 |
| Deferred members** | 16,829 | 17,938 | 1,109 | +6.6 |
| | 52,876 | 55,275 | | |

* The increase in contributors to the fund is in part a result of Automatic Enrolment, which came into effect during 2014/15.

** The increase in deferred members is in part due to employers reducing staff headcount and the ex-employees choosing to retain their accrued benefits in the scheme as opposed to transferring out.

Governance

The Public Service Pensions Bill was introduced in the House of Commons on 13 September 2012, which set out governance requirements for the new Local Government Pension Scheme (LGPS) to be introduced in 2014/15. LGPS regulations on the new governance requirements were published in the first quarter of 2015 and Council approved recommendations in February 2015 to introduce a new Pension Committee from 1st June 2015 and to implement a Pension Board from 1st April 2015. The new Pension Committee will replace the current Shadow Pension Committee, which has been in operation through out 2014/15.

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

The new governance arrangements include the establishment of a Pension Investment Advisory Panel and Pension Administration Forum to support the Pension Committee in its role as Scheme Manager.

Management of the fund's assets

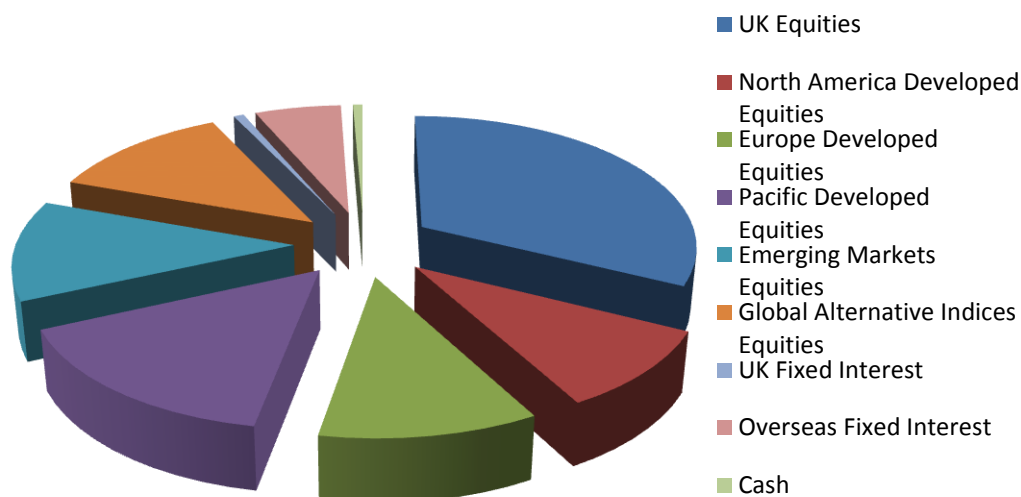
The management of the fund's assets is operated through five specialist external managers with six mandates in total. The Shadow Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Shadow Pension Investment Advisory Committee,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

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Government Securities and Corporate Bonds. As a result of an asset allocation review that took place in November 2013, the following Shadow Pension Committee endorsed recommendations were progressed during 2014/15:

- a) An allocation of up to 10% of the Fund be made to 'Alternatives including property' should opportunities arise in Property or other Alternatives Investment Recommendations over the Fund's inter-valuation period. A move will only be made where a benefit can be demonstrated where returns can be maintained whilst adding diversification to reduce volatility.
- b) Introduce a rolling programme of mandate reviews over the inter-valuation period.

As at 31st March 2015 the Shadow Pension Committee, following a competitive tendering process, endorsed the investment of 10% of the fund's assets into two pooled property funds; Invesco Real Estate – European Fund and Venn Commercial Real Estate Fund, and two pooled Infrastructure funds; UK Green Investment Bank Offshore Wind Fund and Hermes GPE Infrastructure Fund (Core).

The following chart details the distribution of the fund's assets as at 31 March 2015:



Management of the fund's liabilities

The funding strategy is kept under regular review by the Shadow Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The key outcomes of the valuation are detailed below:

- The Fund's assets of £1,721 million represented 69% of the Fund's past service liabilities of £2,488 million (the "Funding Target") at the valuation date. This compares to a similar 69% funded position as a result of the 2010 valuation.
- A common rate of contribution of 14.1% of pensionable pay per annum is required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.
- The deficit of £767 million would be eliminated by a contribution addition of £41m per annum increasing at 4.1% per annum (equivalent to 12% of projected Pensionable Pay at the valuation date) for 21 years.

The next actuarial valuation will be undertaken in 2016/17, with any changes to the employers' contribution rates being implemented with effect from 1 April 2017.

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

Sean Pearce
CPFA
Chief Financial Officer