Worcestershire County Council Pension Fund

Annual Report and Accounts 2012 - 2013

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Investment Monitoring Group
Advisers and Officers as at 31st March 2013

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

Fund Administrator

Patrick Birch CPFA
Director of Resources
Worcestershire County Council
County Hall, Spetchley Road
Worcester WR5 2NP.

Investment Monitoring Group

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Councillor R W Banks
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Councillor D Thain
Jim Price – Unison (Observer)

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Foreword by the Director of Resources

Welcome to the Worcestershire County Council Pension Fund 2012/13 Annual Report and 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. The scheme is a public service pension scheme regulated by statute through the Department of Communities and Local Government (DCLG).

The Local Government Pension Scheme is a contributory final salary scheme, which is contracted out of the second state pension (S2P) and is exempt approved for tax purposes.

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

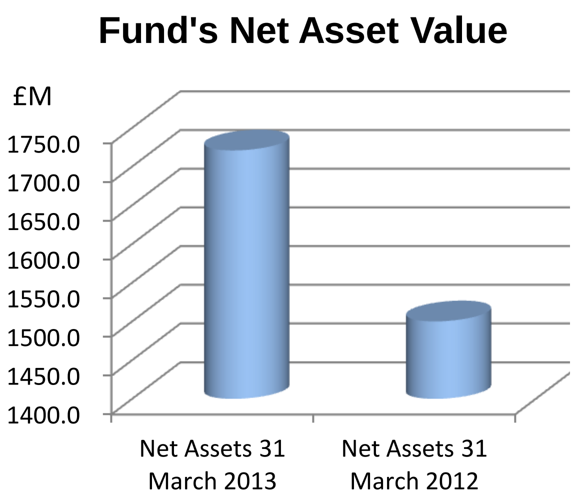
Key headlines

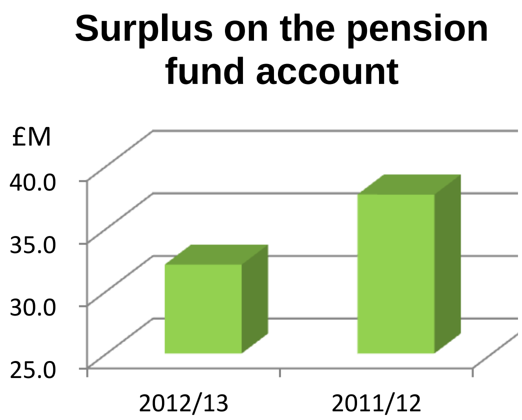
- The value of the Fund's net assets increased by £220.8 million from £1,500.0 million at 31 March 2012 to £1,720.8 million at 31 March 2013.

- Recurring income from contributions increased by 2.0%, whilst net investment earnings fell by 2.0%. Ongoing expenditure increased by 11.2%, mainly due to the investment management fees for the two new Emerging Markets portfolios and increased number of Pensioner members.

- Contributions from staff and employers plus interest and dividends received exceeded benefit entitlements paid in 2012/13 by around £38 million. It is expected that an operating surplus will exist for many years to come.

- During the year the surplus on the Pension Fund account totalled £32.1million for 2012/13, a decrease of £5.6 million from the surplus of £37.7 million for 2011/12.





- Change analysis of the fund's membership profile is displayed below:

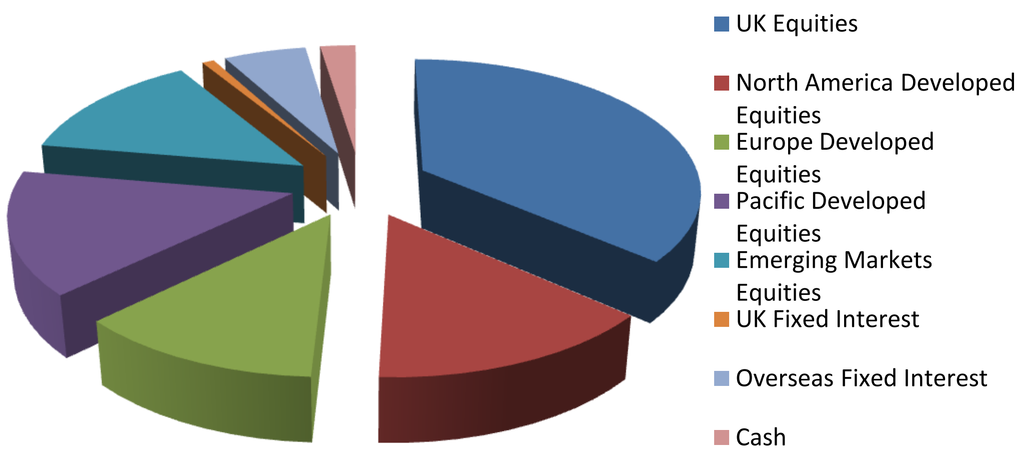
	31 March 2012		31 March 2013	Change	Change %
Contributors to the fund	20,047		19,763	-284	-1.4%
Pensions paid	14,126		14,730	+604	4.3%
Deferred members	14,221		15,411	+1,190	8.4%
	48,394		**49,904**		

Management of the fund's assets

The main asset allocation change during the 2012/13 financial year was a shift from Global Government Bonds and Index Linked Securities to Global Corporate Bonds in November 2012.

The management of the fund's assets is operated through seven specialist external managers in a mix of active and passive equities, under the general direction of the Director of Resources who is advised by a small group of elected members and 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 and Corporate Bonds. The following chart details the distribution of the fund's assets as at 31 March 2013:



Management of the fund's liabilities

The funding strategy is kept under regular review 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 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The next actuarial valuation will be undertaken in 2013/14, with any changes to the employers' contribution rates being implemented with effect from 1 April 2014.

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 including allowance for projected final pay.

Patrick Birch
CPFA
Director of Resources

Development of the Scheme

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

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

LGPS 2014

Following the Hutton Report on public sector pensions, schemes are preparing for major changes which will take place for most schemes by April 2015. However, the unique nature of the LGPS meant that a separate agreement was reached for changes to be implemented by April 2014.

The Local Government Association (LGA) announced the outcome of their negotiations on the new LGPS proposals for England and Wales. These proposals were communicated to Scheme members and Fund employers for formal consultation.

To date, proceedings are on target to meet the statutory formal process to consult on and issue the new regulations ahead of the 2013 triennial Valuation.

Automatic Enrolment

The Government introduced a new law to make it easier for people to save for their retirement. Starting from October 2012 employers will have to put eligible jobholders into a workplace pension scheme. Exactly when this applies (an employers' staging date) depends upon the size of the particular employer but all will be affected over the next 10 years.

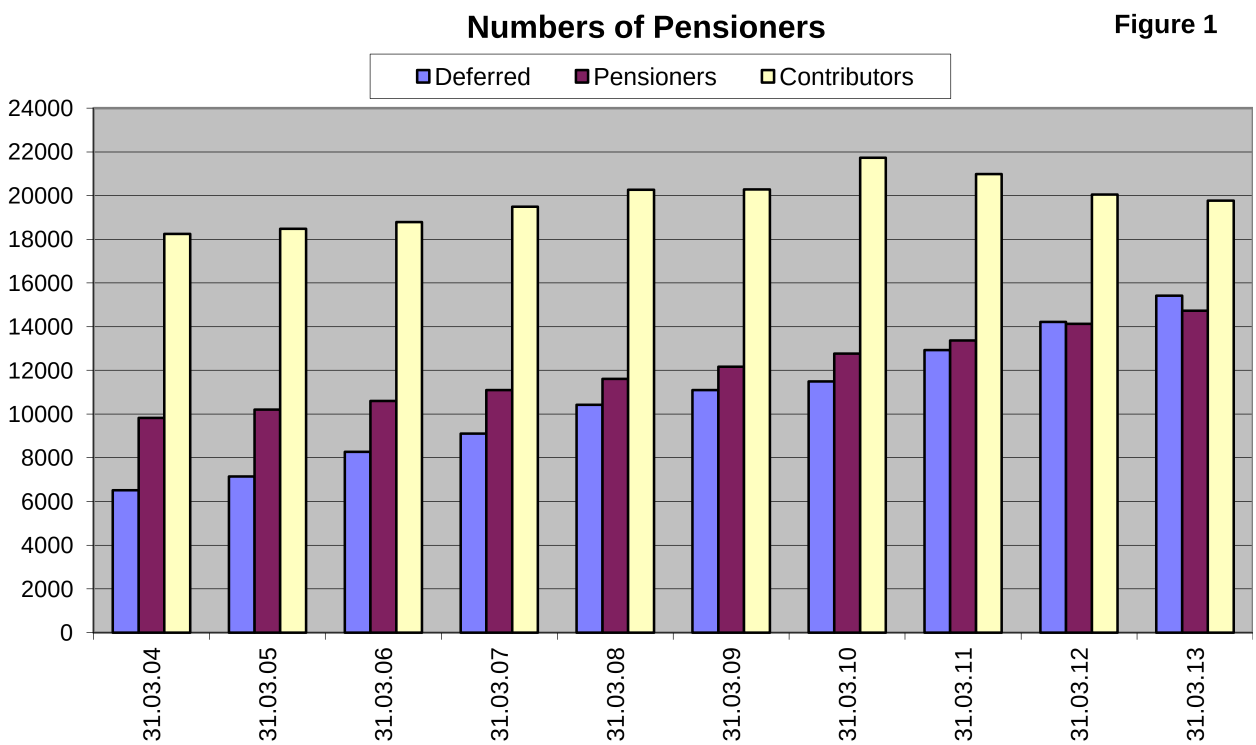
The Fund has raised awareness of the need for employers to address their statutory obligations under the Government's workplace pension reform and facilitated a meeting with the LGPC Senior Pensions Advisor to outline the necessary preparations to ensure compliance with the requirements.

Fund employers are all working to ensure that all the necessary actions are taken in respect of their employees ahead of their own staging date.

Membership

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

Figure 1



Administration – Review of the Year

Legislation

The principle regulations were amended during the year;

- LGPS (Benefits, Membership and Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Miscellaneous) Amendment Regulations 2013
- LGPS (Discretionary Payments) (Injury Allowances) Regulations 2012
- LGPS 2008 Annual Allowance Tax Charge – Scheme Pays Option
- Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006
- LGPS (Management and Investment of Funds) (Amendment) Regulations 2013
- The Occupational and Personal Pension Schemes (automatic enrolment) (amendment) Regulations 2012
- Registered Pension Schemes and Overseas Pension Schemes (Miscellaneous
- Amendment) Regulations 2012
- The Finance Act 2012
- Public Service Pensions Bill 2012/13

Consultations

- LGPS 2014: Draft Regulations
- Fair Deal: Treatment of pensions on compulsory transfer of staff from the public sector
- LGPS: Investment in Partnership
- TUPE Regulations 2006: Consultation on proposed changes
- Automatic Enrolment: Amendments

Autumn Statement 2012 Announcements

- Reduction in Life Time Allowance (LTA) and Annual allowance (AA) for 2014/15 tax year
- Public Health transfer from the NHS to Local Authorities
- Government Actuary Department (GAD): Broad comparability with the LGPS

Budget 2013

- Introduction of the new single state pension from April 2016
- New objective for Pension Regulator to support scheme funding arrangements
- Government to consult on 'fixed protection' and 'individual protection' Spring 2013 following announcement in the 2012 Autumn Statement that LTA will reduce from £1.5m to £1.25m from 2014/15

GAD has also issued an unprecedented amount of new factors and guidance on early retirement, pension debits, additional contributions, small pension pots, GMP equalisation, transfers and tax issues.

Pensions Administration

The Pensions Team meets all of the administration requirements of the Fund, encompassing benefit calculations, regulations, communications and payroll.

Changes to public sector pension schemes and workplace pension saving (automatic enrolment) have been headline news over the past year.

