

## **Addendum to the 2013/14 Annual Report**

### **Risk Management**

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. Shropshire Council has a formal risk management strategy and risk registers for Pension Fund Investment and Administration are included within this overall Strategy. Below is a summary of the Pension Fund's key risks.

<b>Risks</b>	<b>Controls in Place</b>
The insolvency of an employer places additional liabilities on the Fund and ultimately the remaining employers.	Admission agreements, Employer covenant check across Fund employers, some bonds in place. Shorter deficit recovery periods for some employers. Funding Strategy Statement approved by Pension Committee.
Failure of Pension Fund investment managers to meet expected returns resulting in increased costs to the Council and other employers.	Rigorous selection process established. Rigorous and continual Investment Manager monitoring arrangements. Diversification of managers. External expert advice. Reporting & monitoring arrangements. Statement of Investment Principles and Funding Strategy Statement published. Clear and relevant mandates. Audit of investment managers.
Inappropriate Investment Strategy	Funding Strategy Statement published following consultation with scheme employers outlining how the Fund plans to meet its liabilities. External expert advice. Trained and experienced staff. Annual Actuarial review. Three yearly Actuarial Valuation. Statement of Investment Principles.
Failure to meet good governance	Compliance against Myners Principles considered on an annual basis as part of the review and updating of the Statement of Investment Principles. The Fund has produced a Governance Compliance Statement. Audit of Governance arrangements.
Failure of Employers to provide accurate data leading to incorrect benefit payments	Employer Training. Communication to all employers. Administration Strategy in place. Internal controls in places. Contribution collection Audits.

The nature and extent of risks arising from Financial Instruments are detailed in note 17 of the Pension Fund Accounts. The Statement of Investment Principles also sets out how risks are controlled and managed in setting the investment strategy.

The Fund is exposed to both funding and investment related risk, of which the principal risks are:

**Funding Risks:**

**Asset/Liability mismatch** – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

**Changing demographics** – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

**Systemic Risk** – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’ resulting in an increase in the cost of meeting Fund liabilities.

The Fund measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring and reviewing Funding levels on an annual basis with the Fund’s actuary.

The Fund keeps under review mortality and other demographic assumptions which could influence the cost of benefits. These assumptions are considered formally at the triennial valuation.

The Fund seeks to mitigate systemic risk through a diversified portfolio of different asset classes and through appointing investment managers with different investment styles.

**Asset Risks:**

**Concentration** – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

**Illiquidity** – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

**Manager underperformance** – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

Asset risks are managed as follows. The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. Following each actuarial valuation the Committee conducts an asset/liability review which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques and with the assistance of advisers are able to measure and quantify them in terms of definitions of risk.

By investing across a range of assets, including quoted equities and bonds the Fund has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. The performance of all individual managers is scrutinised quarterly by the Pension Committee. Each investment manager appointed by the Committee is bound by the terms and conditions of an investment management agreement where restrictions and targets are clearly documented, including a measure of risk. Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management of the Fund.

Split of Contribution Income - A list of contributing employers and the amount of contributions received from each during the year (split by employers and employees).

Employer name	Employee Contributions	Employer Contributions
Shropshire Council	5,640,974	22,566,316
Bridgnorth Town Council	14,915	52,904
Ludlow Town Council	8,959	18,911
Oswestry Town Council	22,321	50,909
Wem Town Council	1,911	10,218
Market Drayton Town Council	7,242	15,242
Church Stretton Town Council	7,783	21,843
Madeley Parish Council	9,272	28,747
Hollinswood & Randlay Parish Council	2,838	5,889
Wellington Town Council	3,415	8,021
Lilleshall & Donnington Parish Council	4,410	11,162
Blessed Robert Johnson School	22,653	63,334
Charlton School	42,562	109,874
Ercall Wood School	35,852	98,058
South Shropshire Housing Association	9,420	345,736
Condover Parish Council	893	1,922
Stirchley & Brookside Parish Council	5,251	14,874
The Gorge Parish Council	974	1,817
Association of Local Councils	5,714	7,842
Severn Gorge Countryside Trust	6,404	14,445
Age UK Shropshire, Telford & Wrekin	8,928	54,977
Harper Adams University College	365,600	811,576
South Shropshire Leisure Ltd	17,290	28,598
Ironbridge Gorge Museum Trust	8,830	59,939
Veolia Environmental Services (UK) Plc	105,771	262,620
Abraham Darby Academy	44,534	89,670
Newport Town Council	5,362	10,186
Shrewsbury Town Council	69,650	154,321
Ketley Parish Council	2,045	5,024
Crime Reductions Initiative (CRI)	3,037	5,889
Priorslee Primary Academy	11,110	31,957
Great Hanwood Parish Council	355	824
Madeley Academy Trust Ltd	39,929	89,244

