

# Warwickshire Local Pension Board

Date: Tuesday, 21 July 2020  
Time: 10.00 am  
Venue: Microsoft Teams

## Membership

Keith Bray (Chair)  
Councillor Parminder Singh Birdi  
Councillor Dave Parsons  
Keith Francis  
Alan Kidner  
Mike Snow

Items on the agenda: -

## 1. Introductions and General Business

### (1) Apologies

### (2) Board Members' Disclosures of Interests

(as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Board Terms of Reference).

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**Monica Fogarty**  
Chief Executive  
Warwickshire County Council  
Shire Hall, Warwick

## Disclaimers

### Webcasting and permission to be filmed

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- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct.

These should be declared at the commencement of the meeting

The public reports referred to are available on the Warwickshire Web

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### Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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## Local Pension Board

**21 July 2020**

### Forward Plan

#### Recommendations

1. That the Board notes and comments on the forward plan.
2. That the Board identifies any areas of interest or activity to add to the forward plan.

#### 1.0 Introduction

- 1.1 This report provides an updated forward plan for the Local Pension Board looking forward one year.
- 1.2 This is not intended to be rigid or definitive, the intention is that it can be updated and amended on a rolling basis at each meeting after being informed by the latest developments.

#### 2 Plan Updates

- 2.1 The forward plan now reflects quarterly meetings scheduled to follow after the executive committee meetings in order to reflect and enable the role of the Local Pension Board in overseeing/scrutiny of the fund's operations.
- 2.2 The table below sets out the current schedule including proposals for dates in January 2021 and April 2021 to continue the cycle of following the executive committees.

Pension Fund Meeting Dates

	2020/21 Q1	2020/21 Q2	2020/21 Q3	2020/21 Q4	2021/22 Q1
Local Pension Board	26 <sup>th</sup> February 2020	21 <sup>st</sup> July 2020	26 <sup>th</sup> November 2020	Propose January 2020	Propose April 2020  Currently 4 <sup>th</sup> March
Pension Investment Sub Committee	12 <sup>th</sup> March 2020	8 <sup>th</sup> June 2020	14 <sup>th</sup> September 2020	14 <sup>th</sup> December 2020	8 <sup>th</sup> March 2021

Staff and Pensions Committee	12 <sup>th</sup> March 2020	8 <sup>th</sup> June 2020	14 <sup>th</sup> September 2020	14 <sup>th</sup> December 2020	8 <sup>th</sup> March 2021
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**2.2** Business plan monitoring and risk monitoring are now standing items on the forward plan.

**2.3** Policy reviews will be timetabled to be spread across the year in a manageable way, however a schedule has not yet been finalised.

### **3 Financial Implications**

**3.1** None

### **4 Environmental Implications**

**4.1** None

### **Background papers**

None.

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The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

## Forward Plan Items

Q2 November 2020	Q3 January 2021	Q4 April 2021	Q1 July 2021
<b>Standing Items</b>			
Administration Activity and Performance Update	Administration Activity and Performance Updates	Administration Activity and Performance Update	Administration Activity and Performance Update
Risk Monitoring	Risk Monitoring	Risk Register	Risk Monitoring
Business Plan Monitoring	Business Plan Monitoring	Business Plan	Business Plan Monitoring
Investment Update	Investment Update	Investment Update	Investment Update
Review of the reports and minutes of the Pension Fund Investment Sub Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee and Staff and Pensions Committee
Training	Training	Training	Training
Forward Plan	Forward Plan	Forward Plan	Forward Plan
<b>Bespoke Items</b>			
External Audit of Accounts			Chairs Annual Report
Employer Review			Draft Annual Report (provisional)
Review of Pension Administration Costs			
<b>Policy Reviews</b>			
	Breaches Policy		
	Administration Strategy		
	Communications Policy		
	Conflicts of Interest Policy		

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**Warwickshire Local Pension Board****Business Plan Monitoring**

21 July 2020

**Recommendation(s)**

1. That the Local Pension Board notes and comments on the report.

**1. Executive Summary**

- 1.1 The pension fund business plan was approved at the March 2020 Pension Fund Investment Subcommittee. This report provides a quarterly update on progress against the plan and issues arising.
- 1.2 The most significant development since the plan was approved was the acceleration of the Covid-19 pandemic. Therefore actions in respect of managing the impact of the pandemic on the fund are not a feature of the Business Plan. However a specific risk assessment and action plan is in place in respect of Covid-19 and is reported elsewhere on the agenda.
- 1.3 Appendix 1 sets out business plan actions and the current position in respect of them.

**2. Financial Implications**

- 2.1 Many aspects of the business plan have financial implications. Financial implications are reported and managed appropriately for each issue and are not listed / repeated here. For example the Pension Fund Investment Sub Committee receive information on the impact of Covid-19 on investments.

**3. Environmental Implications**

- 3.1 There will be environmental implications for some aspects of the fund's activities. The fund has a Climate Risk strategy and Environmental, Social, and Governance Policy which guides its approach to environmental issues.

**4. Supporting Information**

- 4.1 The monitoring report in Appendix 1 uses a simple RAG rating as follows:

- Green – on track.
- Amber – off track but it is possible to get back on track or revise the plan without significant adverse consequences to the fund.
- Red – off track with significant governance input required to get back on track and/or significant potential consequences being likely.

4.2 The position is summarised below:

RAG Rating	Number
Green	27
Amber	9
Red	0
Total	36

## 5. Timescales associated with the decision and next steps

5.1 Monitoring against the business plan will be reported quarterly to the Local Pension Board.

## Appendices

1. Appendix 1 – Business Plan Monitoring

## Background Papers

1. None

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Report Author	Victoria Moffett, Chris Norton	victoriamoffett@warwickshire.gov.uk, chrisnorton@warwickshire.gov.uk
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Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

