

Worcestershire County Council Pension Fund

Annual Report and Accounts
2010 - 2011

Contents

Investment Monitoring Group, Advisers and Officers	3
Introduction	5
Review of the year	6
The Fund's Investment Portfolio and Performance	8
Report of the Independent Financial Adviser	13
Statement of Accounting Policies	14
Pension Fund Account	16
Net Assets Statement	17
Notes to Pension Fund Accounts	18
Funding Strategy Statement	Appendix 1
Statement of Investment Principles	Appendix 2
Policy Statement on Communication Strategy	Appendix 3
Policy Statement on Governance Strategy	Appendix 4
Statement by the Fund's Actuary	Appendix 5
Governance Compliance Statement	Appendix 6
Glossary of Terms	Appendix 7
Contacts	

Investment Monitoring Group

Advisers and Officers as at 31st March 2011

Administering Authority

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

Councillor A I Hardman
Councillor R W Banks
Councillor S J M Clee
Councillor D Thain
Jim Price – Unison (Observer)

Fund Managers

Capital International Limited,
40 Grosvenor Place,
London SW1X 7GG.

JP Morgan Asset Management
Finsbury Dials, 20 Finsbury Street,
London, EC2Y 9AQ.

Nomura Asset Management UK Limited,
Nomura House, 1 St. Martin's – le – Grand,
London, EC1A 4NP.

UBS Global Asset Management UK Limited,
21 Lombard Street, London, EC3V 9AH.

Mellon Transition Management,
BNY Mellon Centre, 160 Queen Victoria Street,
London, EC4V 4LA

**Global
Custodian**

BNY Mellon Asset Servicing B.V.
The Bank of New York, Mellon Centre,
160 Queen Victoria Street,
London, EC4V 4LA

**Independent
Financial Adviser**

Mr G D Wood
The W M Company
525 Ferry Road,
Edinburgh EH5 2AW

**Actuary to
the Fund**

Mercer Human Resource Consulting,
Mercury Court, Tithebarn Street,
Liverpool L2 2QH.

**Auditors to
the Fund**

Audit Commission
1st Floor,
Millbank Tower,
Millbank,
London, SW1P 4HQ

Introduction

Worcestershire County Council operates the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and firefighters' of the Local Authority 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.

A list of the participating employers is shown in note 18 to the Pension Fund Accounts. 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.

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.

An independent Commission chaired by Lord Hutton has been established to review the long term affordability of public sector pensions. The Commission has been tasked to make recommendations on pension arrangements that are sustainable and affordable in the long term which are fair to both the public sector workforce and the taxpayer.

It is set to produce its final report in time for the 2011 budget. Consequently it is envisaged that there are likely to be fundamental changes to the current benefit structure and scheme design of the LGPS together with an increase to the scheme retirement age.

Membership

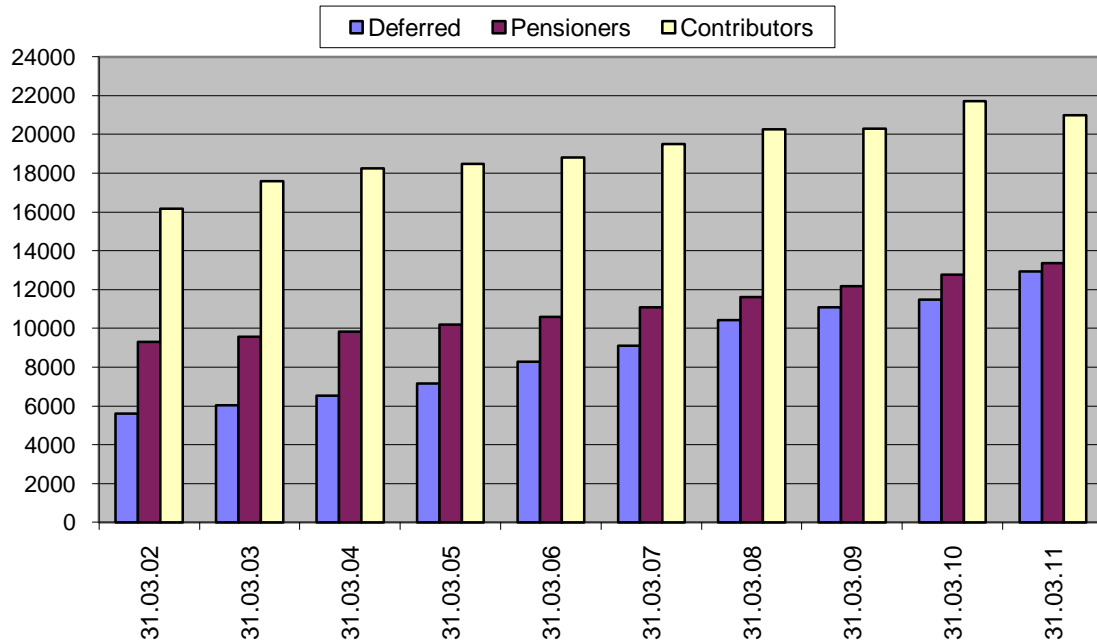
At 31 March 2011 there were 20,984 contributors to the fund (2010 21,725), 13,361 pensions were paid (2010 12,765) and there were 12,934 deferred members of the Fund (2010 11,498). A chart showing the number of contributors, pensioners and deferred pensioners is given at Figure 1.

2010 Emergency Budget and Pension Increases

Following the June 2010 Budget, the Government has changed the index for revaluing pensions and deferred pensions from the rise in the Retail Price Index (RPI) to the rise in the Consumer Prices Index (CPI) with an operative date of April 2011. This will effectively reduce future employer liabilities.

Numbers of Pensioners

Figure 1



Review of the year

Legislation

The principal regulations were amended during the year.

The LGPS (miscellaneous) Regulations 2010

These included a number of changes to the ill health regulations in respect of third tier awards.

The LGPS (Amendment) Regulations 2010

Pensions Administration – Position Update

Report April 2010 Actuarial Valuation

The fund completed and submitted the membership data and cash flow information to its Actuary by the prescribed deadline of 30/06/10, enabling the 2010 triennial valuation to be undertaken.