2013 Pension Fund Valuation

Every three years the Fund Actuary, Mercer, carries out a full actuarial valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be covered.

Preparation is underway for the timely provision of requirements for the valuation exercise so the results can be shared with Fund employers October 2013.

Administration staff continue to assist Fund employers and this has been particularly so with the conversion of maintained schools into academies.

There are a number of employers who have undertaken redundancy exercises over the past year, where this is happening, the team, have worked with employers and employees to ensure that everyone is aware of what redundancy means to both parties.

Benchmarking

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

Internal Dispute Resolution Cases

During the year to 31 March 2013, there were two new cases dealt with by the Appointed Person responsible for complaints against decisions made by the Fund. In all of these cases the decision taken by the Fund was upheld.

A total of four new cases were dealt with by the Appointed Person responsible for considering Stage 2 appeals against employer decisions. In three of these cases the employer's decision was upheld. The one case in which the appeal was granted, related to the early payment of deferred benefits on ill health grounds.

Key Staffing Indicators

The administration section of the Fund employees 16 members of staff (10.5 FTE). During the 2012/13 financial year two members of staff left the section and two joined. The Fund therefore has a ratio of one full time equivalent member of the administration staff for every 4,762 Fund members.

Financial Performance and Industry Standard Performance Indicators

The Local Government Pension Committee in conjunction with CIPFA has set a series of National Performance Indicators that measure the quality of service provided by Local Government Pension Schemes. These are set out in the table below along with the Fund's performance over 2012/13;

Performance Indicator (from point at which all required information has been received)	**LGPC Target**	**Achieved %**	**Authority Target**	**Achieved (%)**
Letter detailing transfer **in** quote	10 days	95.0%	10 days	95.0%
Letter detailing transfer **out** quote	10 days	90.0%	10 days	90.0%
Process and pay refund	5 days	90.0%	10 days	90.0%
Letter notifying estimate of retirement benefits	10 days	100.0%	10 days	100.0%
Letter notifying actual retirement benefits	5 days	100.0%	5 days	100.0%
Process and pay lump sum retirement grant	5 days	100.0%	5 days	100.0%
Initial letter acknowledging death of active / deferred / pensioner member	5 days	100.0%	5 days	100.0%
Letter notifying amount of dependant's benefits	5 days	95.0%	5 days	95.0%
Calculate and notify deferred benefits	10 days	80.0%	10 days	80.0%

Detailed below is a budget vs. outturn report on the Pensions Administration costs of the Fund for the financial year ended 31st March 2013, which provides detail of departmental over / under spends over 2012/13:

Subjective Analysis	Latest Approved Budget	Actual Exp	Committed Exp	Total Exp to date		Outturn Forecast	Outturn Variance
	£000	£000	£000	£000	%	£000	£000
Employees:	439	401		401	91.4	401	-38
Insurance Fidelity	3	3		3	110.9	3	0
Indirect Expenses	3	0		0	11.8	0	-3
Re-Structuring Costs:	0	6		6	-	6	6
Transport:	2	1		1	61.1	1	-1
Supplies & Services:							
Design & Print, Safecom	4	2		2	45.2	2	-2
Computer Software / Hardware	0	9		9	-	9	9
Equip, Stationery	5	3		3	62.4	3	-2
Subscriptions	1	6		6	626.5	6	5
Telephone	4	3		3	85.8	3	-1
Postage	50	46		46	91.3	46	-4
External Audit Fee 2011.2012	50	35		35	69.8	35	-15
Consultants	0	0		0	-	0	0
Mercers Fees	180	211		211	117.0	211	31
Heywood Ltd - Licences & Maintenance	110	94		94	85.3	94	-16
Heywood Ltd - Disaster Recovery	6	8		8	132.1	8	2
Heywood Ltd - Upgrade / change request	0	195		195	-	195	195
Insurances	2	2		2	107.7	2	0
LGPS Newsletter	0	7		7	-	7	7
General	2	3		3	130.2	3	1
Income:							
Pensions Fund	-916	-1,105		-1,105	120.7	-1,105	-189
Income from Outside bodies	-19	0		0	-	0	19
SERVICE NET Excl Recharges.	**-76**	**-69**	**0**	**-69**	**90.8**	**-69**	**7**

The Fund's Investment Portfolio and Performance

The County Council as Administering Authority is responsible for the investment of the Pension Fund which is delegated to the Director of Resources. Performance is reviewed by the Director of Resources, supported by an Investment Monitoring Group. The Group consists mainly of County Councillors, advised by an independent financial adviser, and meets on a quarterly basis with an additional annual meeting to consider the full year's performance. The Group also reviews the actions taken by the investment managers in voting the Fund's shares.

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

For management purposes the Fund is divided between seven external investment managers operating a mix of active equity and bond mandates, together with a passive equity Index Tracking brief as set out below:-

Americas Active Equities	Capital International Limited.
European ex-UK Active Equities	UBS Global Asset Management (UK) Limited.
Far East Active Equities	Nomura Asset Management UK Limited.
Passive UK, USA and Europe Equities	UBS Global Asset Management (UK) Limited.
Emerging Markets Active Equities	JP Morgan Asset Management.
Emerging Markets Active Equities	Schroder Investment Management
Bonds	JP Morgan Asset Management.

Performance is measured against respective world indices on a three year rolling basis. The details of the mandates are set out in the Statement of Investment Principles (Appendix 2).The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Statement of Investment Principles, therefore portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset allocation as at 31st March 2013 is shown below;

Shares Managed Actively	**Actual allocation at 31st March 2013 %**	**Long term Strategic Benchmark %**	**Investment Manager and Expected Performance**
North America	7.5	8.5	Capital International - FTSE All World All Americas Index + 1.5%
European ex – UK	2.6	3.0	UBS Global Asset Management (UK) - FTSE All World Europe ex UK Index – Developed Series + 1.5%
Far East Developed	14.8	13.5	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	14.2	13.5	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
			Capital International - FTSE All World All Americas Index + 1.5%
			JP Morgan Asset Management and Schroder Investment Management - FTSE-All World Emerging Market index +2.0%
	39.1	**38.5**	
Shares Managed Passively			
United Kingdom	36.6	36.0	UBS Global Asset Management (UK) - FTSE All Share Index
North America	8.2	5.0	UBS Global Asset Management (UK) - FTSE All World North America Index
Europe ex - UK	9.0	10.5	UBS Global Asset Management (UK) - FTSE All World Europe ex UK Index – Developed Series
	53.8	**51.5**	
Bonds Managed Actively	**6.8**	**10.0**	JP Morgan Asset Management – 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP
WCC Managed Internally	**0.3**	**0.0**	
	100.0	**100.0**	

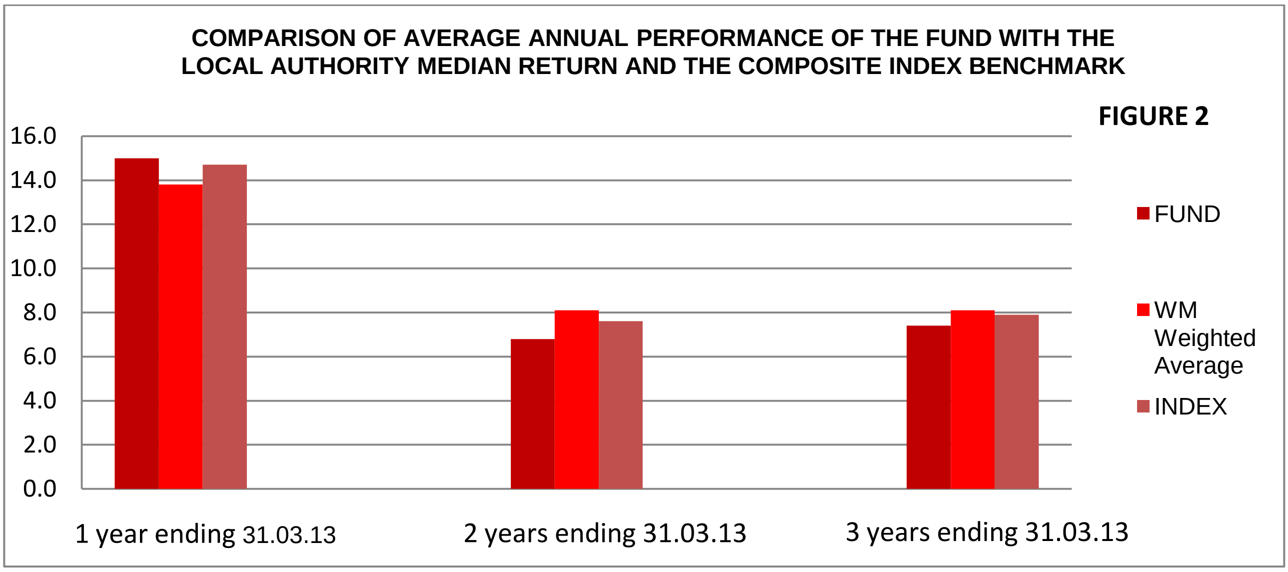
Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing.

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

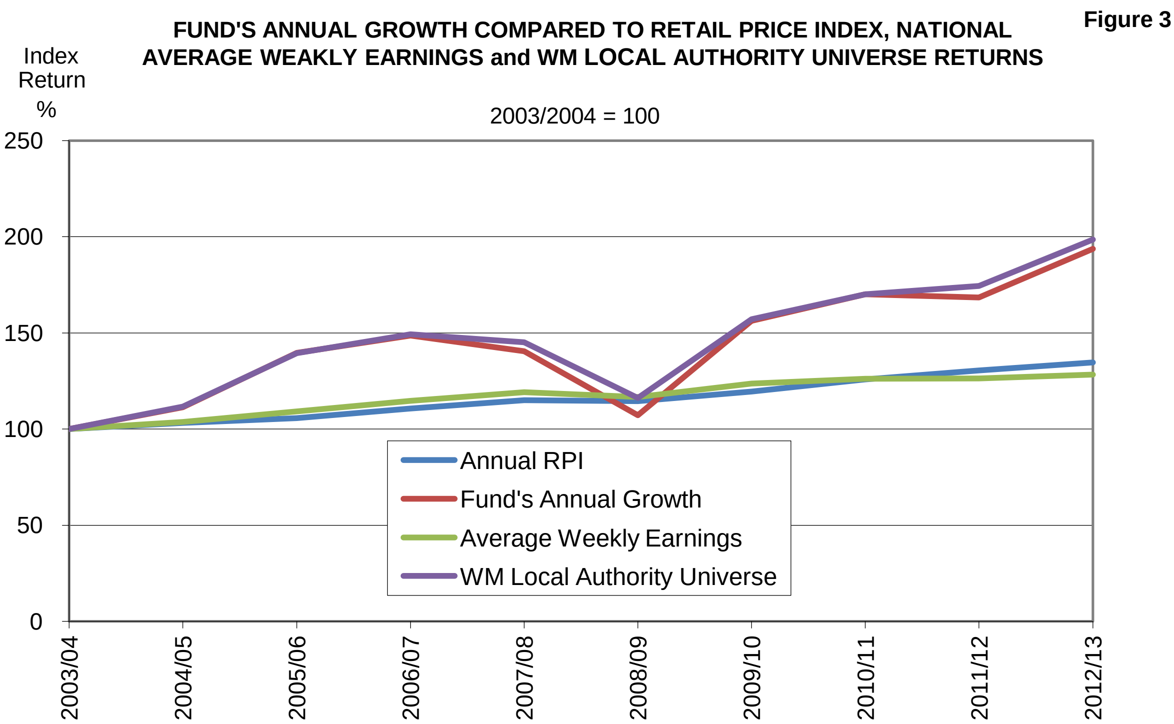
Statistics for measuring the investment managers' performances against the Fund's index benchmarks and against other local authorities, are provided quarterly by the WM Company. The figures show performance in the year 2012/2013 for each fund by means of a time-weighted return, as recommended by the Society of Investment Analysts.