## Annex 1

## Ensuring a high quality administration service

	Action	Timescale	RAG	Update
1	Deliver a Pension Fund Annual General Meeting.  Updating fund stakeholders on investment and governance developments.	November 2020	Green	Planning will include a contingency to run a remote AGM as this if a foreseeable possibility.
2	Deliver a Pension Fund Employers Meeting.  Updating employers on developments relating to the administration of the scheme.	November or December 2020	Green	Planning will include a contingency to run a remote meeting as this if a foreseeable possibility.
3	Regular review of complaints.  Ensuring specific and systematic issues are identified and actioned.	Quarterly	Green	A log of complaints is kept in respect of member services and employer services. This is kept under review by the administration team.  No complaints have been received in the last quarter in respect of investments activity.
4	Develop a business case for use of iConnect  Begin implementation  Complete implementation	March 2020  September 2020  March 2021	Green	The full business case has been developed and completed. It has been through the Adminstrating Authority's programme/project governance process and was formally approved by Corporate Board in June.
5	Review lessons learned from 2019 Valuation	October 2020	Green	Fund officers met with fund actuaries in June to review the valuation process. A report reviewing the valuation is a dedicated agenda item elsewhere on the agenda.
6	Annual pensions newsletter issued	April-June 2020	Green	Issued to printers on 12 <sup>th</sup> June

	Action	Timescale	RAG	Update
7	Benefit statements issued	May-August 2020	Green	A work plan is in place covering activities in spring and summer to prepare for the issue of annual benefits statements in August, and is progressing well. Deferred member statements have already been issued and work on active member statements is currently on track.
8	Report administration performance KPIs to the Local Pension Board	Quarterly	Green	Reported elsewhere on the agenda. A revised set of KPIs was reported to and approved by the Staff and Pension Committee in June.
9	Keep the new pension fund web site up to date with developments	Quarterly	Green	The website has been updated with revised policies as they have been approved.  Updates to the website have been made to refer members to relevant content regarding pension fund developments.
10	Complete actions identified in the governance review	December 2020	Amber	Significant progress has been made on the action plan, this was reported to the Staff and Pensions Committee in June and is also reported within the Administration update on this meeting agenda.
11	Implement monthly officer monitoring meetings to formally review activity and performance	April 2020	Green	Officer meetings in respect of investment and administration activity have continued.
12	Maintain a liaison meeting with the Warwickshire County Council payroll function	Monthly	Green	Monthly meetings with WCC Payroll continue.  The administration strategy is in place now so the Service Level Agreement can be progressed.

	Action	Timescale	RAG	Update
13	Maintain regular officer monitoring and management of breaches activity	Monthly	Green	Monthly meetings focused on breaches continue, further work is required to embed this as business as usual activity.

**Actuarial Activities**

	<b>Action</b>	<b>Timescale</b>	<b>RAG</b>	<b>Update</b>
14	Support a review of 2019 valuation lessons learned	October 2020	Green	This is the subject of a specific report elsewhere on the agenda.
15	Monitor employer contribution performance through the year	Monthly	Amber	9 employer contributions due by mid-May outstanding by mid June.  Further work required to embed monitoring as a business as usual activity.
16	Review employer covenants and risk management for non-statutory employers	July 2020	Amber	This work will be scheduled to occur over the summer.

### Maximising Investment Benefits

	Action	Timescale	RAG	Update
17	Make decisions regarding new Border to Coast fund launches	As new funds launch	Green	
18	Implement Border to Coast fund transfers where approved	As funds launch	Green	
19	Ensure the fund remains MIFID2 compliant	Annual	Green	
20	Continued growth of alternative asset classes towards their new strategic asset allocation	Annual	Green	
21	Meet with directly commissioned active fund managers	Annual	Amber	This has been paused since the lockdown began but this activity will be resumed.
22	Investment monitoring reports provided to the investment sub-committee.	Quarterly	Green	
23	Plan cashflow strategy in order to avoid the need to sell assets under time pressure	Annual	Green	Cashflow strategy / approach reported to Investment Sub Committee in June.  Pension payroll and investment capital calls on cash have all been met.
24	Hold officer monitoring meetings to formally review activity and performance	Monthly	Amber	Officer meetings have occurred but the most productive format under remote working will take time to develop.
25	Ensure the Fund meets the requirements of the UK Stewardship Code	Annual	Green	This work will be conducted later in the year.
26	Review ways of improving the measurement and reporting of the Fund's climate risks and exposures	Annual	Green	Climate risk strategy approved, training planned for later in the year.

### Ensuring Good Governance

	Action	Timescale	RAG	Update
27	Production of draft statement of accounts	May 2020	Green	
28	Publication of Annual Pension Fund Report	November 2020	Green	
29	Ensure a risk register is maintained	Quarterly	Green	
30	To ensure employers join and leave the fund in accordance with LGPS and Warwickshire Pension Fund policies	When employers join or leave the fund	Green	No movements yet in 2020/21 that require reporting to the Staff and Pension Committee
31	Review of contracts for services provided to the Pension Fund	September 2020	Amber	This can be completed by the end of the year but may not be possible to complete by September.
32	Support governing committees and boards in the delivery of their responsibilities through the provision of appropriate information, advice, and training: <ul style="list-style-type: none"> <li>• Pension and Investments Sub-Committee</li> <li>• Local Pension Board</li> <li>• Staff and Pensions Committee</li> </ul>	Quarterly	Green	Committees continue to meet despite Covid-19. Some agenda items have been taken off agendas to ensure a focus on the top priorities.  Training plans will be run for committee and board members during the year.
33	Complete the implementation of actions related to the governance review	September 2020	Amber	This is reported specifically elsewhere on the agenda.
34	Maintain a one year rolling forward plan of agenda items for all pension fund boards and committees	Quarterly	Green	
35	Implement and embed a commissioning/delivery approach to the administration of the fund	May 2020	Amber	A draft commissioning/delivery approach has been completed. Further work is required to specify an approach to planning for 2021/22.

	Action	Timescale	RAG	Update
36	Maintain a rolling programme of policy reviews to ensure all pension fund policies are reviewed with the correct timing and frequency	Quarterly	Amber	This work is under way but a finalised schedule of policies and dates for review is not yet completed.

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## **Local Pension Board**

### **21<sup>st</sup> July 2020**

### **Risk Monitoring**

#### **1 Recommendations**

- 1.1 That the Local Pension Board notes and comments on the report.