Experience data Collection for Cost Sharing Mechanism

The fund has forwarded all data requirements to the Government Actuary Department (GAD) in compliance with the scheduled timeframe set by the CLG. The data together with all LGPS data, will provide the evidence base for the new cost sharing arrangements. The subsequent impact on employer and employee contribution rates will be notified at a future point.

Earnings bands for employee contributions

Earnings bands on which employee contributions are calculated will remain unchanged for the coming financial year 2010/11 as RPI inflation for the 12 month period to September 2009 was negative. The fund has written to employers to remind them of the correct employer rates to apply for April 2010.

HMRC proposed tax changes for high earners

The consultation period has closed on proposals to restrict tax relief on pension contributions for high earners (those earning in excess of £130,000.00 pa). It is the Government's intention to repeal the restriction on tax relief on pension contributions for high earners introduced under the Finance Act 2010. The Government is set to work with the pensions industry on 'alternative ways' to implement pension relief restrictions and is considering reducing the annual allowance from the current level of £265,000 to £50,000.

However the anti-forestalling measures implemented on 22/04/09 will remain in place.

Increase in earliest non-ill health retirement age to 55

As previously announced, the minimum retirement age increased from 50 to 55 for all non-ill health leavers after 31 March 2010.

Administration

The team are facing challenging times. The Council's overall funding has reduced and as part of reducing costs and working more efficiently under our BOLD Programme, the Pensions team are busy providing estimates for efficiency exercises as staffing levels reduce.

Key improvement areas

The key improvement areas identified for the pension administration unit are as follows:

- Improve efficiency through development of information technology capability and application.
- Enhance communications with our scheme members/employers.
- Enhance processes/procedures to ensure the quality of service provision for scheme members/employers.
- Improves efforts to increase take up of scheme membership.

Benchmarking

The section measures its efficiency and effectiveness by participating in the CIPFA Benchmarking Club whereby it is compared with other similar sized local authority pension funds.

Complaints

Independent Disputes Resolution Procedure (IDRP)

During the year 2 cases were dealt with by the Appointed Person responsible for considering Stage 1 regarding an appeal concerning tier 3 ill health retirement benefits. No cases were referred at stage 2.

Pensions Ombudsman

There were no cases referred to the Pensions Ombudsman this year.

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, mainly the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, 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 four 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.
Bonds	JP Morgan Asset Management.

The above managers were all appointed between December 2002 and March 2003 following a major restructuring exercise of the Fund. 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 also currently employs BNY Mellon Transition Management to manage the transition of a proportion of the Fund's assets from UK equities to Emerging Market equities, following the termination of GLG Partners LP in 2010.

Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing B.V. who was appointed in November 2002.

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 2010/2011 for each fund by means of a time-weighted return, as recommended by the Society of Investment Analysts. The Worcestershire return of 8.8% out-performed the index benchmark return by 0.3%.

The 5-year period to 31 March 2011 shows that the Fund achieved a return of 4.0%, which was equal to the Universe return.

A comparison of performance over the 10 years to 31 March 2011, published by the WM Company, shows an average annual return of 5.1% for Worcestershire, compared to the Local Authority Universe performance of 5.3%.

**COMPARISON OF AVERAGE ANNUAL PERFORMANCE OF THE
FUND WITH THE LOCAL AUTHORITY MEDIAN RETURN AND THE
COMPOSITE INDEX BENCHMARK**

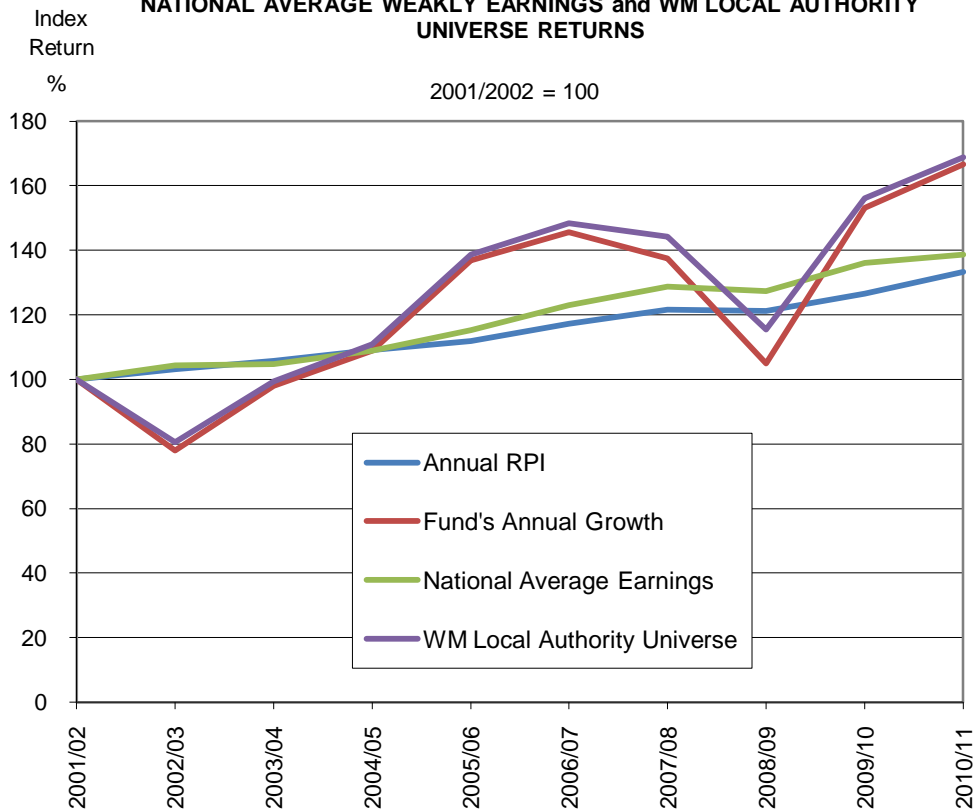
FIGURE 2



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 2002 is given at Figure 3.