For the financial year ended 31st March 2013 the Worcestershire return of 15.0% outperformed the index benchmark return by 0.3%.The 5-year period to 31 March 2013 shows that the Fund achieved a return of 6.7%, which was above the Local Authority Universe return by 0.2%. A comparison of performance over the 10 years to 31 March 2013, shows an average annual return of 9.3% for Worcestershire, compared to the Local Authority Universe performance of 9.4%.

Figure 2 shows comparisons of the performance returns of the Fund with the Local Authority Median Fund and the composite index benchmark over the shorter periods of the last one, two and three years;



A comparison between the Fund's performance returns against the retail price index and the national average earnings since 2003 is given at Figure 3.



A chart showing the total net assets of the Fund each year since 2003 is given at Figure 5.

Figure 5

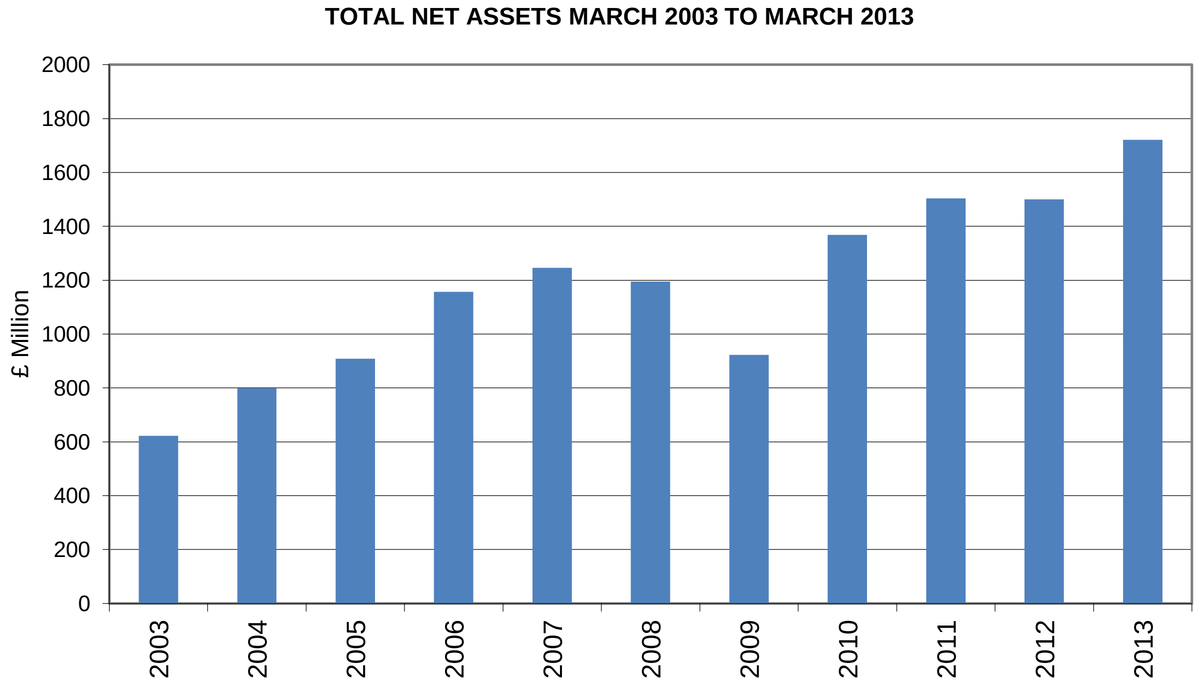
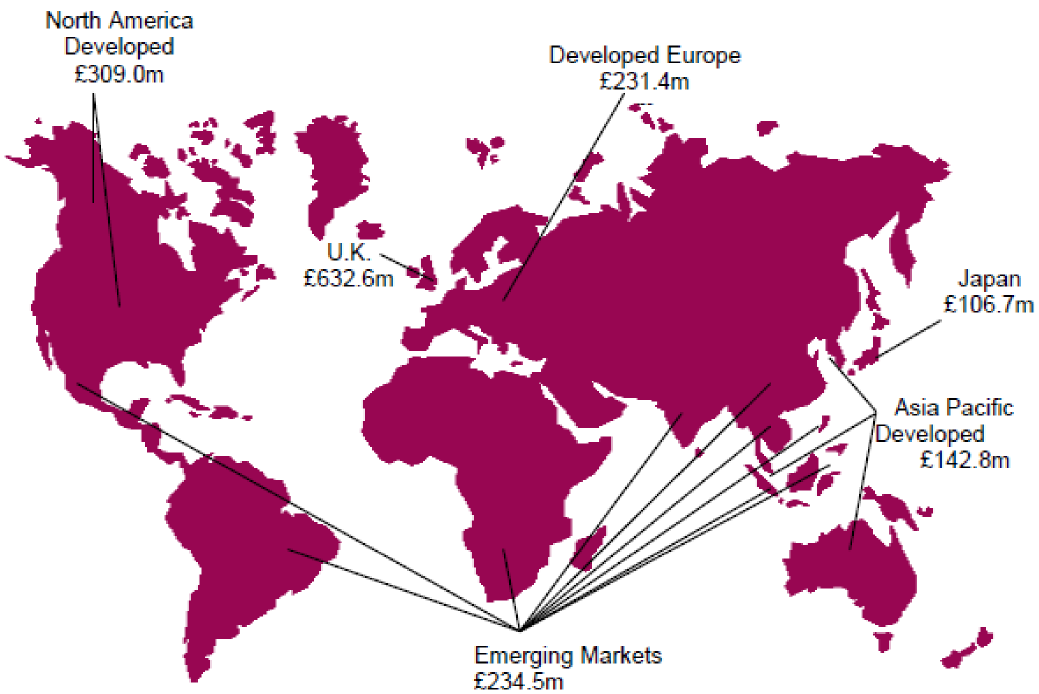


Figure 6 shows the geographical spread of investments (excluding cash).



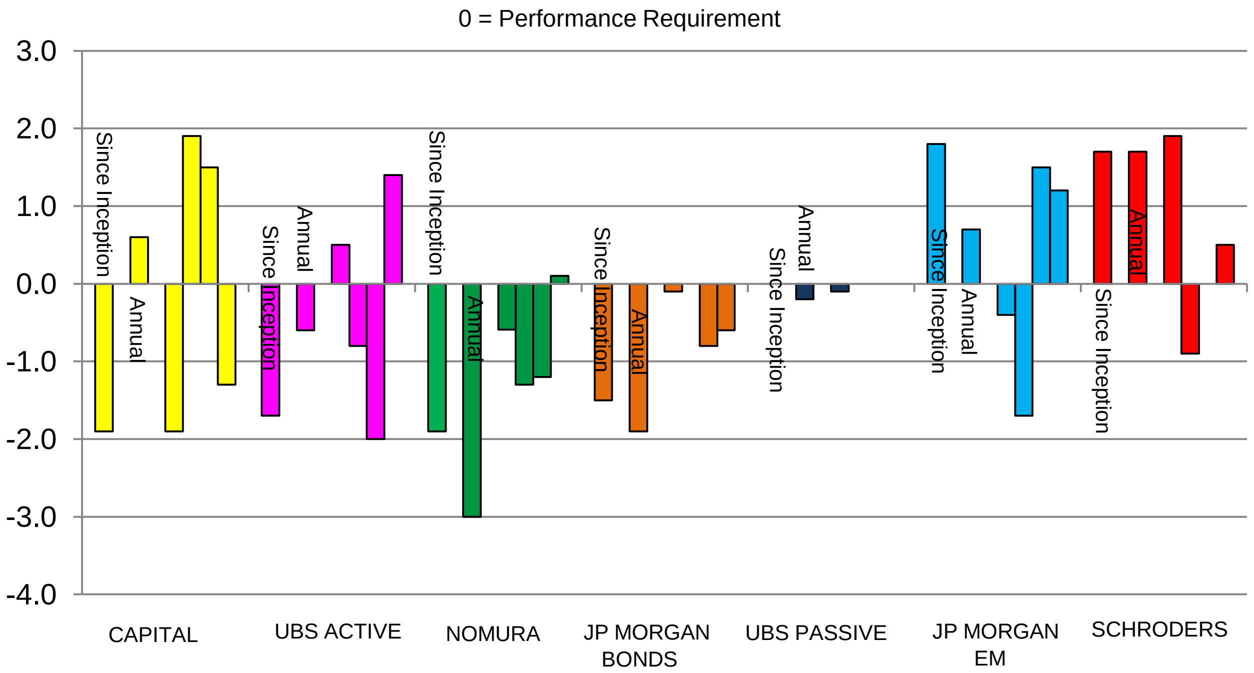
The Fund’s top ten equity holdings (excluding Unitised Trusts) are as follows:

	Market Value at 31.3.13 £m	% of Fund Market Value at 31.3.13
HSBC Holdings	32.4	1.9
Vodafone	23.0	1.4
Royal Dutch Shell B Shares	22.7	1.3
BP	21.9	1.3
Glaxosmithkline	18.9	1.1
British American Tobacco	17.2	1.0
Diageo	13.0	0.8
Samsung Electronics	11.8	0.7
Royal Dutch Shell A Shares	11.7	0.7
Astrazeneca	10.3	0.6
BHP Billiton	10.1	0.6
Rio Tinto	9.6	0.6

The total value of these ten holdings represents 12.0% of the whole Fund.

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

Worcestershire County Council Pension Fund - Chart showing for each manager: performance since inception, annual performance April 2012 to March 2013 and latest year in quarter ends June 2012 to March 2013, relative to performance requirement



Report of the Financial Adviser

The year just past has been an excellent year for the asset value of Worcestershire County Council Pension Fund. The total net assets of the Fund at 31 March 2013 was £1.721bn, compared to £1.500bn at the end of March 2012, a rise of 15%. For the statisticians, the Fund has outperformed the benchmark over the last year by 0.3%, underperformed by 0.4% over 3 years and underperformed by 0.6% over 5 years.

The major reason for this has been the global rise in equity markets, which with the Fund’s assets being very heavily weighted towards equities has provided not only a major boost to the valuation of the Fund but will have enabled better performance than many other LGPS Funds, as they typically have a much greater diversification of their assets across other asset classes. Most Funds have a greater percentage of their assets invested in bonds, were reality seems to be starting to reassert itself after a period when bond values rose to such an extent that the yields achievable had sunk to levels that made them unattractive on almost any basis. It has been a long held stance at Worcestershire County Council Pension Fund to invest in assets that perform well over time and to be wary of investing in asset classes that may perform well on a short term basis but ultimately lag behind over the longer term.

The general perception is that while global equities have enjoyed a very strong period of performance and it is not expected that this rise will continue at the same rate, valuations can still support markets at these levels. The outlook for bonds continues to be seen as negative, due to the continuing overstretched valuations referred to above. The area attracting most interest at the moment is the range of Alternative investments. Within that range the most debate revolves around Infrastructure, as potential investors wrestle with the conundrum that while such investments might look potentially attractive in theory, the practical issues are causing a certain amount of concern. As this area of investment tends to be long term and illiquid, protection against the impact of inflation on fixed returns has to be built into proposed schemes to make them genuinely attractive to potential investors. Many would-be investors therefore want to remain on the sidelines and watch how others get on before committing themselves.

The comments recently attributed to Andrew Sentance and Kate Barker (former Monetary Policy Committee Members) about the possible unpleasant economic consequences of the eventual unwinding of Quantative Easing and rising interest rates are worth taking seriously. These comments have now to some degree been echoed by the IMF. There is a fine balancing act for those in charge of monetary policy, on the one hand ensuring that the economy will ultimately be in better health once out of the “treatment” of Quantative Easing and low interest rates, while on the other hand avoiding a major rise in the value of sterling which could stifle recent export growth with the benefit that is bringing to our balance of payments and the wider economy.