#### **2 Executive Summary**

- 2.1 The fund updated its risk register in March and is monitoring risk through the year. This report provides an update on risk monitoring activity.
- 2.2 The risk register for 2020/21 was drafted before the Covid-19 pandemic had escalated and did not refer to the pandemic. The pandemic and the issues and risks that it presents have since however been identified and logged initially in a dedicated Covid-19 risk register. Covid-19 specific issues and risks are the subject of a dedicated report elsewhere on the agenda.
- 2.3 Risk monitoring reports have been taken to the Pension Fund Investment Sub Committee and Staff and Pensions Committee in June 2020. Both committees received the same risk register / actions update but the report commentary was focused in investments and administration risks respectively.
- 2.4 The focus of the reports has been on changes, developments, and management actions rather than repeating and updating the contents of the whole risk register.
- 2.5 Table 1 below summarises the original strategic risk assessment, with a simple update on the current position in comparison to the original assessment in March 2020.

Table 1 – Risk Assessment Update

Ref	Risk	Original March 2020 Assessment		Update as at May 2020 In Comparison to the Original Risk Assessment
		Risk Level Before Mitigations	Risk Level After Mitigations	
1	Long term returns fail to be in line with assumptions	6	3	Significantly higher risk
2	Short term falls in asset values	6	4	Significantly higher risk
3	Cashflow requirements cannot be met	12	6	Higher Risk
4	Poor performance of actively managed funds	6	4	No change
5	Failure to realise pooling benefits	6	4	No change
6	Fraud	6	3	Higher Risk
7	Liabilities increase further than assumptions	6	2	No change
8	Inadequate data quality	16	9	No change
9	Employer contributions not being paid	12	9	Significantly higher risk
10	Fund reputation is harmed	9	6	No change
11	Loss of service provision due to disruption	4	3	Higher Risk
12	Lack of skills and knowledge	9	4	No change
13	Failure to meet governance standards	12	8	No change

2.6 The significant changes in position driven by Covid-19 are summarised below.

- Risk 1 – Long term asset values – Certain asset values have fallen significantly due to the global impact on financial markets. The high risk rating reflects the current uncertainty over how long term the impact of COVID-19 will be. We will continue to try and limit impact through an investment strategy that mitigates risk and takes a long term view.
- Risk 2 – Short term asset values - This risk has materialised - there have been significant short-term reductions in asset values and high volatility in certain asset classes. These losses have not generally crystallised to date as there has been no need to sell volatile assets under distress..
- Risk 3 – Cashflow - The potential pressure on cashflow has increased but at present the planned and reasonably foreseeable cashflow requirements can be met for example utilising higher cash balances and the JP Morgan fund. Cashflow planning is covered in more detail elsewhere on the agenda.
- Risk 6 - Fraud - Pension fund members are at higher risk of fraud from those seeking to take advantage of the uncertainty and worry of the Covid-19 pandemic.
- Risk 9 – Employer contributions - No specific evidence of a systematic impact of Covid-19 on employer contributions has been experienced to date. However, this risk is assessed to be significantly higher as the financial pressures on all pension fund employers has increased, and

currently Government Funding does not cover all the extra costs or cashflow pressures. Consequently, those organisations with weaker financial positions and/or cash flow positions may experience difficulties moving forward that could impact their ability to pay contributions.

- Risk 11 – Service disruption – The risk of this is higher, and in fact a significant disruption has materialised. However, experience to date is that business continuity has been maintained for essential pension fund functions due to the facilities available to work remotely. When reviewing the business continuity plan in light of Covid-19 it will remain necessary to ensure the plan has regard to all foreseeable risks. It is important the plan does not become something to simply respond to Covid-19 type issues alone. For example, if there were to be a total national failure of the power supply or internet network for a protracted period of time the impact and the continuity arrangements required would be different.

### **Management Actions**

- 2.7 The Risk Register includes a set of management actions to mitigate risks. Appendix 1 sets out the additional management actions identified alongside an update on progress. The majority of actions are progressing broadly to plan, with a small number delayed or deferred.
- 2.8 New risk management actions relating to Covid-19 are addressed in the Covid-19 report elsewhere on the agenda. At an appropriate point in the future Covid-19 risks and actions will be brought across into a single risk register / action plan.
- 2.9 Risks have been discussed at both executive pension committees. One risk where feedback was received that the risk rating should be higher was the risk of poorly performing actively managed equity funds. Equity fund performance has been reported in detail to the Pension Fund Investment Sub Committee for scrutiny.
- 2.10 The management actions plan at Appendix 1 has been updated where appropriate and is therefore slightly different (more up to date) than the action plan reported to the executive pension fund committees in June.

### **3 Financial Implications**

- 3.1 The actions identified will assist in mitigating financial risks to the fund.

### **4 Environmental Implications**

- 4.1 Climate change presents risks to the fund and these manifest in places in the risk register – for example having the potential to cause an impact on long term returns and an impact on the reputation of the fund.

## **5 Supporting Information**

5.1 The risk register scores set out in Table 1 above are based on the following convention:

- Gross risk – risk before mitigating actions
- Net risk – risk after mitigating actions

5.2 Risk probability and impact are classified into 4 categories as follows:

		Likelihood			
		Unlikely 1	Possible 2	Likely 3	Very Likely 4
Impact	Very High 4	4	8	12	16
	High 3	3	6	9	12
	Medium 2	2	4	6	8
	Low 4	1	2	3	4

5.3 Risk impact and likelihood are multiplied together to provide an overall risk score. Red risks are those with scores of 10 or higher, green risks have scores of 3 or lower, and the remainder are amber.

## 6 Timescales and Next Steps

6.1 The risk register will continue to be monitored quarterly through the year.

## Appendices

Appendix 1 – Risk Register Actions

## Background Papers

None.