FUND'S ANNUAL GROWTH COMPARED TO RETAIL PRICE INDEX, NATIONAL AVERAGE WEEKLY EARNINGS and WM LOCAL AUTHORITY UNIVERSE RETURNS Figure 3

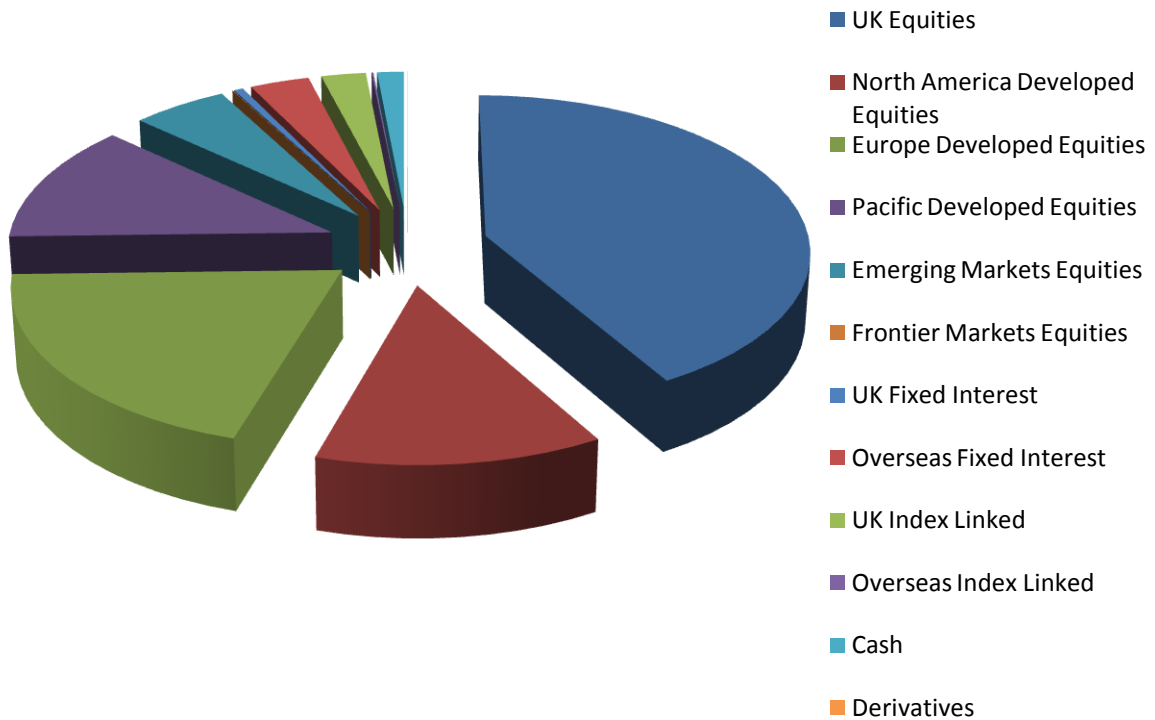


The market value of the Fund's investment portfolio increased from £1,355.7m at 31 March 2010 to £1,474.2m at 31 March 2011.

Investment income for the year amounted to £29.0m being an increase of £5.3m on last year's figure.

Figure 4 shows the distribution of the portfolio in the various categories.

Portfolio Distribution



A chart showing the total net assets of the Fund each year since 2001 is given at Figure 5.