Over the next few months consideration will be given to the implications of the triennial review, which will include looking at the Fund’s asset allocation. From time to time it is good practice to take a look at the ultimate objectives for the Pension Fund and ensure that the Fund’s assets work in the correct way to meet the liability profile that is provided by the Fund actuary. At this stage it is too early to tell what changes will need to be made to the existing allocation, but is important that all asset classes are considered to ensure that the Fund has the best investments to provide the most appropriate shape of returns to pay pensions into the future.

Philip Hebson
Independent Financial Adviser

Risk Management

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

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

Objectives area at risk	Objective at risk	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Risk Score	Actions Taken	Residual Risk Score
Investments	To maximise the returns from investments with reasonable risk parameters.	If investment return is below that assumed by the actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger the risk.	Directorate Threat	Financial	12	Diversified portfolio, annual strategy review, asset liability study, option to extend recovery periods to smooth contribution increases.	9
Investments	To maximise the returns from investments with reasonable risk parameters.	If investment strategy is inconsistent with funding plan then it can lead to employers paying the incorrect contribution rate.	Directorate Threat	Financial / Reputational	12	Triennial reviews linked with funding strategy and investment strategy. Asset liability study, SIP, interim reviews, Co-ordination between actuary and investment consultant.	2
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible.	Mismatch in asset returns and liability movements result in increased employer contributions.	Strategic Threat	Financial / Reputational	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	6
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.	Failure to administer scheme in line with regulations and policies e.g. LGPS reform - potential changes to scheme member contributions and benefits could be introduced from April 2014. The possibility that the necessary system enhancements required to support this change may not be available until sometime after April 2014.	Directorate threat	Regulatory Compliance/Reputational	12	If required - Manual (rather than automated) calculation of pensionable service and associated benefits plus acceptance that there may be a short period where turnaround times may not meet performance measures due to desire to maintain accuracy during the period of change.	3

The nature and extent of risks arising from Financial Instruments are detailed in note 14 of the Pension Fund Accounts.

Worcestershire County Council

Pension Fund Account

For the year ended 31 March 2013

2011/12 £m		Notes	2012/13 £m
	Dealings with members, employers and others directly involved in the fund		
88.3	Contributions	5	88.8
4.8	Transfers in from other pension funds	6	5.8
93.1			**94.6**
(81.8)	Benefits	7	(85.2)
(4.2)	Payments to and on account of leavers	8	(5.8)
(0.9)	Administrative expenses	9	(1.3)
(86.9)			**(92.3)**
6.2	**Net additions / (Withdrawals) from dealings with members**		**2.3**
	Returns on investments		
37.3	Investment income	10	36.7
(2.4)	Taxes on income	11	(2.5)
(41.6)	Profit and losses on disposal of investments and changes in the market value of investments	12a	188.7
(3.4)	Investment management expenses	15	(4.4)
(10.1)	**Net return on investments**		**218.5**
(3.9)	Net increase / (decrease) in the net assets available for benefits during the year		220.8
1,503.9	Opening fund net assets available for benefits		1,500.0
1,500.0	**Closing fund net assets available for benefits**		**1,720.8**

Net Assets Statement for the year ended 31 March 2013

2011/12 £m		Notes	2012/13 £m
1,448.3	Investment Assets	12	1,689.3
36.2	Cash deposits		34.6
1,484.5			**1,723.9**
(2.4)	Investment Liabilities	12	(19.3)
15.7	Current Assets	16	17.7
5.1	Non Current Assets	17	4.2
(2.9)	Current Liabilities	18	(5.7)
1,500.0	**Net Assets of the fund available to fund benefits at the period end**		**1,720.8**

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

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees (other than teachers, police officers and fire fighters), those of the Herefordshire Council, the District Councils and other bodies in the county of Worcestershire. The County Council has delegated responsibility for the management of the Fund to the Director of Resources.

In matters relating to the management of the Fund's assets the Director of Resources is advised by an Investment Monitoring Group and an independent financial adviser. The Group consists of County Councillors. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually.

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

A list of scheduled and admitted bodies contributing to the Fund is given in note 24 to these accounts.

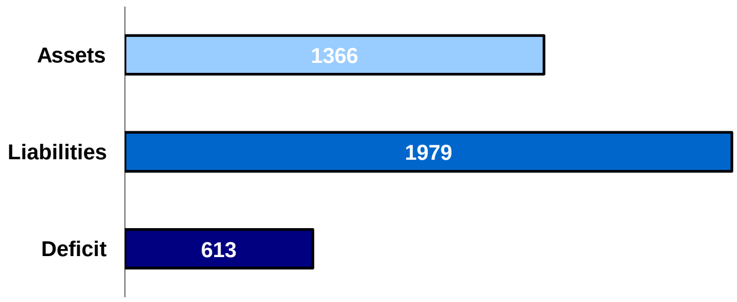
The following table provides detail of fund membership:

	31 March 2012	**31 March 2013**
Contributors to the fund	20,047	19,763
Pensions paid	14,126	14,730
Deferred members	14,221	15,411
	48,394	**49,904**

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

An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund’s assets of £1,366 million represented 69% of the Fund’s past service liabilities of £1,979 million (the “Funding Target”) at the valuation date.



The valuation also showed that a common rate of contribution of 11.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 10.3% of pensionable pay for 19 years. This would imply an average employer contribution rate of 21.9% of pensionable pay in total.

Further details regarding the results of the valuation are contained in the fund's actuary's formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our 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 Funding Strategy Statement (FSS). Different approaches adopted in implementing 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 long term assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.25% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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 long term assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,168 million and £2,366 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £81 million.

3. Pension Fund Investments 2012/13

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

External Fund Manager	31 March 2012		31 March 2013	
	£m	**%**	**£m**	**%**
JP Morgan Asset Management (Bonds)	107.0	7	115.8	7
JP Morgan Asset Management (Emerging Markets)	54.6	4	81.1	5
UBS Global Asset Management (Active)	36.5	2	43.4	3
UBS Global Asset Management (Passive)	806.2	55	913.4	54
Capital International Ltd	135.0	9	126.8	7
Nomura Asset Management UK Ltd	268.3	18	329.1	19
Schroder Investment Management	55.8	4	83.0	5
WCC Managed Account	12.2	1	5.0	0
	1,475.6	**100**	**1,697.6**	**100**

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

Security	**Market value 31 March 2012 £m**	**% of total fund**	**Market value 31 March 2013 £m**	**% of total fund**
UBS Global Asset Management Life UK Equity Tracker	146.0	9.7	173.5	10.1
UBS Global Asset Management Life North America Equity Tracker	89.7	6.0	138.9	8.1

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, ABN AMRO Mellon Global Securities B.V., 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 £19.4million (2012 £22.2million). The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £20.9million (2012 £23.8million) representing 108% of stock lent.

Income received from stock lending activities was £0.2million for the year ending 31 March 2013 (2012 £0.1million). This is included within the ‘Investment Income’ figure detailed on the Pension Fund Account.

4. Events after the Balance Sheet Date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised that require any adjustments to these accounts.

5. Contributions Receivable

By category:

		2011/12 £m	2012/13 £m
Employers			
	Normal	38.6	38.9
	Deficit funding	24.1	26.2
	Augmentation	4.2	3.0
Members			
	Normal	20.9	20.3
	Additional contributions	0.5	0.4
		88.3	**88.8**

By authority:

	2011/12 £m	2012/13 £m
Worcestershire County Council	32.5	31.9
Scheduled bodies	47.6	47.6
Admitted bodies	0.0	0.2
Community admission bodies	6.4	7.6
Transferee admission bodies	1.2	1.1
Designated bodies	0.6	0.4
	88.3	**88.8**

6. Transfers in and from other Pension Funds

	2011/12 £m	2012/13 £m
Individual transfers	4.8	5.8
	4.8	**5.8**

7. Benefits Payable

By category:

	2011/12 £m	2012/13 £m
Pensions	59.9	66.0
Commutations and lump sum		
Retirement benefits	20.6	18.0
Lump sum death benefits	1.3	1.2
	81.8	**85.2**

By authority:

	2011/12 £m	2012/13 £m
Worcestershire County Council	33.8	34.6
Scheduled bodies	41.6	43.8
Admitted bodies	1.7	1.6
Community admission bodies	3.7	3.8
Transferee admission bodies	0.7	0.9
Designated bodies	0.3	0.5
	81.8	**85.2**

8. Payments to and on Account of Leavers

	2011/12 £m	2012/13 £m
Individual transfers	4.2	5.8
	4.2	**5.8**

9. Administrative Expenses

	2011/12 £m	2012/13 £m
Employee expenses	0.4	0.4
Support services	0.3	0.3
Actuarial services	0.2	0.2
Other expenses*	0.0	0.4
	0.9	**1.3**

*Included in 'other expenses' is £306,000 relating to the upgrade of the Pension Administration computer system.

10. Investment Income

	2011/12 £m	2012/13 £m
Fixed interest securities	2.9	3.8
Equity dividends	32.8	34.5
Index linked securities*	1.3	(1.7)
Interest on cash deposits**	0.2	(0.1)
Securities lending	0.1	0.2
	37.3	**36.7**

* Investment income from Index Linked Securities is negative for 2012/13 due to accounting entries for 'Paydown' corporate actions.
**Cash Deposit investment income is negative for 2012/13 due to 'Fixed Interest Bought', which is pending interest on bonds at the date of purchase.

11. Taxes on Income

	2011/12 £m	2012/13 £m
Withholding tax - equities	(2.4)	(2.5)
	(2.4)	**(2.5)**

12. Investments

	Market value 31 March 2012 £m	Market value 31 March 2013 £m
Investment assets		
Fixed interest securities	60.8	108.8
Equities	935.9	1,093.2
Index linked securities	42.6	0.0
Pooled investment vehicles	399.7	455.3
Derivatives - futures	0.0	0.1
Derivatives - forward FX	1.0	0.8
Cash	36.2	34.6
Other investment balances	6.4	7.0
Amounts receivable for sales	1.9	24.1
Total investment assets	**1,484.5**	**1,723.9**
Investment liabilities		
Derivatives - futures	(0.3)	(0.4)
Derivatives - forward FX	(0.3)	(2.8)
Amounts payable for purchases	(1.8)	(16.1)
Total investment liabilities	**(2.4)**	**(19.3)**
Net investment assets	**1,482.1**	**1,704.6**

12 a: Reconciliation of movements in investments and derivatives

-	Market value 31 March 2012 £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 2013 £m
Fixed interest securities	60.8	124.3	(82.8)	6.5	108.8
Equities	935.9	377.4	(344.3)	124.2	1,093.2
Index linked securities	42.6	7.0	(51.4)	1.8	0.0
Pooled investment vehicles	399.7	51.3	(54.3)	58.6	455.3
	1,439.0	**560.0**	**(532.8)**	**191.1**	**1,657.3**
Derivative contracts:					
Futures	(0.3)	1.9	(3.1)	1.2	(0.3)
Forward currency contracts	0.7	6.6	(6.1)	(3.2)	(2.0)
	1,439.4	**568.5**	**(542.0)**	**189.1**	**1,655.0**
Other investment balances:					
Cash deposits	36.2			(0.4)	34.6
Outstanding dividend entitlements and recoverable withholding tax	6.4				7.0
Amount receivable for sales of investments	1.9				24.1
Amounts payable for purchases of investments	(1.8)				(16.1)
Net investment assets	**1,482.1**			**188.7**	**1,704.6**