	Name	Contact Information
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Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

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Risk Register Actions						Appendix 1
Ref	Risk	Existing Actions	Action Owner	Review Date	June 2020 Update	
1	Long term returns fail to be in line with assumptions	Design of a new ISS driven by the 2019 valuation Implementation of a new ISS in a timely way Liaison with Border to Coast to ensure appropriate investment vehicles are available Introduction of a climate change policy.	Pension Investments Manager	Jun-20	Investment Strategy update approved in March 2020.  Updated Responsible Investment Policy and Climate Risk Strategy approved in March 2020.  Regular engagement with Border to Coast continues, including attendance at investment sub-committee meetings.	
2	Short term falls in asset values	Ensure actual asset allocations remain within tolerances to ensure exposure to risk is as planned within the investment strategy Consider asset protection strategies (e.g. equity protection, currency protection, diversification, etc) when appropriate for meeting specific short term objectives Cashflow planning (refer to risk 3)	Pension Investments Manager	Jun-20	The new investment strategy will improve diversification over time.  Refer to Risk 3 update regarding cashflow.	
3	Cashflow requirements cannot be met	Strategic cashflow review by fund officers and financial advisers. Provision of information to precepting authorities who may make early pension payments, ensuring appropriate notice is provided to the fund.	Pension Investments Manager	1/9/20	Cashflow planning in some detail has been reviewed by Hymans and fund officers, with a plan in place to hold adequate cash balances. A dedicated cashflow report/agenda item was considered at the June Pension Fund Investment Sub Committee.	
4	Poor performance of actively managed funds	Embedding of appropriate monitoring of funds managed by the Border to Coast Pension Partnership	Pension Investments Manager	1/9/20	Regular monitoring reports from Border to Coast are received. Actively managed fund performance has been below benchmark recently but the longer term position will take more time to become clear.	
5	Failure to realise pooling benefits	Review of mechanisms for monitoring cost savings to ensure maximum transparency	Pension Investments Manager	30/9/20	A pooling benefits realisation review is planned for later in the year, to be reported to the September Pension Fund Investment Sub Committee.	
6	Fraud	Implement any recommendations arising from the 2019/20 routine internal audit of Pension Administration	Pensions Administration Delivery Lead	1/9/2020	Awaiting finalisation of audit recommendations.	
7	Liabilities increase further than assumptions	None			An actuarial report to the Pension Fund Investment Subcommittee in June included reference to risks and impacts on liabilities driven by Covid-19..	
8	Inadequate data quality	Monthly monitoring of actual and potential breaches activity Embed new protocols for co-ordination with Warwickshire County Council payroll Implementation of iConnect Implementation of Member Self Service Review/debrief of lessons learned from 2019 Valuation	Pensions Administration Delivery Lead	31/7/20	Monthly officer monitoring of breach activity and monthly meetings with Warwickshire County Council Payroll continues.  iConnect project is at the full business case stage and will be seeking approval to proceed with initial employer onboarding in 2020/21. Member Self Service will then follow.  A valuation debrief report is to be compiled and reported to the Local Pension Board in July.	

Ref	Risk	Existing Actions	Action Owner	Review Date	June 2020 Update
9	Employer contributions not being paid	Updated and revised Administration Strategy including the facility to charge costs for late payment New staffing structure with more dedicated capacity for policy development and employer liaison Covenant review of high risk employers where appropriate	Governance and Policy Officer  Pensions Administration Delivery Lead  Pensions Administration Delivery Lead	March 2020  July 2020  September 2020	A revised Administration Strategy was issued for consultation with employers in April 2020, and was approved by the Staff and Pensions Committee on the 8th June 2020.  Recruitment to the new structure continues with appointments made to both the Administration Delivery Lead and Pensions and Investment Manager posts.
10	Fund reputation is harmed	New data improvement plan stemming from review of 2019 valuation	Pensions Administration Delivery Lead	1/6/20	A valuation report is to be compiled and reported to the Local Pension Board in July.
11	Loss of service provision due to disruption	Review and update of disaster recovery plan Creation of a cyber security policy	Pension Investments Manager	30/9/20	The review of the disaster recovery plan has been superceded by reacting to the Covid-19 pandemic. Once it is possible to review the plan lessons from this emergency will be incorporated.  A Cyber Security policy was drafted and was due to be presented to the Staff and Pensions Committee for approval in June. This has been deferred to September to enable the committee to focus on the top priorities at this time. However officers can still progress aspects of the policy.
12	Lack of skills and knowledge	Implementation of the new staffing structure and recruitment to new posts The implementation of a new training and development regime for staff Pro-active talent mapping and succession planning for internal staff The introduction of longer term workforce planning Budget setting informed by cost drivers not cash limits	Strategy and Commissioning Manager  and Transformation Manager	Sep-20	Recruitment to the new structure continues with appointments made to both the Administration Delivery Lead and Pensions and Investment Manager posts.
13	Failure to meet governance standards	Review of terms of reference of pension fund committees and the Local Pension Board Governance review by an independent expert Pensions administration action plan Rolling forward plan of fund policy reviews Structural separation of governance and policy from deliver Active quarterly monitoring of fund risks by the Local Pension Board and investment sub committee	Strategy and Commissioning Manager	Sep-20	Local Pension Board terms of reference will be discussed at the July Local Pension Board. The terms of reference for the pension fund committees will be reviewed at a later date.  The pension governance action plan is being progressed and an update will be reported to the Local Pension Board in July.  The new commissioning/policy structure is in place, and work is under way to determine how this operates in practice and to inform planning for 2021/22.

## **Local Pension Board**

**21<sup>st</sup> July 2020**

### **COVID-19 – Pension Fund Impact and Actions**

#### **Recommendations**

1. That the Local Pension Board notes and comments on the report.

#### **1 Executive Summary**

- 1.1 This report provides an assessment of Covid-19 specific pension fund risks and actions. These were reported to the Pension Fund Investment Sub Committee and Staff and Pensions Committee in June with more detailed commentary around investments and administration going to the respective committees.

#### **2 COVID-19 Risk Assessment**

- 2.1 A COVID-19 risk assessment was undertaken in 2 stages.

First an assessment of the existing strategic risks and how the COVID-19 issue impacts on each of these. This is summarised below and discussed in detail elsewhere on the agenda.

Ref	Risk	Original March 2020 Assessment		Update as at May 2020 In Comparison to the Original Risk Assessment
		Risk Level Before Mitigations	Risk Level After Mitigations	
1	Long term returns fail to be in line with assumptions	6	3	Significantly higher risk
2	Short term falls in asset values	6	4	Significantly higher risk
3	Cashflow requirements cannot be met	12	6	Higher Risk
4	Poor performance of actively managed funds	6	4	No change
5	Failure to realise pooling benefits	6	4	No change
6	Fraud	6	3	Higher Risk
7	Liabilities increase further than assumptions	6	2	No change
8	Inadequate data quality	16	9	No change
9	Employer contributions not being paid	12	9	Significantly higher risk
10	Fund reputation is harmed	9	6	No change
11	Loss of service provision due to disruption	4	3	Higher Risk
12	Lack of skills and knowledge	9	4	No change
13	Failure to meet governance standards	12	8	No change

- Secondly COVID-19 specific risks were assessed. These are summarised in the table below and detailed in Appendix 1.