TOTAL NET ASSETS MARCH 2001 TO MARCH 2011

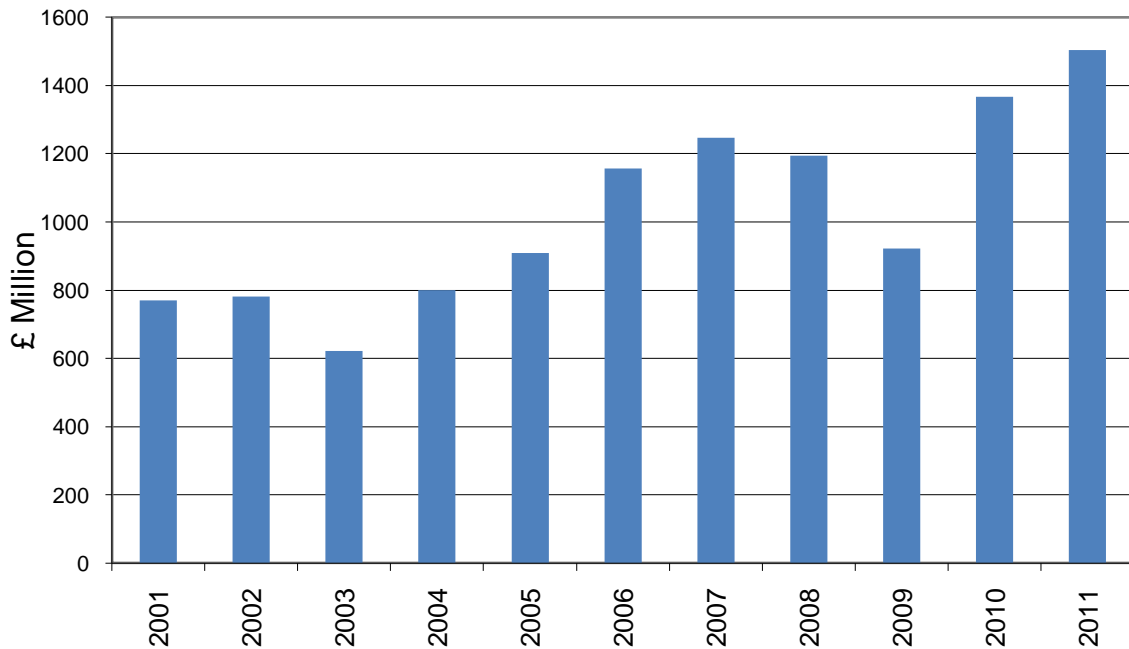
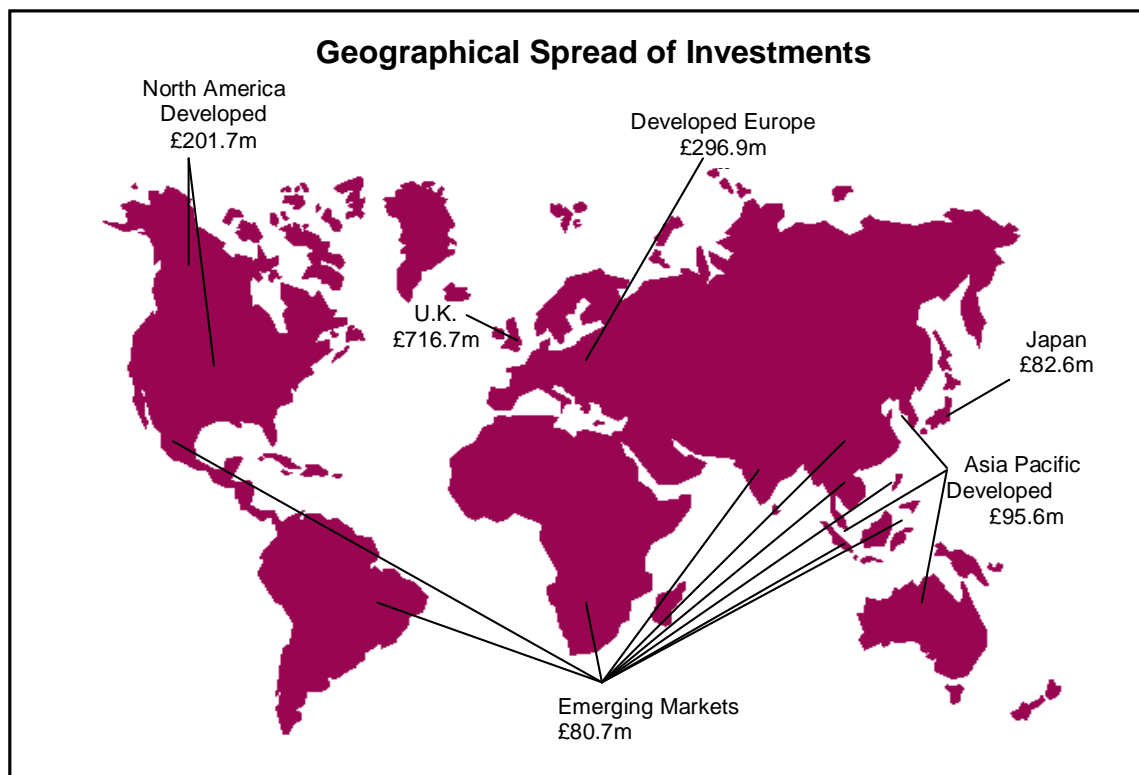


Figure 6 shows the geographical spread of investments.



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

	Market Value at 31.3.11 £m	% of Fund Value at 31.3.11
HSBC Holdings	35.0	2.4
BP	30.0	2.0
Vodafone	25.9	1.8
Royal Dutch Shell	25.7	1.7
Glaxosmithkline	22.5	1.5
Rio Tinto	15.6	1.1
BG Group	14.3	1.0
BHP Billiton	12.7	0.9
British American Tobacco	11.6	0.8
BT Group	10.1	0.7

The total value of these ten holdings represents 13.9% of the whole Fund.

Investment Review 2010/2011

Report of the Financial Adviser

Investment Review to 31 March 2011

In the fiscal year 2010/11 the average Local Authority fund delivered an investment return of 8.2%. The Worcestershire fund grew by 8.8% making it one of the better performing Local Authority funds.

The backdrop to the broad market moves was very unsettled. In general, companies were reporting good results with increased profitability. However, this was difficult to reconcile with weak economic data and concerns over the levels of sovereign debt in Europe and the US.

In the first quarter of 2011 growing political unrest in North Africa and the Middle East fed through to a near 25% increase in the oil price and this reinforced the general worries over inflationary pressure. The Japanese earthquake and tsunami of March 11th was a human tragedy, it also caused a sharp fall in equity markets although much of this was recovered before the end of the fiscal year.

Equity returns in the UK, North America and Continental Europe were quite similar. UK Equities, as measured by the FTSE All Share index returned 8.7%. North America and Continental Europe rose by 9.6% and 7.5% respectively; in North America the return was held back by the strengthening of sterling. Japan fell sharply in March and ended the year over 10% down in Yen terms but a strengthening currency limited the fall to -4.0% for the UK investor. The rest of the Pacific, including the emerging markets, posted the highest return, 13.1%.

Bond returns quite similar. Conventional government bonds, represented by the FTSE UK Gilts All Stocks, returned 5.2% while corporate bonds returned 5.5%. Inflation linked bonds gave a slightly higher return at 6.5%.

Commercial property continued to recover with the IPD Property Index rising by 10.7% over the year.

Over the fiscal year, Worcestershire added value relative to the average Local Authority fund due to a high commitment to equities. Equities represented over 90% of the fund's assets; compared with around 66% for the average Local Authority. The higher equity weight and lower exposure to other investment areas added 0.7% of relative performance. In aggregate the investment managers had little effect on the Fund's overall return.

Long Term

Over the long term, equities are expected to deliver better growth than bonds; this is an investment reward for accepting the higher degree of risk inherent in holding equities. Local Authority pension funds are long-term investors and as such can access these higher returns. Considering the Fund's membership profile and the long-term investment return required, the Fund maintains a higher commitment to equities than the average Local Authority fund.

For the ten years to the end of March, the Fund's return of 5.1% per annum is in line with the Local Authority average of 5.3% per annum. Inflation over the ten years was 3.0% per annum as measured by the Retail Prices Index and 4.0% per annum as measured by the National Average Weekly Earnings Index.

Over the last three years the Fund's return of 6.6% per annum is over 1.0% per annum ahead of the Local Authority average. The Fund's performance is in the top quarter of Local Authority results. Retail price inflation was 3.1% per annum while average earnings grew at 2.4% per annum.