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Shifnal Town Council	3,558	6,480
Newport Girls High School Academy Trust	12,113	34,081
The Marches Academy	50,101	147,195
Taylor Shaw (Bridgnorth Endowed)	856	2,242
Funeral Services Ltd	6,048	13,288
Ellesmere Town Council	2,303	4,037
Bishops Castle Town Council	1,401	2,777
Corbet Academy	26,085	83,254
Adams Grammar Academy	28,620	93,007
Priory Academy	36,741	110,043
Ringway Infrastructure Ltd	159,213	419,194
Taylor Shaw (Priory)	649	1,452
Shropshire County Leisure Trust	40,958	88,403
Barrow 1618 Free School	3,964	7,385
West Mercia Energy	19,588	169,488
IP&E	12,941	21,756
Lakelands Academy	31,216	69,364
Coverage Care Crowmoor House	36,287	85,834
Great Dawley Parish Council	5,285	9,217
Shropshire Towns & Rural Housing	127,975	239,196
Bridgnorth Endowed Academy	28,539	91,473
Shrewsbury Academies Trust	61,101	175,956
Energize	4,212	11,840
Telford Co-Op Multi Academy Trust	126,243	362,212
Church Stretton Academy	27,082	80,450
Woodside Academy	23,771	73,599
Woodside Start Centre	6,442	18,030
William Brookes Academy	28,914	77,372
The Boathouse Ellesmere Ltd	3,574	8,614
Alliance in Partnership	1,836	4,812
Compass (UK) Ltd	3,120	9,021
Ford Parish Council	178	351
Grange Primary	10,488	33,369
Severndale Academy	29,194	94,451
Meres & Mosses Housing Association	48,409	108,279
HMM Arts Ltd (The Hive)	2,560	6,547
Dawley Hamlets Parish Council	1,051	2,624
Wrockwardine Parish Council	1,227	3,278
Shrewsbury College of Arts & Technology	202,860	578,136
Telford College of Arts & Technology	472,131	878,753
Shrewsbury Sixth Form College	57,200	121,350
New College Telford	37,774	93,264
Ludlow College	7,525	37,178
Greenacres Primary School	11,083	33,729
Moorfield School	7,756	21,390
Broseley Town Council	3,389	9,648
Coverage Care Ltd	31,149	206,190
Much Wenlock Town Council	3,339	11,495

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Shropshire & Wrekin Fire Authority	134,127	288,796
Whitchurch Town Council	1,726	7,215
Telford & Wrekin Council	3,922,992	11,195,656
Wrekin Housing Trust	733,858	1,893,694
Hadley & Leegomery Parish Council	3,187	7,062
Accord Housing Association	8,377	71,321
Walford & North Shropshire College	94,229	319,917
Telford & Wrekin Services Ltd	92,152	423,401
Mencap	716	10,693
Severnside Housing Association	272,104	978,374
Interserve Ltd	828	3,811
Care Quality Commission	10,902	62,547
Bayston Hill Parish Council	297	871
	<b>13,659,746</b>	<b>45,077,352</b>

### Financial Performance

The following tables show the forecasts for the Fund Account and Net Assets Statement for the three years to 31 March 2017. This is the first year of publishing such forecasts and therefore the outturn against these forecasts will be reported in future annual reports.

<b>Pension Fund Account</b>	<b>2014-15 £m</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
Contributions (employees and employers)	58.046	58.990	60.560
Transfers in	5.000	5.000	5.000
Pensions paid	49.920	52.915	56.090
Lump sums paid	10.000	10.250	10.500
Lump sum death benefits	1.200	1.300	1.400
Refund of Contributions	0.010	0.010	0.010
Transfers to other Funds	3.300	3.500	3.700
Administration *	1.083	1.103	1.123
<b>Net additions from dealings with Scheme Members</b>	<b>(2.467)</b>	<b>(5.088)</b>	<b>(7.263)</b>
Investment income	20.000	20.500	21.000
Gain/(loss) on cash and currency hedging ***	0.000	0.000	0.000
Taxes on income	(0.200)	(0.210)	(0.220)
Change in Market Value	73.773	88.661	97.488
Investment Management expenses **	10.640	10.940	11.240
<b>Surplus/(deficit) on the Pension Fund for the year</b>	<b>80.866</b>	<b>93.343</b>	<b>100.205</b>
<b>Opening Net Assets of the Scheme</b>	<b>1,339.203</b>	<b>1,420.069</b>	<b>1,513.412</b>
<b>Closing Net Assets of the Scheme</b>	<b>1,420.069</b>	<b>1,513.412</b>	<b>1,613.617</b>

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Contributions and payments are based on current expectations, the administration and market value are based on the long term forecast returns for each asset class.

\*\*\* A budget has not been included for a gain/loss on cash as the movement year on year would be too difficult to account for as it is mainly based on FX currency movements.