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

	Market value 31 March 2011	**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 2012**
-	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed interest securities	56.1	42.3	(39.7)	2.1	60.8
Equities	945.4	420.5	(396.2)	(33.8)	935.9
Index linked securities	37.8	6.9	(7.6)	5.5	42.6
Pooled investment vehicles	413.1	34.7	(32.6)	(15.5)	399.7
	1,452.4	**504.4**	**(476.1)**	**(41.7)**	**1,439.0**
Derivative contracts:					
Futures	0.2	2.0	(2.4)	(0.1)	(0.3)
Forward currency contracts	-0.4	6.2	(6.0)	0.9	0.7
	1,452.2	**512.6**	**(484.5)**	**(40.9)**	**1,439.4**
Other investment balances:					
Cash deposits	19.8			(0.7)	36.2
Outstanding dividend entitlements and recoverable withholding tax	5.9				6.4
Amount receivable for sales of investments	5.4				1.9
Amounts payable for purchases of investments	(3.2)				(1.8)
Net investment assets	**1,480.1**			**(41.6)**	**1,482.1**

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.3 million, (2011/12 £1.0 million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

Note 12 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

	31 March 2012 £m	31 March 2013 £m
Fixed interest securities		
UK public sector quoted	0.1	0.0
UK corporate quoted	8.9	13.8
Overseas public sector quoted	0.7	0.3
Overseas corporate quoted	51.1	94.7
	60.8	**108.8**
Equities		
UK quoted	372.1	426.4
Overseas quoted	563.7	666.8
Overseas unquoted	0.1	0.0
	935.9	**1,093.2**
Index Linked		
UK public sector	42.6	0.0
	42.6	**0.0**
Pooled Investment Vehicles		
Other UK managed funds – UK equities	156.7	192.0
– Overseas equities	228.0	235.1
Other overseas managed funds – Overseas equities	15.0	28.2
	399.7	**455.3**
	1439.0	**1,657.3**

Analysis of derivatives

Objectives and policies for holding derivatives

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

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, a significant proportion of the fund's equity portfolio is in overseas stock markets. To reduce volatility associated with the fluctuating currency rates, the fund enables a number of investment managers to purchase and sell forward foreign currencies as a hedge.

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2012 £m	Economic Exposure Value £m	Market Value 31 March 2013 £m
Overseas exchanged traded	Less than one year	2.4	0.0	33.0	0.1
Total assets			**0.0**		**0.1**

Liabilities

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2012 £m	Economic Exposure Value £m	Market Value 31 March 2013 £m
UK gilt exchange traded	Less than one year	(0.3)	(0.0)	(5.1)	0.0
UK FTSE exchange traded	Less than one year	10.0	(0.3)	9.3	(0.2)
Overseas exchanged traded	Less than one year	3.1	0.0	(24.0)	(0.2)
Total liabilities			**(0.3)**		**(0.4)**
Net futures			**(0.3)**		**(0.3)**

Open forward currency Contracts as at 31 March 2013

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	GBP	30.8	EUR	35.7	0.6	
One to six months	USD	5.4	GBP	3.5	0.1	
One to six months	EUR	6.6	GBP	5.7		(0.1)
One to six months	GBP	75.4	USD	118.4		(2.6)
					0.7	**(2.7)**
Net forward currency contracts at 31 March 2013						**(2.0)**
Prior year comparative:						
Open forward currency contracts at 31 March 2012					**1.0**	**(0.3)**
Net forward currency contracts at 31 March 2012						**0.7**

Analysis of Cash

Cash	2011/12 £m	2012/13 £m
Cash deposits	13.0	7.5
Cash instruments	23.2	27.1
	36.2	**34.6**

Note 13: Financial Instruments

Note 13 a: Classification of financial instruments

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

Designated as fair value through profit and loss 31 March 2012 £m	Loans and receivables 31 March 2012 £m	Financial liabilities at amortised cost 31 March 2012 £m		Designated as fair value through profit and loss 31 March 2013 £m	Loans and receivables 31 March 2013 £m	Financial liabilities at amortised cost 31 March 2013 £m
			Financial assets			
60.8			Fixed interest securities	108.8		
935.9			Equities	1,093.2		
42.6			Index linked securities	0.0		
399.7			Pooled investment vehicles	455.3		
0.0			Derivatives - Futures	0.1		
1.0			Derivatives - Forward FX	0.8		
	41.5		Cash		39.9	
8.3			Other investment Balances	31.1		
	10.4		Current assets		12.4	
	5.1		Non-current assets		4.2	
1,448.3	**57.0**	**0.0**		**1,689.3**	**56.5**	**0.0**
			Financial liabilities			
(0.3)			Derivatives - Futures	(0.4)		
(0.3)			Derivatives - Forward FX	(2.8)		
(1.8)			Other investment balances	(16.1)		
		(2.9)	Current liabilities			(5.7)
(2.4)	**0.0**	**(2.9)**		**(19.3)**	**0.0**	**(5.7)**
1,445.9	**57.0**	**(2.9)**		**1,670.0**	**56.5**	**(5.7)**

Note 13 b: Net gains and losses on financial instruments

31 March 2012 £m		31 March 2013 £m
	Financial assets	
(41.8)	Fair value through profit and loss	192.3
(0.7)	Loans and receivables	(0.4)
	Financial liabilities	
0.9	Fair value through profit and loss	(3.2)
(41.6)	**Total**	**188.7**

Note 13 c: Fair value of financial instruments and liabilities

Carrying Value 31 March 2012 £m	Fair Value 31 March 2012 £m		Carrying Value 31 March 2013 £m	Fair Value 31 March 2013 £m
		Financial assets		
1,448.3	1,448.3	Fair value through profit and loss	1,689.3	1,689.3
57.0	57.0	Loans and receivables	56.5	56.5
1,505.3	**1,505.3**	**Total financial assets**	**1,745.8**	**1,745.8**
		Financial Liabilities		
(2.4)	(2.4)	Fair value through profit and loss	(19.3)	(19.3)
(2.9)	(2.9)	Financial liabilities at amortised cost	(5.7)	(5.7)
(5.3)	**(5.3)**	**Total financial liabilities**	**(25.0)**	**(25.0)**

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

Note 13 d: Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions.

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

Values at 31 March 2013	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	 £m
Financial assets				
Financial assets at fair value through profit and loss	1,233.0	456.2	0.1	1,689.3
Loans and receivables	56.5	0.0	0.0	56.5
Total financial assets	**1,289.5**	**456.2**	**0.1**	**1,745.8**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(19.3)	0.0	(19.3)
Financial liabilities at amortised cost	(5.7)	0.0	0.0	(5.7)
Total financial liabilities	**(5.7)**	**(19.3)**	**0.0**	**(25.0)**
Net financial assets	**1,283.8**	**436.9**	**0.1**	**1720.8**

Values at 31 March 2012	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	 £m
Financial assets				
Financial assets at fair value through profit and loss	1047.3	400.8	0.2	1448.3
Loans and receivables	57.0	0.0	0.0	57.0
Total financial assets	**1104.3**	**400.8**	**0.2**	**1505.3**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(2.4)	0.0	(2.4)
Financial liabilities at amortised cost	(2.9)	0.0	0.0	(2.9)
Total financial liabilities	**(2.9)**	**(2.4)**	**0.0**	**(5.3)**
Net financial assets	**1101.4**	**398.4**	**0.2**	**1500.0**

Note 14: Nature and extent of Risks arising from Financial Instruments

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

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

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

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

Market risk

There are three main types of market risk that the Fund is exposed to as at 31 March 2013:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

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

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1000 companies worldwide (excluding investments through pooled vehicles) and using six different investment managers to manage the Fund's equity investments. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's assets cannot take place.

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

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

The Fund employs WM Company to independently measure the Fund's investment returns and the Fund's absolute and relative risk for each portfolio and also the Fund as a whole. The Fund receives quarterly reports from WM Company listing returns and risk. The Fund's Independent Financial Adviser also provides a yearly report to the Investment Monitoring Panel, providing details of the Fund's risk and comparisons to all other Funds in the Local Authority universe.

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	Potential Market Movements (+/-)
UK fixed interest securities	6.5%
Overseas fixed interest securities	5.0%
UK equities	13.1%
Overseas equities	13.6%
UK pooled investment vehicle	13.1%
Overseas pooled investment vehicle	13.6%

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

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

Asset Type	Value as at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	34.6	0.0	34.6	34.6
Investment portfolio assets:				
UK fixed interest securities	13.8	6.5	14.7	12.9
Overseas fixed interest securities	95.0	5.0	99.7	90.2
UK equities	426.4	13.1	482.3	370.6
Overseas equities	666.8	13.6	757.4	576.1
UK pooled investment vehicle	192.0	13.1	217.1	166.8
Overseas pooled investment vehicle	263.3	13.6	299.2	227.5
Net derivative assets	(2.3)	0.0	(2.3)	(2.3)
Investment income due	7.0	0.0	7.0	7.0
Amounts receivable for sales	24.1	0.0	24.1	24.1
Amount payable for purchases	(16.1)	0.0	(16.1)	(16.1)
Total	**1,704.6**		**1,917.7**	**1,491.4**
Total (Including impact of correlation across asset classes)	**1,704.6**		**1,905.8**	**1,503.5**

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 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 2012	Value as at 31 March 2013
	£m	£m
Cash and cash equivalents	36.2	34.6
Cash balances	5.3	5.3
Fixed interest securities	60.8	108.8
Index linked securities	42.6	0.0
Total	**144.9**	**148.7**

Interest rate risk sensitivity analysis

The Council 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 performance measurement provider by way of CIPFA statistics has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2013 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	34.6	0.3	(0.3)
Cash balances	5.3	0.1	(0.1)
Fixed interest securities	108.8	1.1	(1.1)
Total change in assets available	**148.7**	**1.5**	**(1.5)**

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2012	Asset value as at 31 March 2013
	£m	£m
Overseas quoted securities	563.7	666.7
Overseas unquoted securities	0.1	0.1
Overseas pooled investment vehicle	243.0	263.3
Overseas public sector bonds (quoted)*	0.7	0.0
Overseas corporate bonds (quoted)*	51.1	0.0
Total overseas assets	**858.6**	**930.1**

*Overseas bonds are 100% hedged to GBP at 31 March 2013

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.7% (as measured by one standard deviation).

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

A 5.7% 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 2013	Change to net assets available to pay benefits	
		+5.7%	-5.7%
	£m	£m	£m
Overseas quoted securities	666.7	704.7	628.7
Overseas unquoted securities	0.1	0.1	0.1
Overseas pooled investment vehicle	263.3	278.4	248.3
Total change in assets available	**930.1**	**983.2**	**877.1**

Credit Risk

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

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

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

The fund's cash holding at 31 March 2013 was £39.9million (31 March 2012: £41.5million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2012 £m	Balances as at 31 March 2013 £m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	9.2	13.3
BNY Mellon US Dollar Liquid Fund	AAA	7.5	5.5
BNY Mellon Euro Liquidity Fund	AAA	0.5	0.0
JPM liq-ster Liquidity-x	AAA	3.0	6.6
JP Morgan Asset Management (Europe) S.A Sterling Liquidity	AAA	2.0	0.0
JP Morgan Liquidity Funds - US	AAA	1.0	1.6
Bank deposit accounts			
The Bank of New York Mellon	A-1+	13.0	7.6
Bank current accounts			
HSBC PLC	A-1+	5.3	5.3
Total		**41.5**	**39.9**

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 the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension fund has adequate cash resources to meet commitments.