In both of the longer term periods the Fund's asset strategy has added value but this is offset by the relative performance of the active managers.

Report prepared by Graham Wood, The WM Company.

Information on the average Local Authority comes from the WM survey of local authority pension funds.

Worcestershire County Council Pension Fund Accounts 2010/11

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 2010/11 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 2010 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.

As a consequence of the full implementation of IFRS, a number of 2009/10 balances have been restated. The only change in accounting policy resulting from the transition to IFRS was the requirement to account for employers' augmentation contributions on an accruals basis as instead of in accordance with the agreement under which they were paid, or on a receipts basis, which was required under the SORP. The transition has not resulted in material differences.

The 2010/11 Accounts value equity investments at bid price rather than mid-market value as required by the SORP.

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. Basis upon which Debtors and Creditors are included

With the exception of Transfer Values that are accounted for on a cash basis, all other transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

4. Investments

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.

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

5. Investment Income

Income from equities is accounted for on the date stocks are quoted ex-dividend.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

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 and unrealised changes in market value.

6. 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.

7. Contributions

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.

8. 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.

9. 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.

10. Expenses

Investment Managers' expenses are charged on a percentage basis of the market value of assets under management.

Other administrative expenses include employee costs that are charged to the Fund on a time basis.

11. Augmentation/Actuarial Strain Costs

The costs of early retirement are accounted for on an accruals basis.

Worcestershire County Council

Pension Fund Account

For the year ended 31 March 2011

Restated 2009/10 £000		Notes	2010/11 £000
	Contributions and Benefits		
85,679	Contributions	4	92,792
10,889	Transfers In	5	7,387
96,568			100,179
70,751	Benefits	6	73,683
9,492	Leavers	7	6,189
935	Administrative expenses	8	964
81,178			80,836
15,390	Net additions from dealings with Fund members		19,343
	Returns on Investments		
25,494	Investment Income	9	31,034
(1,746)	Taxes on Income	9	(2,009)
409,183	Change in Market Value of Investments	10	91,153
(3,152)	Investment management expenses	11	(3,296)
429,779	Net returns on investments		116,882
445,169	Net increase in the Fund during the year		136,225
922,524	Opening net assets of the Fund		1,367,693
1,367,693	Closing net assets of the Fund		1,503,918

Net Assets Statement As At 31 March 2011

	Restated			
1 April	31 March		Notes	31 March
2009	2009/10			2010/11
£000	£000			£000
		Investment Assets	10	
95,476	50,850	Fixed Interest Securities		56,120
500,959	794,227	Equities		945,435
23,585	36,069	Index Linked Securities		37,805
265,465	465,617	Pooled Investment Vehicles		413,046
91	86	Derivatives –Futures		295
309	398	Derivatives – Forward FX		681
25,984	10,412	Cash		22,032
4,010	4,629	Other Investment Balances		5,939
915,879	1,362,288			1,481,353
		Investment Liabilities		
(55)	(123)	Derivatives – Futures		(68)
(1,117)	(1,852)	Derivatives – Forward FX		(1,103)
(1,172)	(1,975)			(1,171)
7,330	7,086	Current Assets	12	21,000
1,076	1,145	Non Current Assets	13	6,254
(589)	(851)	Current Liabilities	14	(3,518)
922,524	1,367,693	Net Assets of the Fund		1,503,918

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 Appendix 5 and note 2 to the accounts.

Notes to the Pension Fund Accounts

1. Pension Fund Accounts

The Pension Fund is administered by the County Council on behalf of their own employees (except Teachers), 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.

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

An actuarial valuation of the fund undertaken as at 31 March 2010 indicated that the Fund's assets were £1,366m and covered 69.0% of the Fund's liabilities. This compares with assets of £1,246m at the valuation as at 31 March 2007 which covered 72.0% of the Fund's liabilities.

The main actuarial assumptions for the 2010 valuation were as follows: -

	Past Service Per Annum	Future Service Per Annum
Investment Return		
- pre-retirement	6.5%	6.75%
- post retirement	5.25%	6.75%
Rate of Pensionable Pay inflation	4.5%	4.5%
CPI price inflation	3.0%	3.0%
Rate of price inflation	3.0%	3.0%

The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay.

The Fund is valued using the projected unit method which is consistent with the aim of achieving a 100% funding level over 19 years in accordance with the Funding Strategy Statement.

The changes in contribution rates resulting from the actuarial valuation as at 31 March 2010 were effective from 1 April 2011, including stepped increases each year up to 2013/14.

The next actuarial valuation is due as at 31 March 2013 and any change in contribution rates as a result of that review will take place with effect from 1 April 2014.

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

Whilst the Pension Fund accounts are prepared on the basis of estimating the actuarial present value of promised retirement benefits based on the methodologies and estimates used for funding purposes, IAS 26 requires that an alternative valuation based on the actuarial assumptions and methodology under IAS 19 should be disclosed.

In order to assess the value of the benefits on this basis, the Fund's actuary used the same actuarial assumptions as those used for funding purposes, other than the discount rate where the Fund's Actuary used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. The Fund's Actuary also used valuation methodology in connection

with ill-health and death benefits which is consistent with IAS 19. The change in the actuarial assumptions has had a significant effect on the actuarial present value of promised retirement benefits. On this basis for accounting purposes, the value of the Fund's promised retirement benefits as at 31 March 2010 was £2,044 million.

The Fund's actuary also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.4% p.a. both before and after retirement was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,824 million.

3. Pension Fund Investments 2010/11

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 2010		31 March 2011	
	£000	%	£000	%
JP Morgan Asset Management	88,332	7	94,867	7
UBS Global Asset Management (Active)	47,304	3	48,484	3
UBS Global Asset Management (Passive)	553,120	41	813,051	55
Capital International Ltd	118,347	9	131,673	9
GLG Partners	314,790	23	0	0
Mellon Transition Management	0	0	130,395	9
Nomura Asset Management UK Ltd	233,791	17	255,773	17
	1,355,684	100	1,474,243	100

The contract with GLG Partners was terminated during the year and Mellon Transition Management was employed to manage the Transition to new contracts. It is anticipated the Fund will employ two investment managers to manage Emerging Market active equity mandates in the new financial year.