<b>Net Assets Statement</b>	<b>2014-15 £m</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
UK Equities	118.748	127.891	137.739
Global Equities - Unconstrained	107.440	118.291	130.239
Global Equities - Passive	559.063	602.111	648.474
Fixed Income - UK indexed Linked Bonds	135.199	138.714	142.321
Fixed Income - Global Investment Grade Credit	106.789	111.381	116.170
Fixed Income - PARS IV	102.967	106.674	110.514
Hedge Funds - Multi Strategy	66.161	70.065	74.198
Hedge Funds - Fund of Funds	71.463	75.322	79.390
Private Equity	62.624	68.385	74.677
Infrastructure	11.616	12.557	13.575
Property	55.691	59.645	63.880
Cash	22.308	22.375	22.442
<b>Total investment assets</b>	<b>1420.069</b>	<b>1513.412</b>	<b>1613.617</b>

The forecast for total investment assets are based on actual allocations at 31st March 2014 figures multiplied by the forecast long term returns for each asset class as provided by the Fund's Statement of Investment Principles. These forecasts have also been adjusted for any investment decisions formally approved by the Committee prior to the date of publication of this annual report. They do not assume or take into account any other potential additions or disposals of investments within these asset classes during this three year period. The long term forecasts are as follows :-

<b>Asset Class</b>	<b>Return</b>
UK Equities	7.70%
Global Equities - Unconstrained	10.10%
Global Equities - Passive	7.70%
Fixed Income - UK indexed Linked Bonds	2.60%
Fixed Income - Global Investment Grade Credit	4.30%
Fixed Income - PARS IV	3.60%
Hedge Funds - Multi Strategy	5.90%
Hedge Funds - Fund of Funds	5.40%
Private Equity	9.20%
Infrastructure	8.10%
Property	7.10%
Cash	0.30%

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\* A more detailed analysis of the administration budget forecast as shown above: -

<b>Pensions Administration</b>	<b>2014-15 £m</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
Employee Costs (Pensions Admin Team)	0.550	0.560	0.570
Employee Costs (Pensions Investment Team)	0.118	0.120	0.122
IT costs	0.225	0.230	0.235
Legal and Committee	0.015	0.016	0.017
External Audit fees	0.024	0.025	0.026
Office accommodation	0.029	0.030	0.031
Printing and Postage	0.060	0.058	0.056
Internal Audit fees	0.015	0.017	0.019
Subscriptions	0.017	0.017	0.017
Travel	0.005	0.005	0.005
Other costs	0.025	0.025	0.025
<b>TOTAL</b>	<b>1.083</b>	<b>1.103</b>	<b>1.123</b>

\*\* A more detailed analysis of the Investment Management budget forecast as shown above:

<b>Investment Management</b>	<b>2014-15 £m</b>	<b>2015-16 £m</b>	<b>2016-17 £m</b>
External Fund Managers	9.500	9.700	9.900
Custodian	0.140	0.140	0.140
Professional Fees	1.000	1.100	1.200
<b>TOTAL</b>	<b>10.640</b>	<b>10.940</b>	<b>11.240</b>

### Any other Appropriate Material

A summary of the number of employers in the Fund analysed by Scheme Employers, Admission Bodies and Designated Bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

<b>Employers</b>	<b>Active</b>	<b>Ceased</b>	<b>Total</b>
Scheme Employers	38	9	<b>47</b>
Admission Bodies	30	10	<b>40</b>
Designated Bodies	31	6	<b>37</b>
<b>TOTAL</b>	<b>99</b>	<b>25</b>	<b>124</b>

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An analysis of Fund assets as at the 31<sup>st</sup> March 2014 analysed as follows : -

<b>Asset Type</b>	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
<b>Equities</b>	121.939	0.000	616.677	<b>738.616</b>
<b>Bonds</b>	131.773	0.000	193.564	<b>325.337</b>
<b>Alternatives</b>	67.803	0.000	182.568	<b>250.371</b>
<b>Cash and Cash Equivalents</b>	4.405	0.000	17.835	<b>22.240</b>
<b>Other</b>	0.000	0.000	0.011	<b>0.011</b>
<b>TOTAL</b>	<b>325.92</b>	<b>0.000</b>	<b>1010.655</b>	<b>1336.575</b>

An analysis of investment income accrued during the reporting period analysed as follows: -

<b>Asset Type</b>	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
<b>Equities</b>	5.656	3.174	1.967	<b>10.797</b>
<b>Bonds</b>	0.000	0.000	1.029	<b>1.029</b>
<b>Alternatives</b>	0.000	0.000	1.474	<b>1.474</b>
<b>Cash and Cash Equivalents</b>	0.017	0.000	0.000	<b>0.017</b>
<b>Other</b>	3.033	0.000	3.473	<b>6.506</b>
<b>TOTAL</b>	<b>8.706</b>	<b>3.174</b>	<b>7.943</b>	<b>19.823</b>