Ref	Risk	Gross Risk		Risk Level	Net Risk after Mitigations		Risk Level
		Likelihood	Impact		Likelihood	Impact	
1	Cashflow - Delayed Employer Contributions	3	4	12	3	4	12
2	Cashflow - Investments Impact	4	4	16	4	3	12
3	Losses in Investment Values and Returns	4	4	16	4	3	12
4	Governance Disruption	3	4	12	3	3	9
5	Health and Safety of Members	3	4	12	2	3	6
6	Health and Safety of Staff	4	4	16	3	3	9
7	Loss of continuity working with advisers, partners, fund managers, and Border to Coast	3	3	9	3	2	6
8	Administration Service Disruption	4	4	16	3	3	9
9	Inability to Recover	3	3	9	2	3	6

- 2.2 Having been discussed at the executive pension fund committees a key risk whose rating was discussed as being too low was relating to investment returns and the risk of poorly performing actively managed funds. The performance of funds is being monitored by officers, the fund's financial advisers, and the Border to Coast Pension Partnership. However, the very significant volatility in financial markets makes it more difficult than usual to draw conclusions from comparisons to benchmarks. There will be continued focus on this area of performance with time planned to look at this specifically at the next Investment Sub Committee when volatility may have reduced.

### 3 Financial Implications

- 3.1 There are a range of financial implications, which are being managed within specific actions as appropriate, as set out in Appendix 1. The most significant immediate impact being short term volatility in financial markets.

### 4 Environmental Implications

- 4.1 There will be reductions in CO2 emissions from staff working from home.

### 5 Supporting Information

- 5.1 The risk register scores set out above are based on the following convention:
- Gross risk – risk before mitigating actions

- Net risk – risk after mitigating actions

5.2 Risk probability and impact are classified into 4 categories as follows:

		Likelihood			
		Unlikely 1	Possible 2	Likely 3	Very Likely 4
Impact	Very High 4	4	8	12	16
	High 3	3	6	9	12
	Medium 2	2	4	6	8
	Low 4	1	2	3	4

5.3 Risk impact and likelihood are multiplied together to provide an overall risk score. Red risks are those with scores of 10 or higher, green risks have scores of 3 or lower, and the remainder are amber.

## 6 Timescales and Next Steps

6.1 The additional COVID-19 risks have been separated out in this initial assessment to provide clarity of their overall impact. However, the longer term intention is to subsume COVID-19 related risks and actions into a single updated Pension Fund risk register.

## Appendices

Appendix 1 – COVID-19 Risk Register

## Background Papers

None.

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Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: Councillors Kam Kaur, Bill Gifford, Bob Stevens, Neil Dirveiks, John Horner and Bhagwant Singh Pandher

Ref	Risk	Cause	Effect	Gross Risk		Risk Level	Existing Actions(in place or completed)	NET Risk		Risk Level	Further Risk Actions
				Likelihood	Impact			Likelihood	Impact		Description
1	Cashflow - Delayed Employer Contributions	Employers choose to delay contributions to protect their cash position.  Employers cannot pay their contributions because of business continuity failure, for example systems do not work remotely, or key staff off sick.  Government directives to pension funds to support employer cashflow	Negative impact on fund cashflow  Fund may need to sell assets in unfavourable circumstances in order to service cashflow needs  Asset weightings may move significantly out of balance, changing the risks the Fund is exposed to	3	4	12	Investments and cash reserves available to cover a period of delays in contributions	3	4	12	Review employer base and mitigating approaches for different employer types, prioritising employers and employer groups with weak covenants or that are more heavily impacted by covid  Review securitiies and guarantees from employer, and guarantor arrangements  Consider longer term maximisation of contributions not short term maximisation  Review options to reduce or delay contributions in certain circumstances  Engage with employers on options and to understand their plans and position  Ensure cashflow management is prioritised
2	Cashflow - Investments Impact	Significant losses in asset values  Companies choosing to stop issuing dividends to protect the company cash position  Government directing companies to stop paying dividends to protect company viability  Reduction in yields from income generating assets as safer assets are more in demand  Gating of funds at risk of mass withdrawals	Refer to Risk 1	4	4	16	Cash reserves available to cover a period of time  Focus on cashflow initially  Building cash balances  Other related actions as per Risk 3	4	3	12	Review investments position once cashflow position is understood and cahflow is secured
3	Losses in Investment Values and Returns	Economic shock / slowdown  Volatility in financial markets  Losses in economic supply and demand and productivity / GDP globally	Funding level worsens materially  Investment weightings move outside of tolerance levels  Current Investment Strategy is no longer suitable  Fire sale of assets	4	4	16	Maintain close liaison with Investment Consultant, Fund Managers, and Border to Coast  Maintain existing strategy and asset classes unless there are very good reasons for deviating.  Cashflow strategy recently reviewed	4	3	12	Look to set up fast track governance of decision making should quick decisions need to be made - see Risk 4  Prioritisation of cashflow management in the immediate term
4	Governance Disruption	Loss of existing means of governance meetings  Lack of appropriate remote working hardware or software  The potential need to make significant decisions very quickly	Inability to make significant decisions quickly enough - losing money or opportunities in the process  Decisions being made without adequate oversight and governance  Sub optimal decisions being made	3	4	12	Issue remotely of of joint briefing notes to the two pension committees and the local pension board to maintain communications and transparency/assurance around pension fund activity and the response to the Covid issue  Signing/authority of decisions and transactions remotely using Surface Pro tablets instead of physical wet signatures on paper where this is possible	3	3	9	Engage with committees and boards to understand priorities  Review of arrangements to be able to run boards and committees remotely  Review of options to delegate decision making to facilitate quick decisions where necessary (e.g. to s151 or to an emergency response group, etc)  Consider relaxing quorum requirements  Review and rephase project work  Continue the implementation of governance review actions but review prioritisation where necessary