15. Investment Expenses

	2011/12 £m	2012/13 £m
Administration, management and custody fees	3.2	4.3
Other expenses	0.2	0.1
	3.4	**4.4**

Note 16: Current assets

	2011/12 £m	2012/13 £m
Contributions due from employer in respect of:		
Employer	4.8	5.1
Members	1.7	1.7
Magistrates Courts Bulk Transfer Payment Due	0.6	0.7
Augmentation	1.9	1.8
Cash balances	5.3	5.3
Other Debtors	1.4	3.1
	15.7	**17.7**

Note 17: Non-current assets

	2011/12 £m	2012/13 £m
Magistrates Courts Bulk Transfer Payment Due	4.2	3.5
Augmentation	0.9	0.7
	5.1	**4.2**

Note 18: Current liabilities

	2011/12 £m	2012/13 £m
Investment management expenses	(0.9)	(1.2)
Payroll and external vendors	(1.4)	(1.8)
Other expenses*	(0.6)	(2.7)
	(2.9)	**(5.7)**

***Included within 'other expenses' is £1.2m for the fund administration costs recharge to Worcestershire County Council.

Note 19: Analysis of debtors and creditors

Analysis of debtors

	31 March 2012 £m	31 March 2013 £m
Central government bodies	5.1	4.6
Other local authorities	8.9	9.7
Other entities and individuals	1.5	2.3
	15.5	**16.6**

Analysis of creditors

	31 March 2012 £m	31 March 2013 £m
Central government bodies	(0.6)	(0.7)
Other local authorities	(0.5)	(2.5)
Other entities and individuals	(1.8)	(2.5)
	(2.9)	**(5.7)**

20. Related Party Transactions

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

The Council incurred costs of £1.2million (2011/12: £1.0 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £31.9 million to the fund in 2011/12 (2011/12: £32.5 million).

Part of the pension fund cash holdings are invested in the British government's Debt Management Office (DMO) and with other local authorities by the treasury management operations of Worcestershire County Council. As at 31 March 2013 the fund had £5.3 million (31 March 2012: £5.3 million), earning interest during the year to 31 March 2013 of £23,000 (2011/12: £18,000)

The following investment managers employed by the Fund to manage the Fund's investments in global markets are considered related parties;

Capital International Limited
JP Morgan Asset Management
Nomura Asset Management UK Limited
UBS Global Asset Management UK Limited
Schroder Investment Management

The payment of investment management fees are related party transactions with the above managers, which are detailed on an aggregate basis in note 15 to the Pension Fund accounts.

The Pension Fund employs BNY Mellon Asset Servicing as its global custodian. BNY Mellon are considered a related party and the Fund's fee payments to the Custodian are related party transactions and are disclosed in note 15 to the Pension Fund accounts

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 24 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 5, 7, 16, 17, 18 and 19 to the accounts.

The posts of Director of Resources, Head of Corporate Financial Strategy, Head of Financial Practice and Standards, Chief Accountant and HR Service Centre Manager are deemed to be key management personnel with regards to the Pension Fund. The financial value of their relationship with the fund (in accordance with IAS24) are set out below:

	2011/12 £000	2012/13 £000
Short term benefits*	52	43
Long term/post retirement benefits**	97	104
	149	**147**

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

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

21. Contingent liabilities

The Fund had no material contingent liabilities as at 31 March 2013

22. Contingent assets

Four admitted body employers in the Worcestershire County Council Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2012/13 are as follows:

	2011/12	2012/13
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.3	0.3
Change in market value	0.0	0.2
Retirement benefits paid or transferred	0.5	0.3

The combined value of the AVC funds at 31 March 2013 was £3.3million, (31 March 2012 £3.2million).

24. Participating Employers of the Fund at 31 March 2013

Scheduled Bodies

Worcestershire County Council
Ashperton Primary School Academy
Bishop Perowne Academy
Blessed Edward Oldcorne G M School
Brockhampton Academy
Bromsgrove District Council
Building Control
Canon Pyon Academy
Chantry Academy
Christopher Whitehead Academy
Coppice Primary
Droitwich Academy
Dyson Perrins Academy
Flyford Flavell 1st School
Great Malvern Academy
H & W Fire Authority
Hanley Castle Academy
Haybridge Academy
Hereford Accademy
Hereford College of Art
Hereford College of Technology
Hereford Marches Fed of Academies
Hereford Sixth Form College
Hereford Steiner Academy
Herefordshire (unitary)
Holmer Primary School
John Kyrle High & 6th Form Academy
John Masefield High School & Sixth Academy
Joint Museum Shared Services
Kidderminster College of Further Education
Kingstone High School
Kingstone Academy Trust
King Charles Academy
Pershore Academy
Pershore Group of Colleges
Prince Henry's Academy
West Mercia Probation Service
Queen Elizabeth Academy
Redditch Borough Council
Redditch RSA Academies Trust
Regulatory Services (Bromsgrove)
Revenue & Benefits
Ridgeway Academy
Somers Park Academy
South Bromsgrove High School
South Worcestershire College
South Worcestershire ICT Shared Services
St Johns C of E Middle
St Matthias Academy
St Thomas More RC 1st School
St. Ausustines G M School
St. Bedes G M School
St Pauls Academy
Stourport Academy
Stretton Sugwas Academy
Suckley Academy
Trinity Academy
Tudor Grange
The Coppice Primary Academy
The Vaynor Academy
University College Worcester
Walkwood Middle
Waseley Hills Academy
Webheath Academy
West Mercia Police Authority
Whitecross Hereford

Lady Hawkins Academy
Lickhill Academy
Llangrove Academy
Lugwardine Academy
Malvern Hills District Council
Malvern the Chase Academy
Mount Carmel 1st School
North East Worcestershire College
Nunnery Wood Academy
Perry Wood Primary & Nursery
Wigmore Academy
Witton Middle School
Woodrush Academy
Woodfield Academy
Worcester City Council
Worcester College of Technology
Worcester Sixth Form College
Worcestershire Hub
Wychavon District Council
Wyre Forest District Council

Admitted Bodies

Valuation Tribunal

Community Bodies

Bromsgrove District Housing Trust
Community First
Community Housing Group
Courtyard Trust
Encore Enterprises Limited
Festival Housing Group
FOCSA Services (UK) Limited
Hereford Community Leisure Trust (HALO)
Hereford Futures
Herefordshire Housing Association
Hoople Ltd
Malvern Hills Conservators
Rooftop Housing
Worcester Community Housing
Wychavon Leisure Community Association

Transferee Bodies

Amey PLC
Bromsgrove PFI
Cygnet Foods Ltd
Herecad Enterprises Ltd
Midland Heart
Redcliffe Catering Ltd
Ringway
Shaw Homes Health Care
Worcester Communtiy Trust
Wychavon Leisure (BDC)

Designated Bodies

Barrs Court School
Belbroughton parish council
Bredon Parish Council
Broadway Parish Council
Brockhampton Group Parish Council
Bromyard and Winslow Town Council
Droitwich Town Council
Evesham Town Council
Hereford City Parish Council
Kempsey Parish Council
Kingsley College
Lea Parish Council
Ledbury Town Council
Linton Parish Council
Malvern Town Council
Malvern Wells Parish Council
Pershore Town Council
Powick Parish Council
Rock Parish Council
Ross-on-Wye Town Council
Stourport Town Council
Upton - on Severn Parish Council
Upton Bishop PC
Wythall Parish Council

25. Local Government Pension Scheme (LGPS)

Pension Benefits – A Brief Summary

Benefits payable from the Fund are governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2007/08 (as amended).

The Local Government Pension Scheme is a 'Final Salary Scheme' which means that the benefits are based on length of service and pay at the time of retirement.

Up to 31/03/2008 the Scheme provides for a pension based on 1/80th of pay for each year of service and a lump sum payment based on 3/80ths of pay for each year and from 01/04/2008 the scheme provides for a pension based on 1/60th of pay for each year of service with an option to commute to provide for a tax free lump sum. Provision is made for the payment of a pension to a wife, husband, child, civil partner and cohabiting partner in the event of the death of an employee both before and after retirement. In the event of the death of an employee in service a Death Gratuity is payable.

Normal retirement age is 65, but benefits can be paid at age 60.

Provision is made for the payment of immediate benefits with enhancement if retirement at any age is due to permanent ill health.

If after attaining age 55 an employee is made redundant, or retires with the agreement of the employer, immediate payment of pension benefits is allowed.

An employee leaving the service of an Authority before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if pensionable service is less than 3 months. Employees with more than 3 months service have the option of preserving accrued benefits in the fund until retirement age, or transferring benefits to another occupational scheme or personal pension.

Various discretionary options, for the employing bodies and the Fund Administrator, introduced in the 1997 regulations have been issued in policy statements.

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

Statement of Accounting Policies

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

1. General

The Accounts for 2012/13 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and Statement of Recommended Practice (Financial Reports of Pension Schemes) 2007 and also follow the 2012/13 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The codes of practice have been followed, with the exception of any departures indicated below.

The core financial statements are as follows:

- The Fund Account
- Net Assets Statement

2. Legislation

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

3. Contribution Income

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the Fund's actuary.

4. Augmentation/Actuarial Strain Costs

Augmentation contributions represent additional payments paid by employers to reimburse the pension fund for the cost of employees who are allowed to retire before their normal retirement age.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due before 31 March 2014 are classed as non-current financial assets.

5. Transfers to and from other schemes

Transfer values represent the capital sums either received in respect of members transferring from other pension schemes or paid to other pension schemes in respect of members who have left the Worcestershire Fund.

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.

6. Investment Income

Income from equities 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 and index-linked securities, 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 premium, transaction costs 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.

7. Benefits Payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for on the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis on the date the option is exercised.

Other benefits are accounted for on the date the member retires or on death.

Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

8. Taxation

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

9. 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.

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

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

All investment management expenses are accounted for on an accruals basis

Administrative expenses include employee costs that are charged to the fund on an accruals basis. All staff costs of the pensions administration team and the fund accountant are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with the policies of Worcestershire County Council.

10. Financial Assets

Financial assets at fair value through profit or loss are included in the net assets statement on a fair value basis as at the reporting date. Loans and receivables financial assets are included in the net assets statement at amortised cost, measured using the effective interest rate method, at reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value or amortised cost of assets are recognised by the fund.

Quoted Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid price.

The value of fixed interest and index linked securities in the Scheme's investment portfolio excludes interest earned but not paid over at the scheme end. This is included separately within accrued investment income. Fixed interest securities are recorded at net market value based on their current yields.

Un-quoted holdings can include directly held investments in limited partnerships, shares in unlisted companies, trusts or bonds. The valuation standards followed in their valuations adhere to industry guidelines or the standards set by the management agreement.

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.

Transaction costs are included in the purchase cost and sales proceeds of investments.

11. Foreign Currencies

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is recorded at the spot exchange rate at the date of the transaction. Expenditure arising from a transaction in a foreign currency has been translated into £ sterling at the exchange rate in operation on the day the transaction occurred.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

12. Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.
Futures are included in the net assets statement at market value which represents the total exposure to the stock market or asset class that the futures contracts affect. The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.
The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

13. Cash and cash equivalents

Cash comprises demand deposits and cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

14. **Financial liabilities**

Financial liabilities at fair value through profit or loss are included in the net assets statement on a fair value basis as at the reporting date. Loans and receivables financial liabilities are included in the net assets statement at amortised cost, measured using the effective interest rate method, at reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the fund.

15. **Actuarial present value of promised retirement benefits**

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

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 2).