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 £21.183million (2010 £24.372million). The total collateral, which consisted entirely of equities was £23.027million (2010 £25.906million) representing 109% of stock lent.

Income received from stock lending activities was £200,579 for the year ending 31 March 2011 (2010 £224,657). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

4. Contributions Receivable

Contributions receivable are analysed below:

	Restated	2010/11
	2009/10	£000
	£000	£000
<u>Employers</u>		
Normal	41,571	41,724
Deficit Funding	17,961	26,161
Augmentation	3,617	2,453
<u>Members</u>		
Normal	21,982	21,925
Additional contributions	548	529
	85,679	92,792

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.

These contributions can be analysed by type of Member Body as follows:

	Restated	2010/11
	2009/10	£000
	£000	£000
Worcestershire County Council	32,769	34,964
Scheduled Bodies	45,164	52,057
Admitted Bodies	7,503	5,489
Resolution Bodies	243	282
	85,679	92,792

5. Transfers In

During the year individual transfers in from other schemes amounted to £7.387 million (£10.889 million in 2009/2010).

6. Benefits Payable

	2009/10	2010/11
	£000	£000
Pensions	52,787	55,339
Commutations and Lump Sum		
Retirement Benefits	15,882	16,553
Lump Sum Death Benefits	2,082	1,791
	70,751	73,683

These benefits can be analysed by type of Member Body as follows:

	£000	£000
Worcestershire County Council	27,982	30,264
Scheduled Bodies	37,833	37,934
Admitted Bodies	4,717	5,269
Resolution Bodies	219	216
	70,751	73,683

7. Payments to and on Account of Leavers

	2009/10 £000	2010/11 £000
Individual transfers to other schemes	9,497	6,180
Refunds to members leaving service	(5)	9
	9,492	6,189

8. Administrative Expenses

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

A breakdown of these costs is set out below:

	2009/10 £000	2010/11 £000
Employee Expenses	385	399
Support Services	281	274
Actuarial Services	57	151
Other Expenses	215	142
Printing / Publications	19	21
Recharges to other bodies	(22)	(23)
	935	964

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

9. Investment Income

	2009/10 £000	2010/11 £000
Fixed Interest Securities	2,486	2,862
Equities	20,995	26,303
Index Linked Securities	930	1,478
Cash Deposits	853	189
Securities Lending	225	201
Commission Recapture	5	1
	25,494	31,034
Taxes on Income	(1,746)	(2,009)
	23,748	29,025

10. Investments

	Value at 01/04/2010	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Market Value	Value at 31/03/2011
	£000	£000	£000	£000	£000
Fixed Interest Securities	50,850	69,343	(65,031)	958	56,120
Equities	794,227	665,554	(566,186)	51,840	945,435
Index Linked Securities	36,069	7,924	(7,241)	1,053	37,805
Pooled Investment Vehicles	465,617	187,856	(277,724)	37,297	413,046
Derivatives – Futures	(37)	1,539	(1,280)	5	227
	1,346,726	932,216	(917,462)	91,153	1,452,633
Derivatives – Forward FX	(1,454)				(422)
Cash	10,412				22,032
Other Investment Balances	4,629				5,939
	1,360,313				1,480,182

	Value at 01/04/2009	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Change in Market Value	Value at 31/03/2010
	£000	£000	£000	£000	£000
Fixed Interest Securities	95,476	112,299	(160,326)	3,401	50,850
Equities	500,959	274,175	(222,680)	241,773	794,227
Index Linked Securities	23,585	16,919	(6,522)	2,087	36,069
Pooled Investment Vehicles	265,465	52,826	(14,180)	161,506	465,617
Derivatives – Futures	36	1,113	(1,602)	416	(37)
	885,521	457,332	(405,310)	409,183	1,346,726
Derivatives – Forward FX	(808)				(1,454)
Cash	25,984				10,412
Other Investment Balances	4,010				4,629
	914,707				1,360,313

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 £1.218million, 2009/10 (£1.060million). 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.

A further analysis of the market value of investments is given below:

	31 March 2010 £000	31 March 2011 £000	
Fixed Interest Securities			
UK Quoted	5,583	7,645	
Overseas Public Sector Quoted	257	202	
Overseas Quoted	45,010	48,273	
	50,850	56,120	
Equities			
UK Quoted	290,066	487,913	
Overseas Quoted	504,161	457,522	
	794,227	945,435	
Index Linked			
UK Public Sector	34,720	36,292	
UK Other	0	0	
Overseas Other	1,349	1,513	
	36,069	37,805	
Pooled Investment Vehicles			
Other UK Managed Funds – UK Equities	299,031	112,620	
– Overseas Equities	153,478	284,361	
Other Overseas Managed Funds – Overseas Equities	13,108	16,065	
	465,617	413,046	
Derivative Contracts			
Futures Contracts (Assets)	86	295	
Futures Contracts (Liabilities)	(123)	(68)	
	(37)	227	
Type of Future	Expiration	Economic Exposure Value £000	Market Value £000
		31 March 2011	31 March 2011
UK gilt exchange traded	Less than one year	3,191	(15)
Overseas exchanged traded	Less than one year	5,237	204
Cash and cash equivalents exchange traded	Less than one year	(3,064)	38
		5,364	227

Type of Future	Expiration	Economic	Market
		Exposure	Value
		Value	Value
		£000	£000
		31 March 2010	31 March 2010
UK gilt exchange traded	Less than one year	(3,443)	(54)
Overseas exchanged traded	Less than one year	3,242	(1)
Cash and cash equivalents exchange traded	Less than one year	53	18
		(148)	(37)

	2009/10	2010/11
	£000	£000
Forward Foreign Exchange (Assets)	398	681
Forward Foreign Exchange (Liabilities)	(1,852)	(1,103)
	(1,454)	(422)

Derivative receipts and payments represent the realised gains and losses on futures contracts. The active bond mandate and passive equity mandate provides discretion for the managers to enter into derivative contracts in order to enhance the return for the fund. The portfolio cannot be geared to and must have the liquidity needed to cover open positions.