Ref	Risk	Cause	Effect	Gross Risk		Risk Level	Existing Actions(in place or completed)	NET Risk		Risk Level	Further Risk Actions
				Likelihood	Impact			Likelihood	Impact		Description
5	Health and Safety of Members	Inability to pay pensions to pensioners Paper based systems Lack of informaiton available to members about the impact on their pension	Pensioners not able to buy essentials if pensions are not paid Paper based systems causing infection transmission risk Mentail health risk if members are worrying about pensions	3	4	12	Post updates on website regarding pension payments Administration actions in Risk 8	2	3	6	Review and update any communications and documentation for members Administration actions in Risk 8
6	Health and Safety of Staff	Lack of adequate remote working facilities Paper based systems Pressure to deliver business as usual whilst dealing with the crisis Lack of contact wilh colleagues	Paper based systems causing infection transmission risk Mental health impact Delivery of key priorities	4	4	16	Mandatory working from home unless exceptional reason to go to office Microsoft 356, Surface Pros and ability to work from home Council flexible working policy Rapid capture and sharing of lessons learned about effective remote working	3	3	9	Share learning on working from home lessons
7	Loss of continuity working with advisers, partners, fund managers, and Border to Coast	Inability to operate remotely Loss of business continuity	Delays in investment operations Delays in fund launches Delays in closure of accounts	3	3	9	Liaison and meetings with external agencies have largely continued remotely, e.g. through Microsoft Teams and webex seminars Maintaining close liaison with key organisations, in particular Border to Coast, Hymans Robertson, and Bank of New York Mellon	3	2	6	Continue to engage with BCPP, fund managers, and custodian about their continuity plans Gather intelligence on market reactions
8	Administration Service Disruption	Lack of remote working facilities Staff lost to sickness Disruption to employer admin and payroll funcitons Disruption to systems and system suppliers Disruption to actuary service provision	Reduction in performance against KPIs that impact adversely on fund members and sustainability Incorrect or missing pensioner payments Data quality deterioration Delays to administration improvemetns e.g. iConnect	4	4	16	Remote working facilitites have been set up with amost all work done from home Use of video conferencing Prepared to move resources around the team to protect the payment of pensions now	3	3	9	Review priorities for KPIs and ensure protection of those that support the most vulnerable Engage with key contacts to plan how we work Expediting the use of IT to replace paper pased systmes Review activities, procedures, signatories, etc. Cross train staff
9	Inability to Recover	Loss of continuity in staff Loss of systems Significant gaps in data or data quality develop during the crisis Significant backlogs in data submissions develop	Poor data quality for a significant period of time Significant costs to get data back to acceptable standards Inability to review and update investments for the new circumstances, and so missing opportunities	3	3	9	Regular review of the situation, instigating a recovery group when circumstances permit Keeping recovery in mind when taking actions during the crisis	2	3	6	

## **Warwickshire Local Pension Board Administration Activity and Performance Update**

### **1. Recommendation(s)**

- 1.1. The Local Pension Board is asked to note and comment on the latest developments in pensions administration and note the progress made since the last meeting.

### **2. Executive Summary**

- 2.1. This report updates the Local Pension Board on key developments affecting pensions administration and the performance of the Pension Administration Service (PAS).

### **3. Governance Action Plan**

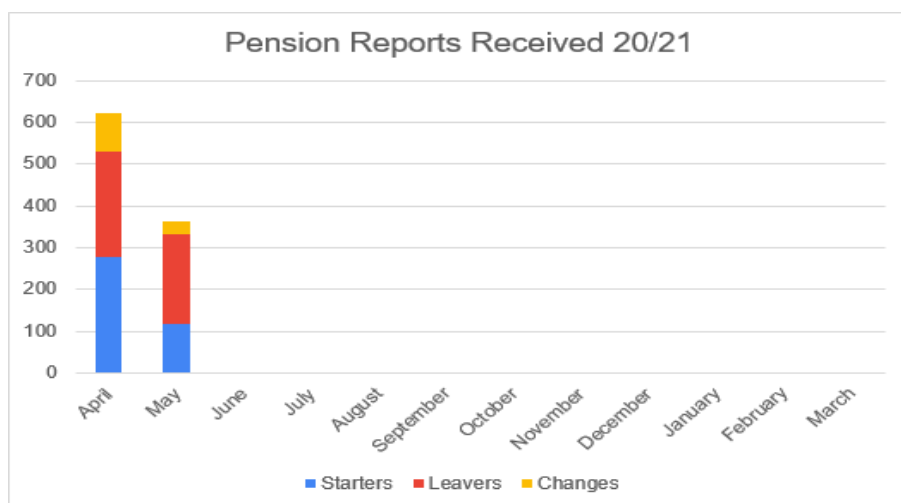
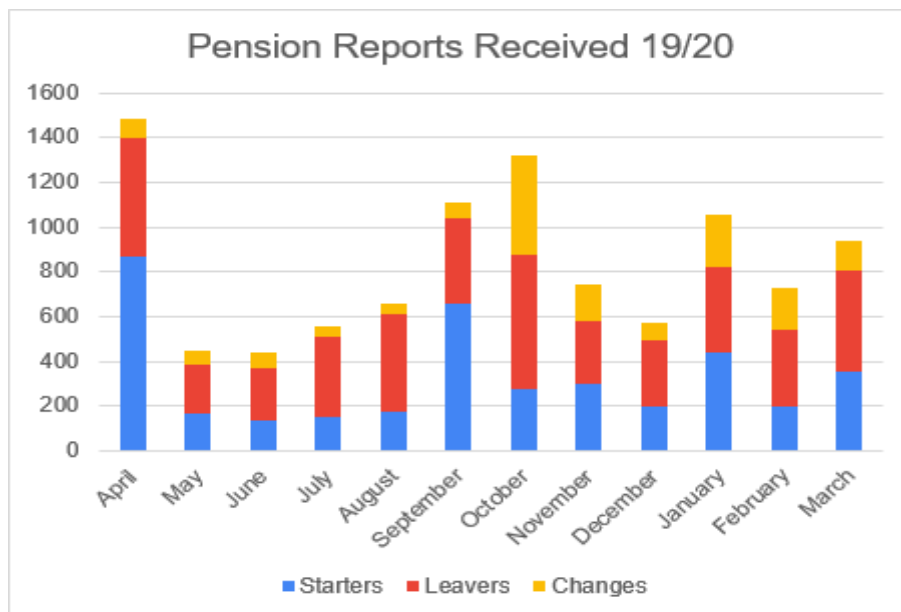
- 3.1. Further progress has been made with the Governance Action Plan, with a further 10 actions completed. The summary update is enclosed as Appendix 1.
- 3.2. Work continues the analysis and allocation of pensions administration costs. Good progress has been made on identifying the true costs and expenses, using a zero-base approach. Further investigations are underway to ensure consistency of allocation in line with CIPFA guidelines and general practice, and potential areas for efficiencies.