16. **Additional voluntary contributions**

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2012/13 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme members to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only (Note 23).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORCESTERSHIRE COUNTY COUNCIL PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Worcestershire County Council Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFAILASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Worcestershire County Council Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Fund's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources' Responsibilities, the Director of Resources is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and

- have been properly prepared in accordance with the CIPFAJLASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

John Gregory, Director

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

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B46AT

31 July 2013

Appendix 1

Funding Strategy Statement (FSS)

This Statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the funding strategy for the Worcestershire County Council Pension Fund (the Scheme), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and the guidance paper issued in July 2009 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- after consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their funding strategy;
- in preparing the FSS, the Administering Authority must have regard to :-
    - the guidance issued by CIPFA for this purpose; and
    - the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- the FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations"). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the Actuary appointed by the Scheme, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to "secure its solvency", whilst the Actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The Actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Scheme as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. 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, resolution 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,

as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Scheme's performance and funding and amend FSS/SIP when necessary

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Scheme actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The current actuarial valuation of the Scheme is effective as at 31 March 2010. The results of the valuation indicate that overall the assets of the Scheme represented 69% of projected accrued liabilities at the valuation date.

The key financial assumptions making up the funding strategy and as adopted for the 31 March 2010 actuarial valuation are:

	In respect of past service liabilities	In respect of future service liabilities
Fixed interest gilts yield:	4.5%	n/a
Index linked gilts real yield:	0.7%	n/a
Asset Out-performance Assumption Pre Retirement	2.0%	n/a
Asset Out-performance Assumption Post Retirement	0.75%	n/a
Real Earnings Inflation above CPI	1.5%	1.5%
Discount rate (pre retirement)	6.5%	6.75%
Discount rate (post retirement)	5.25%	6.75%
CPI Price Inflation	3.0%	3.0%
Earnings Inflation	4.5%	4.5%
Pension Increases	3.0%	3.0%

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer-term.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Scheme relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Scheme as the liability profile of the membership matures over time.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a. Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target. At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Full details of the assumptions adopted for the 2010 valuation is set out in the actuary's formal report, which is made available to all employers in the Scheme.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Scheme does not hold assets separately for each employer within the Scheme. When allocating the Scheme's overall assets (and liabilities) between employers the fundamental principle adopted is "no cross subsidy". In practical terms this means that for most employers in the Scheme the actuarial calculations seek to identify a notional sub-fund of assets pertaining to each participating employer, and to track these at each full valuation.
The relative allocations of assets within the Scheme to any one employer, as identified at a valuation, will reflect the specifics of experience (such as investment returns achieved, assets accumulated up to the prior valuation, contributions received, pensions paid, etc) for each employer.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates with effect from 1st April 2011:

- The total employer contribution rate will be made up of an element in respect of the ongoing accrual of benefits for current members, plus an addition in respect of deficit recovery (or if applicable an offset in respect of surplus).

- For funding purposes, including valuation calculations, some smaller employers in the Scheme will be grouped. These groupings comprise Town and Parish Councils and two other groups comprising certain small bodies (split into those entering the Scheme before and after 1992).

- A maximum deficit recovery period of 19 years will apply, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

- Where increases in employer contribution rates are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2011/12 may be implemented in steps, over a maximum period of 6 years, where this is considered appropriate by the Administering Authority.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles,

- the supplementary guidance on the funding strategy issued by the CIPFA Pensions Panel in November 2004,

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,

- the Government's aims as regards increases in local authority pension costs, as set out in the letter from the Office of the Deputy Prime Minister dated 10 September 2004, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 69% covered by the current assets, with the funding deficit of 31% being covered by future deficit contributions due from the participating employers.

In assessing the value of the Scheme's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Scheme's assets in line with the least risk portfolio would minimise fluctuations in the Scheme's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2010 valuation would have been significantly higher, by approximately 29% and the declared funding level would be correspondingly reduced to approximately 53%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The benchmark investment strategy used for the valuation as at 31 March 2010, as set out in the SIP (31 March 2010), is:

UK equities	45.0%
Overseas equities	45.0%
Bonds	10.0%

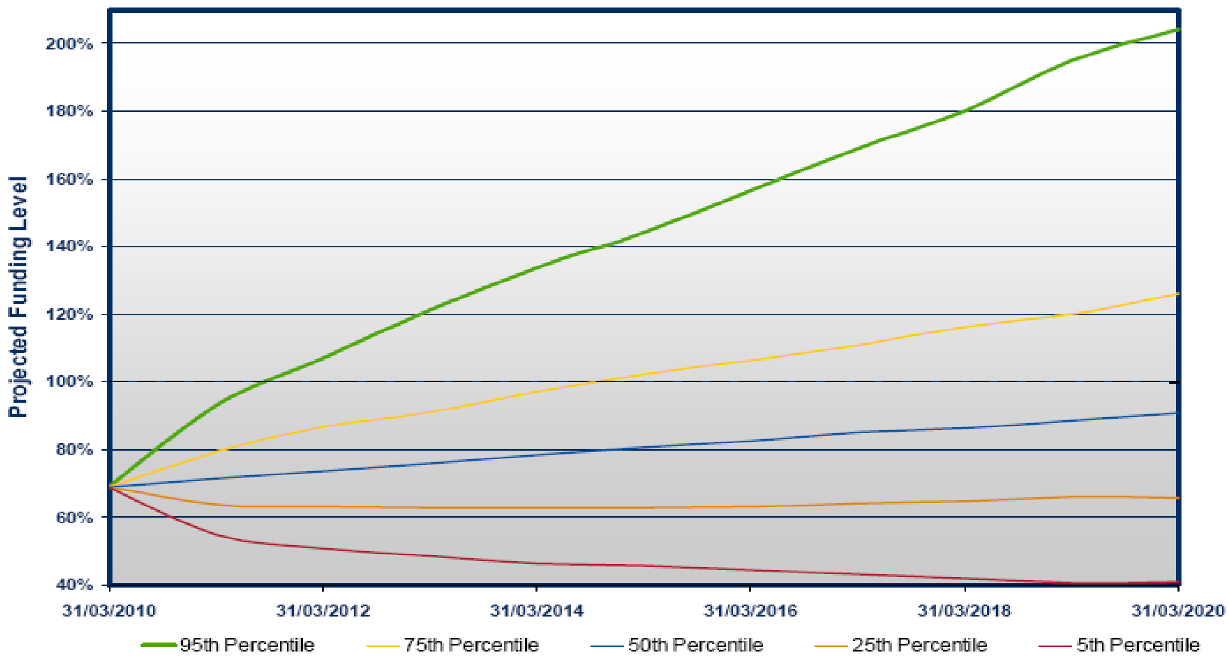
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.75% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance to keep pace with the liabilities of 1.25% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the current investment strategy adopted as set out in the SIP.

7. Investment risks

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the investment return assumptions made.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower). The graph adopts the 2010 actuarial valuation results as a starting point, and allows for the planned contributions into the Scheme based on the valuation and funding strategy. The chart assumes median investment return in line with "best estimate" market expectations, and variability of those returns broadly in line with historic experience.



The above chart assumes that the Scheme's current investment strategy, which involves investing a significant proportion of its assets in equities, will continue.

As mentioned in Section 6, alternative investment strategies could be followed that would minimise the risk of deterioration in the funding position assessed relative to the funding target, for example by raising the proportion of bond investment. Such a strategy would reduce the risk that changing economic conditions would cause deterioration in the Scheme's funding position. It would also tend to produce a more stable contribution rate but at a higher overall level than indicated in Section 4.

Risks associated with the policy for meeting the funding target

The Scheme's policy for meeting the funding target carries a number of risks. The following paragraphs comment on the following potentially material risks:

- some of the employers may not be able to continue to pay contributions or make good deficits in the future;

- the future investment return on assets may be insufficient to meet the funding objective;

- falls in asset values may occur that are not matched by similar falls in the values of liabilities;

- unanticipated future changes in mortality may occur, increasing the cost of the benefits;

- members may exercise options against the Scheme, for example, a lower take-up for retirement cash than that assumed in the valuation;

- additional pay growth from that assumed in the valuation, including as a result of job evaluation exercises or equal pay claims.

If an employer becomes unable to pay contributions, or is unable to make good deficits in the future, the Scheme's assets will be lower than expected and the funding position will be worse than expected. Any shortfall could then become the responsibility of a guarantor or all other employers in the Scheme.

If the future investment return on assets falls short of the rates assumed in the calculation of the funding target and the recovery plan, the funding position would be worse than expected. It is likely that an increase in future employer contributions would be required. The analysis shown earlier in this section illustrates the potential volatility of contribution rates and funding levels to future investment returns.

If market levels and/or gilt yields changed such that the liability values increase by more than the assets, or decrease by less than the assets, the funding position would be worse than expected. An increase in employer contributions would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Scheme show that pensioners are living longer.

If members made decisions around their options such that those decisions increased the Scheme's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the participating employers in the Scheme.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme

Appendix 2

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND – STATEMENT OF INVESTMENT PRINCIPLES

Objective

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

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

Policy

The current long-term investment policy judged most likely to meet these objectives is as follows:

Shares Managed Actively	**%**	**Investment Manager and Expected Performance**
North America	8.5	Capital International - FTSE All World All Americas Index + 1.5%
European ex – UK	3.0	UBS Global Asset Management (UK) - FTSE All World Europe ex UK Index – Developed Series + 1.5%
Far East Developed	13.5	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	13.5	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
		Capital International - FTSE All World All Americas Index + 1.5%
		JP Morgan Asset Management and Schroder Investment Management - FTSE-All World Emerging Market index +2.0%
	38.5	
Shares Managed Passively		
United Kingdom	36.0	UBS Global Asset Management (UK) - FTSE All Share Index
North America	5.0	UBS Global Asset Management (UK) - FTSE All World North America Index
Europe ex - UK	10.5	UBS Global Asset Management (UK) - FTSE All World Europe ex UK Index – Developed Series
	51.5	
	90.0	
Bonds Managed Actively	10.0	JP Morgan Asset Management – 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP
	100.0	

Following changes to the tax treaties between the United States and the United Kingdom, in accordance with Statutory Instrument 2003 No. 2719, 100% of the index tracking mandate (which is lower than the prescribed maximum of 35%) may be invested in any single UBS insurance contract. This decision will be reviewed as part of the annual review of the SIP.

Performance Monitoring

The Actual Return will be measured quarterly and be monitored relative to objectives set over rolling three-year periods. A detailed review will be carried out annually.

Statistics for measuring the Fund Manager’s performance against the Benchmark are provided by the WM Company. Measurement is set against the return achieved by the relative index applying to the asset class, as above.

Realisation of Assets

The Fund is invested generally in assets which are quoted on world stock markets and are therefore readily realisable. It is managed to ensure that adequate liquidity is maintained to allow the payment of pensions without the need to realise assets under unfavourable conditions.

Risk and Diversification of Investments

The Fund controls risk through its strategic asset allocation policy, which ensures diversification of the fund. Further Diversification is provided through the appointment of seven specialist external Fund Managers, with a mix of Bonds and Passive and Active Equity mandates and the assets are held by a global custodian.

Managers are monitored on a quarterly basis and investment performance is kept under constant review. The terms of appointment of managers contain guidelines aimed at limiting the way the portfolio is invested in order to control the level of risk to which the Fund is exposed.

Socially Responsible Investment

In all circumstances the investments should be managed in the best long-term financial interests of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to take account of social and environmental issues.

The Investment Managers are instructed to exercise, on behalf of the Pension Fund, all rights (including voting), attaching to the investments having regard to the best long term financial interests of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to take account of social and environmental issues.

Stock Lending

The Pension Fund allows stock held within its segregated portfolios to be lent to approved borrowers. The Fund's Global Custodian acts as the lending agent for the Securities Lending Program. Collateral is provided by borrowers to protect the Fund's assets and the Fund receives income from the Program.

Review

The Statement of Investment Principles is reviewed annually.

Investment Principles

The Fund complies with the “CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the UK”.

Appendix 3

Policy Statement on Communication Strategy

1. Introduction

1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 135 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.

1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund and after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

1.3 In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);

ii. the format, frequency and method of distributing such information or publicity; and

iii. the promotion of the Scheme to prospective members and their employing authorities.