	2009/10	2010/11
	£000	£000
Cash		
Cash Deposits	2,254	3,569
Cash Instruments	15,890	16,216
Outstanding trades	(7,732)	2,247
	10,412	22,032

Other Investment Balances

Outstanding dividend entitlements	4,029	5,164
Recoverable withholding tax	600	775
	4,629	5,939

11. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

	2009/10	2010/11
	£000	£000
Administration, Management and Custody Fees	3,035	3,176
Performance Monitoring Service	23	24
Other Advisory Fees	12	12
Other Expenses	82	84
	3,152	3,296

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

12. Current Assets

	1 April	Restated	
	2009	2009/10	2010/11
	£000	£000	£000
Contributions due from: Employer	2,836	2,999	5,227
Members	1,111	1,140	1,804
Magistrates Court Service Bulk Transfer	0	0	607
Augmentation	590	880	3,125
Cash balances	2,626	1,887	9,345
Other Debtors	167	180	892
	7,330	7,086	21,000

13. Non Current Assets

	1 April	Restated	
	2009	2009/10	2010/11
	£000	£000	£000
Magistrates Court Service Bulk Transfer	0	0	5,463
Augmentation	1,076	1,145	791
	1,076	1,145	6,254

14. Current Liabilities

	2009/10	2010/11
	£000	£000
Investment Management Expenses	(813)	(676)
Payroll and External Vendors	0	(2,286)
Other Expenses	(38)	(556)
	(851)	(3,518)

Contributions due to the Pension Fund were received in line with the schedule of contributions currently in force.

Any surplus cash balances are loaned on a daily basis to Worcestershire County Council. The County Council invests its total funds in short term deposits with a range of banks in accordance with the WCC Treasury Management Policy.

15. Related Party Transactions

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
Mellon Transition Management

The payment of investment management fees are related party transactions with the above managers, which are detailed on an aggregate basis in note 11 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 11 to the Pension Fund accounts

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 18 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 4, 6, 12 and 13 to the accounts.

16. Contingent Liabilities

The Fund had no material contingent liabilities as at 31 March 2011.

17. Additional Voluntary Contributions

The Pension Fund scheme provides an Additional Voluntary Contributions (AVC) facility for scheme members. In 2010/11 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. The amounts administered under AVC arrangements during 2010/11 are as follows:

	2009/10	2010/11
	£000	£000
Contributions received	190	305
Investments purchased	180	305
Change in market value	420	91
Retirement benefits paid or transferred	381	502

The combined value of the AVC funds at 31 March 2011 was £3.382 million, (2009/10 £3.489 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts

18. Participating Employers of the Fund at 31 March 2011

Scheduled Bodies

Worcestershire County Council	West Mercia Probation Service
Bromsgrove District Council	Redditch District Council
Building Control	Regulatory Services (Bromsgrove)
Evesham and Malvern Hills College	Revenue and Benefits
Hereford and Worcester Community Council	South Worcestershire ICT shared Services
Hereford and Worcester Fire and Rescue Authority	Tudor Grange
Hereford City Parish Council	University College Worcester
Hereford College of Art and Design	West Mercia Police Authority
Hereford Sixth Form College	Worcester City Council
Hereford Steiner Academy	Worcester College of Technology
Hereford College of Technology	Worcester Sixth Form College
Herefordshire District Council	Worcestershire Hub
John Kyrle High School and Sixth Form	Wychavon District Council
Joint Museum Shared Services	Wychavon Leisure (Bromsgrove)
Kidderminster College of Further Education	Wyre Forest District Council
Malvern Hills District Council	
North East Worcestershire College	

Admitted Bodies

Amey Plc	Midland Heart
Bromsgrove District Housing Trust	Redcliffe Catering Ltd
Bromsgrove PFI	Ringway Ltd
Courtyard Trust	Rooftop Housing Association
Hereford Futures	Shaw Homes Housing Association
Festival Housing Group	Valuation and Community Charge Tribunal
FOCSA Services (UK) Ltd	Whitecross PFI
Hereford Community Leisure Trust	Worcester Community Housing Ltd
Herefordshire Housing Association	Wychavon Leisure Community Association Ltd
Marches Housing Association	Wyre Forest Community Housing Ltd

Resolution Bodies

Belbroughton Parish Council	Malvern Hills Conservators
Bredon Parish Council	Malvern Town Council
Broadway Parish Council	Pershore Town Council
Brockhampton Parish Council	Rock Parish Council
Droitwich Town Council	Ross-on-Wye Town Council
Evesham Town Council	Stourport-on-Severn Town Council
Kempsey Parish Council	Upton Bishop Parish Council
Lea Parish Council	Upton-upon-Severn Town Council
Ledbury Town Council	Wigmore High and Primary
Linton Parish Council	Wythall Parish Council

19. 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.

A comprehensive statement of benefits is available in an explanatory booklet from the Pension Section - telephone 01905 766525, or e-mail: pensions@worcestershire.gov.uk.

20. 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 2011:

- Interest Rate Risk
- Equity Risk
- Foreign Exchange Risk

Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. 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. 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 800 companies worldwide (excluding investments through pooled vehicles) and using four 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 can not take place.

Interest rate risk has been reduced through the holding of less 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 unhedged 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.

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Credit risk applies to the Fund's bond holdings, which are managed by JP Morgan. 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.

Liquidity Risk

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 spending obligations of the Fund. 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.