### **4. Audit**

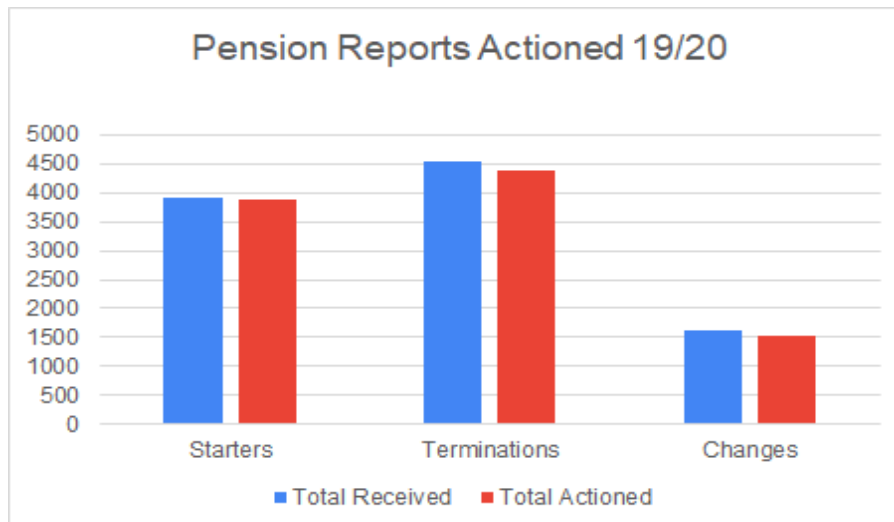
- 4.1. All requirements of the Pensions Administration Services (PAS) have been completed for the External Audit work being undertaken as part of the closure of the 2019/20 accounts. The team is ready to respond to any further testing queries for the final audit.
- 4.2. Field work for an Internal Audit of PAS as part of the 2019/20 Internal Audit Plan has been completed and a draft report issued. The Management Response is in progress and a copy of the final report will be shared with the Local Pension Board once it has been considered by Staff and Pensions Committee. Work in progress to document processes, procedures and controls as part of an Administration Manual will help significantly in addressing the Internal Audit findings which is now live and being enhanced in line with ongoing service improvement plans.
- 4.3. The previous Internal Audit report is due to be submitted to Audit & Standards Committee on 20<sup>th</sup> July 2020. The plan remains to share the report with LPB afterwards.

### **5. Payroll Update**

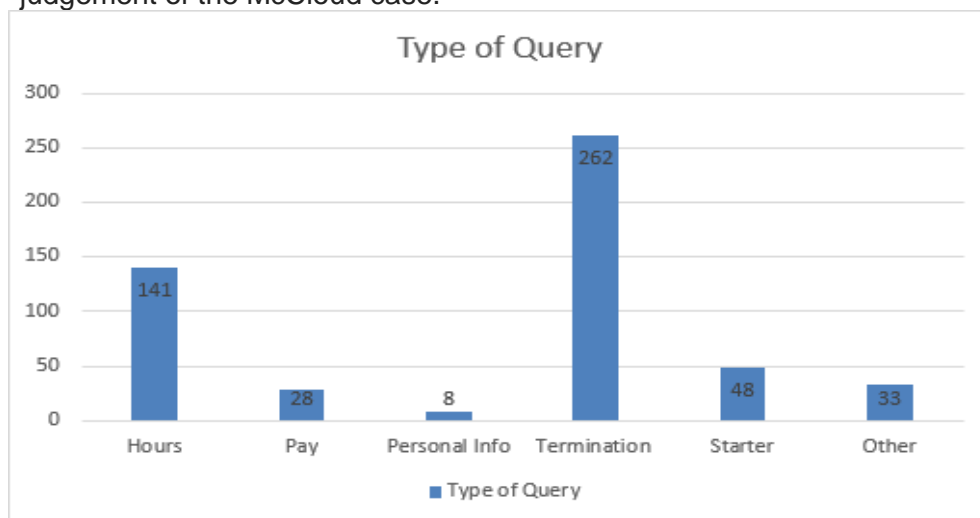
- 5.1. Reports are automatically sent on a monthly basis by Warwickshire County Council Payroll. The charts below show the volume of pension reports split between Starters, Leavers and Changes since April 2019.



- 5.2. The chart below shows the total amount of records that have been actioned by the PAS relative to what has been received. The PAS have managed to clear 97.23% of the reports sent through for 2019/20. The raising and resolution of queries is being done in a timely manner and work in progress volumes have significantly improved to a steady state position.



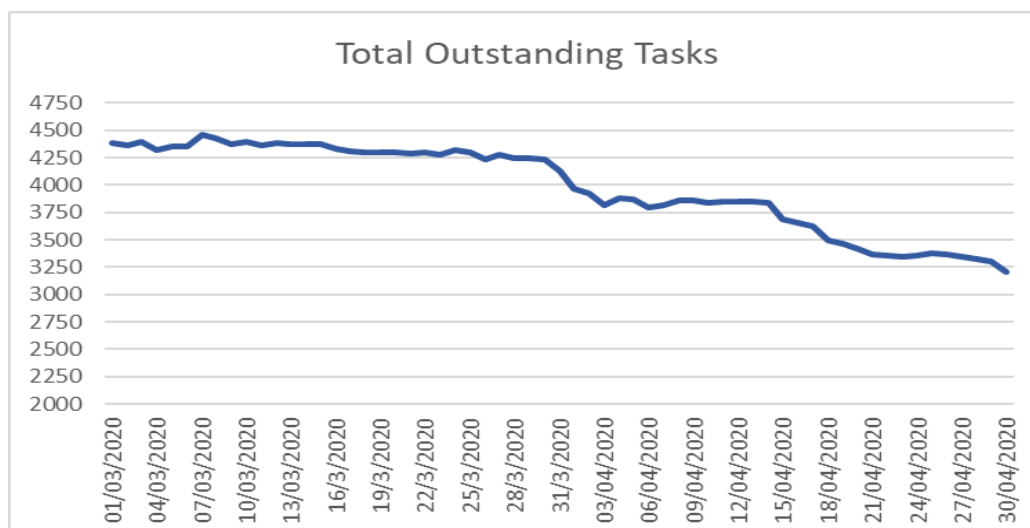
The monitoring has been extended to include the type of query raised. This should give an indication of the data that the Pension Fund holds and where it could be improved. The chart below shows a significant volume of queries are due to the hours that we hold on Altair compared to employer submissions. An action has been added to a forward plan to reconcile the hours held on YourHR and Altair pension system in readiness for expected work as a result of the age discrimination judgement of the McCloud case.