1.4 The County Council welcomes these regulatory developments as they support one of the Fund's key business objectives of developing clearer communications and providing a seamless service to individual members.

1.5 This document is the first Communication Policy for the Worcestershire County Council Pension Fund. We see this as a starting point and our aim is to significantly develop our communications strategy over time. Comments on the document are very welcome and can be sent to the Pensions Section at the address below or by e-mail to pensions@worcestershire.gov.uk

1.6 In this Communication Policy Statement, we have set out how we will meet the needs of our customers in relation to communications. In doing so we will use the most appropriate and effective communications vehicle to provide information.

2. Communications Strategy

2.1 We strive to communicate effectively with all our internal and external stakeholders.

2.2 We will use clear and concise forms of communication appropriate to the enquiry received and which communicate technical issues without the use of technical jargon. We aim to provide a response to all requests in a timescale, which is appropriate to the enquirer and meets their information objectives.

2.3 To achieve successful and robust communications we have established clear aims for our communications strategy as shown below.

Communications Aims

Organisation & Culture

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

Staff Competency Development

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

Procedures

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

Service standards

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

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

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

3. Communications with Fund Employers

3.1 The Fund comprises of 136 employers whose employees are able to participate in the Local Government Pension Scheme including all the local authorities, the police and fire authorities (for non uniformed staff), FE colleges, Parish Councils a range of voluntary sector bodies, academies and a number of private sector contractors who provide services to local authorities under Best Value arrangements. A full list of participating employers is shown in Note 24 to the Pension Fund Accounts.

3.2 The Fund's aim is to work with employers to define their information needs and expectations and to work with employers to meet those needs, recognising mutual dependencies where appropriate.

3.3 The Fund provides a range of employer communications shown below and our aim is to use the most appropriate communication medium for the employer receiving the information.

Description	***Service***
Website	The Fund website was launched in 2004. The address is; http://www.worcestershire.gov.uk/cms/jobs-and-careers/pensions.aspx It provides Scheme details, publications, contacts, and links to other organisations e. g. Employers Organisation.
Employer Updates	Employers are informed in writing or electronically of all changes in legislation etc and we aim to develop a website to provide employers with legislation, operational items and technical updates and support
Employer Reports	Membership and Benefits administration reports. Provided on request.
'Welcome Pack'	Employer "Welcome pack'' setting out details of the process for joining the Fund
New Employer Training	Provision of Pensions Training for new employers. Ad hoc Meetings - to review operational issues
Employer Meeting	An annual forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet, additional information leaflets (e.g. added years) etc
Administration Forms	Standard forms with guidance notes to notify Pension Section of key events affecting pension benefits.

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

4. Communications with Fund Members

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

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

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

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

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

5. Communications within Fund Administration

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

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

Description	***Current Service***
Induction	All new members of staff attend Pension and County Council induction courses.
Training	Staff have individual Personal Development Plans and regular appraisals. They receive internal and where appropriate external training
Pensions Qualifications	All staff are encouraged and supported to obtain appropriate professional qualifications
Service Plan	The Pensions Section has an Operational Plan, which is actively managed and discussed in regular Team Meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly
Pensions Management Team	Regular meetings to discuss strategic plans and operational issues
Section and Team Meetings	All members of staff attend regular Section and Team Meetings
Intranet	All Pensions staff have access to the intranet providing information on corporate issues.
Internet	Staff have access to the internet.
Email	All members of the Team have an individual email account allowing us to communicate efficiently and effectively
Networking	Staff meet regularly with neighbouring Local Authority Pension Funds to discuss current issues etc.

6. Communications with Professional Advisers

6.1 The Fund employs professional advisers who provide, actuarial and investment management services

6.2 We work in partnership with these advisers to ensure the Scheme remains compliant and that advice sought is implemented in the interest of all Fund stakeholders.

7. Communications with External Bodies

7.1 The Fund communicates with a range of other organisations such as the Department for Communities and Local Government (DCLG), Regional and National Pensions Managers Forums, trades unions etc as shown below.

Description	***Current Service***
DCLG	Responding to consultation proposals for change to the scheme as required by the DCLG Providing information required under disclosure regulations
National Association of Pension Funds (NAPF)	Attending NAPF local authority forum meetings and topical seminars
Society of County Treasurers	A forum of Treasurers and Directors of Finance of all Shire County Councils sharing information and best practice on all financial issues, including matters relating to pension fund management
Pensions Officer Group	A local forum for exchanging information and best practice in benefits administration with other Administering Authorities in the North West and Midlands region

8. Published Documents

8.1 The County Council produces a number of documents shown below which support this communication policy statement.

Document	**Purpose**	**Frequency**
Statement of Accounts	The fund's statutory audited accounts	Produced annually
Annual Reports	Report reviewing performance and summarising major events in each financial year	Produced annually
Funding Strategy Statement	Describes the approach to funding liabilities within the scheme	Reviewed annually
Triennial Valuation Report	Describes the results of the triennial valuation and employer contribution rates	Produced after each triennial valuation (last published in spring 2011)
Pension Scheme Booklet	Describes the benefits available within the scheme	Reviewed at least annually and to reflect regulatory changes Available on website
Annual benefits Statement	Statement of the present and future value of member's benefits	Sent to all employed and deferred members annually
Employee newsletters	Provides briefing on topical developments	Despatched annually or more frequently as required

All published documents are available on the Worcestershire County Council Pension Fund website at http://www.worcestershire.gov.uk/cms/jobs-and-careers/pensions.aspx

Appendix 4

Policy Statement on Governance Strategy

1. Introduction

1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 135 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.

1.2 This Statement should be read in conjunction with the Fund's Statement of Investment Principles and the Funding Strategy Statement which are included in this Report.

1.3 Worcestershire County Council is currently in the process of updating the governance arrangements of the Fund, with a new structure, designed in-line with best practice guidance, expected to come into effect in 'Shadow form' during the 2013/14 financial year.

2. Fund Governance

Governance relating to Fund Investments

2.1 The County Council has delegated responsibility for the management of the fund to the Director of Resources. The Director of Resources reports to the Chief Executive and the Cabinet Member with Responsibility for Finance.

2.2 In matters relating to the management of the Funds assets the Director of Resources is advised by an Investment Monitoring Group, which is made up mainly of councillors from Worcestershire County Council. The composition of the group is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund rather than political representation.

2.3 The Investment Monitoring Group advise the Director of Resources on specific matters relating to:

- the overall strategy for the Pension Fund investments
- monitoring of the overall performance of the Pension Fund and that of the Fund managers
- the appointment of the Fund managers

2.4 The Director of Resources and the Investment Monitoring Group are advised by an independent financial adviser who attends all Group meetings.

2.5 The Leader of the Council is the Chairman of the Investment Monitoring Group, which meets at least quarterly to review the investment performance of Fund Managers in the presence of the independent financial adviser. Further monitoring meetings with Fund Managers are undertaken by officers of the Authority and the outcomes reported to the Group. In addition an annual meeting takes place to consider the full year's performance of the Fund and to review the overall strategy for the Pension Fund Investments.

2.6 The Fund's Statement of Investment Principles (SIP) sets out the arrangements in place for the management of the investments of the Worcestershire County Council Pension Fund.

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

Governance relating to Benefits Administration

2.8 The Pension Scheme regulations allow for several administering and employing authority discretions. The County Council as administering authority has the discretion to determine its own policy.

2.9 Employer meetings are held to which all Fund employers are invited to attend. The meetings provide an opportunity for employers to question and challenge officers on matters of interest to their authority/organisation. The Actuary also attends the employer meetings to discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.

2.10 The Fund always considers the views expressed by employer organisations and staff representatives.

2.11 Other meetings are held as required with employers to discuss important issues such as discretionary policies and regulatory changes.

2.12 We also communicate with our membership by newsletters, roadshows and presentations.

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

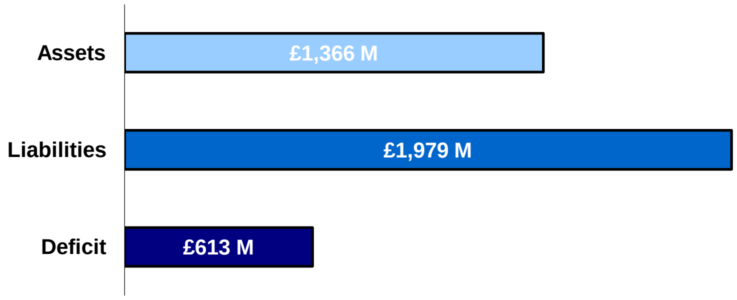
Appendix 5

Statement by the Fund's Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £1,366 million represented 69% of the Fund's past service liabilities of £1,979 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 11.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 10.3% of pensionable pay for 19 years. This would imply an average employer contribution rate of 21.9% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our 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 Funding Strategy Statement (FSS). Different approaches adopted in implementing 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 Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.25% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,168 million and £2,366 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £81 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2012

Appendix 6

Governance Compliance Statement

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

Ref.	Principles	Compliance and comments
A	Structure	
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	In accordance with legislation, the County Council has delegated responsibility for the management of the Pension Fund to the Director of Resources (DR) and in matters relating to the management of the Fund's assets the DR is advised by an Investment Monitoring Group in respect of Fund management.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Delegation is to the DR. The Council has not appointed either a main or secondary committee to administer the Fund or the benefits.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Delegation is to the DR. The Council has not appointed a secondary committee.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Delegation is to the DR. The Council has not appointed a secondary committee.
B	Representation	
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Delegation is to the DR. The Council has not appointed a main or secondary committee.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Delegation is to the DR. The Council has not appointed a main or secondary committee. All members of the Investment Monitoring Group are treated equally.
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Delegation is to the DR. The Council has not appointed a main or secondary committee. The role of members of the Investment Monitoring Group is clearly explained.

b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Delegation is to the DR. The Council has not appointed a main or secondary committee.
D	Voting	
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Delegation is to the DR. The Council has not appointed a main or secondary committee.
E	Training / facility time / expenses	
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Delegation is to the DR. The Council has not appointed a main or secondary committee. Training and expenses for the Investment Monitoring Group are available as required.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Delegation is to the DR. The Council has not appointed a main or secondary committee. The policy applies to all members of the Investment Monitoring Group.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Delegation is to the DR. The Council has not appointed a main or secondary committee. Training for the Investment Monitoring Group is provided as required.
F	Meetings (frequency / quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Delegation is to the DR. The Council has not appointed a main or secondary committee. The Investment Monitoring Group meets quarterly.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Delegation is to the DR. The Council has not appointed a main or secondary committee.
c.	That an administering authority that does not include lay members in its formal governance arrangements, must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Opportunity is provided for all admitted and scheduled bodies to meet annually. The Fund's actuary will attend to present the actuarial valuation.

G	Access	
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Delegation is to the DR. The Council has not appointed a main or secondary committee.
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Employer meeting is held as required to discuss scheme issues and Communication Strategy Statement details engagement with all stakeholders including Fund members.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Details of governance arrangements are included in the Pension Fund Annual Report and Accounts available on the Council's website.

Appendix 7

Glossary of Terms

Accounting Policies

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

Accruals

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

Actuary

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

Admitted Bodies

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

Augmentation

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

Custodian

The organisation that holds and safeguards the Pension Fund assets.

Deferred Pension benefit

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

Derivatives

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

Equities

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

Fixed Interest

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

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

Forward Foreign Exchange

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

Index Linked

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

Pooled Investment Vehicles

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

Scheduled Employers

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

Designated Employers

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

Admitted Bodies

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

Statement of Recommended Practice (SORP)

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

Stock Lending

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

Transfer Values

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

Contact Points

For further information on issues relating to Fund Investments and Accounts please contact:

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

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Or you can write to:-

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Copies of this Annual Report and further information can also be found on the Worcestershire County Council website: (www.worcestershire.gov.uk)