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 preliminary 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 will be 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 current benchmark investment strategy, as set out in the SIP, is:

UK equities	45.0%
Overseas equities	45.0%
Bonds	10.0%

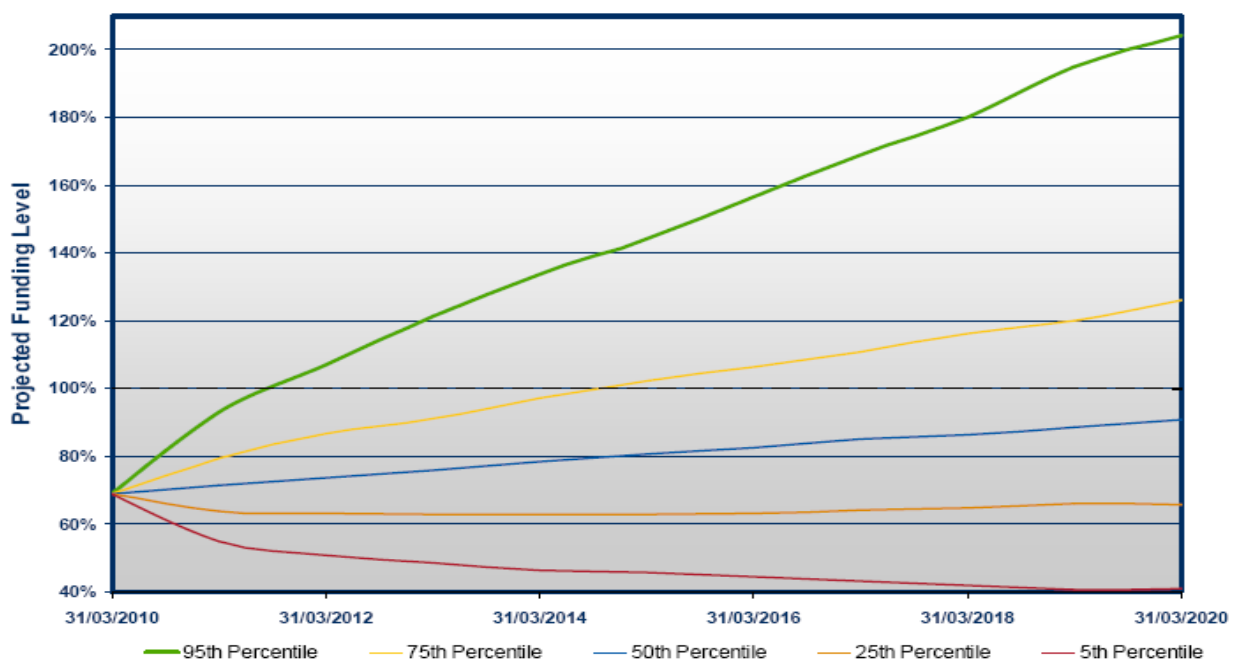
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 0.75% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance 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

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:-

- (a) avoiding the possibility of loss, or
- (b) limiting a deficiency in the underlying Fund, or
- (c) avoiding a contribution rate increase in the future.

Policy

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

Active Equity Mandates	%	Expected Performance
UK	30.0	FTSE All Share Index + 1.5%
Americas	7.5	FTSE All World All Americas Index + 1.5%
European ex – UK	7.5	FTSE All World Europe ex UK Index – Developed Series + 1.5%
Far East	15.0	FTSE All World Asia Pacific Index + 1.5%
Passive Equity Mandates		
UK Equities	15.0	FTSE All Share Index
USA Equities	7.5	FTSE All World North America Index
Europe ex UK Equities	7.5	FTSE All World Europe ex UK Index – Developed Series
Bonds	10.0	+ 1% of a basket of indices which includes: - ML Global Broad Market Corporate Index – hedged in GBP - FTSE Actuaries Index Linked All Stocks
	100.00	

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 six 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".

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 74 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 75 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 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 18 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/council-and-democracy/chief-executive-unit/directorates/resources/financial-services/financial-services/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/council-and-democracy/chief-executive-unit/directorates/resources/financial-services/financial-services/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://worcestershire.whub.org.uk/home/wcc-finance-pensions-homepage.htm>

9. Contacts and further information

- 9.1 The Director of Resources, Mr Patrick Birch is responsible for the day-to-day management of the affairs of the Worcestershire County Council Pension Fund including Fund investments, accounting and benefits administration.

For further information contact the Pension Section,

Telephone (01905) 766511 or email pensions@Worcestershire.gov.uk

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 74 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 the Pension Fund Annual Report and Accounts available on the Council's website at www.worcestershire.gov.uk.

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 (which is the body legally charged with the responsibility for managing the Fund). 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 Cabinet Member with Responsibility for Finance 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 four external investment managers and a transition manager, operating in accordance with mandates set out in the Statement of Investment Principles.

Governance relating to Benefits Administration

2.8 The Pensions Scheme regulations allow for several administering and employing authority discretions. The County Council as administering authority has the discretion to determine its own policy. The Fund will consult with all participating employers on any proposals to change its policy on administering authority discretions.

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.

3. Contacts and further information

3.1 The Director of Resources, Mr Patrick Birch is responsible for the day to day management of the affairs of the Worcestershire County Council Pension Fund including Fund investments, accounting and benefits administration. For further information contact:

The Accountancy Section, Tel. (01905) 766513 - Investments and Accounts

The Pensions Section, Tel. (01905) 766511 - Benefits Administration

3.2 Additional information on the activities of the Pension Fund can be found in the Annual Report and Accounts which is available on the Council's website at www.worcestershire.gov.uk.

Statement by the Fund's Actuary

This is the statement required 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. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,366 million represented 69% of the Funding Target of £1,979 million 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.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. 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	For future service liabilities
Rate of return on investments:		
- 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 may 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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £2,044 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,824 million.

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: <ul style="list-style-type: none"> 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.

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 Bodies

Local Authorities and similar bodies whose staff are entitled automatically to become members of the Local Authority Pension Fund.

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:

Mark Forrester
Telephone (01905) 766513
Fax: (01905) 766578
Email address: MForrester@worcestershire.gov.uk

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

Linda Probin
Telephone (01905) 766511
Fax: (01905) 766569
Email address: LProbin@worcestershire.gov.uk

Or you can write to:-

Patrick Birch
Director of Resources
Worcestershire County Council
County Hall
Worcester
WR5 2NP

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