5.3.

## 6. Workloads

- 6.1. The PAS has been focussing on reducing work volumes and the chart below shows the excellent progress made since the beginning of March, through a more effective procedures and the introduction of productivity targets. As at 7<sup>th</sup> June, the total work outstanding had been reduced by 50% to 2,542 compared to the numbers at the end of January. This figure is expected to take an upward turn for a period as a spike in tasks is generated from annual returns.



- 6.2. Due to the current situation with Covid19 we have started to track our reported death cases each month against our data for last year. This will enable us to move resources around the team should our work increase to such an extent that current staff will not be able to meet service standards.

Death Cases	2019	2020
March	27	28
April	31	84
May	32	35

## 7. Pensions Increase

- 7.1. The statutory requirement to update all eligible pensions in line with the Pension Increase of 1.7% on 6th April 2020 has been completed. A formal project governance and great collaboration with the payroll team brought significant benefit to the exercise. Of note was a new dedicated phone line managed by the customer service team which will capture volumes and call types, record calls and answer queries about Pensions Increase by a specialist team. This will allow us to collate query data for the first time which we plan on using to improve communications with our members. Actual call volumes have been extremely low, indicating an accurate exercise with clear communications.

## 8. Year End

- 8.1. Annual Returns from employers were due to be completed and returned to PAS by the 30 April 2020. PAS then update all employees' records on the Altair pensions system, to include the career average revalued earnings (CARE) and contributions that everyone has paid. The process generates a high volume of validation queries that then need to be queried and resolved by the employer.
- 8.2. As at 9 June 2020, 191 employers have submitted an Annual Return out of 193 total expected. In turn, the two returns outstanding are a very small number of members. Work is ongoing to engage with employers.
- 8.3. Following validation checks, the PAS is now engaged in resolving queries with employers over the integrity of the data submitted. These queries need to be

resolved by 18 July to avoid the risk of missing the 31 August 2020 deadline for issuing Annual Benefit Statements (ABSs) and 6 October 2020 deadline for issuing Pension Saving Statements. ABSs for deferred members have already been issued, well ahead of the statutory deadline.

- 8.4. Delays due to COVID-19 increase the risk of delay in issuing Annual Benefit Statements and Pensions Savings Statements by the regulatory deadlines, due to the PAS's ability to engage with employers. The timeline for production of Annual Benefit Statements is shown in Appendix 2.

## 9. Recruitment

- 9.1. All posts within the PAS are now filled. These changes will improve the team's resilience and performance and has already resulted in a positive impact on the workloads (see section 6).
- 9.2. Following the COVID-19 lockdown, the PAS responded superbly with mobilisation to working remotely and process improvements to maintain the service to our members and employers and, ensure payments are made on time.
- 9.3. Focused effort has been invested in the documentation and training of our process relating to death benefits, in anticipation of a rise in the number of death cases we receive.
- 9.4. Overall the position of the Pensions Administration Team has gone from strength to strength over the past few months, the team have taken on new challenges and there is now a positive sense of confidence and commitment from the team.

## 10. Key Performance Indicators

- 10.1. The table below shows the full year performance against the agreed indicators in 2019/20.

Performance Indicator	Target	2019/20 full year	Comments
Retirements Lump Sums paid within 30 days of retirement	100%	32.34%	Timing of employer notification is the single biggest cause for this result.
Retirements Lump Sums paid within 10 days of receiving all relevant paperwork	100%	98.56%	This excellent result evidences the comment above.
Death grants paid 10 days of receiving paperwork	100%	85.27%	Results are skewed due to relatively low volumes.
Refunds processed within 10 days of receiving paperwork	100%	95.27%	
Transfers paid within 10 days of receiving paperwork	100%	69.48%	89.13% for the last 4 months
Deferred benefits calculated and notified within 10 days of receiving paperwork	100%	88.44%	
Scheme employer contributions received by 19th of the month following deduction	100%	90%	The Strategic plan to implement IConnect will maintain and improve these KPIs
Scheme employer monthly returns received by 19th of the month	100%	85%	

following deduction			
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## 11. New Key Performance Indicators

- 11.1. The 2019/20 KPIs were agreed to ensure focus on priority areas of service. With actions completed and progress made, the KPIs have been reviewed and assessed against prevailing needs and current industry standard KPIs. A number of differences and gaps have been identified, and in summary the industry standard KPIs are the most appropriate measures for the Fund to adopt. The Staff and Pensions Committee meeting on 8 June 2020 approved the adoption of the amended KPIs set out in Appendix 2.
- 11.2. The PAS is confident it can report consistently against the industry standard KPIs ongoing and will adopt and report on them from April 2020. The first set of performance figures are set out in Appendix 2.
- 11.3. Appendix 2 shows the new KPIs. It should be noted that for some processes, the industry standard target is above current performance and the service will advise a trajectory for the performance to reach the target over a realistic timeline. Reasons for this include a dampening effect caused by aged tasks that are being completed through the productivity improvement, and for some KPIs e.g. death cases, the performance is affected by low volumes.
- 11.4. There are two additional KPIs to the industry standards: one being how many days past retirement date on average it takes for a member to be paid their lump sum; and the second being payment of a death grant within 10 days of receiving all documentation. The PAS feel these are important measures of member experience.
- 11.5. For all regulatory performance indicators, the target for service level would be 100% and for all non-regulatory measures, the target for service would be 95%. The reporting period for KPIs will be changed to monthly and reporting will show trends as experience data accumulates.

## 12. Annual Benefit Statements

- 12.1. The Board will recall that a breach was reported to The Pensions Regulator in 2019 in relation to the percentage of ABSs issued within the statutory deadlines. As at 1<sup>st</sup> May 2020, 91% of statements had been issued. Of the remaining 9% (3,093), 92% (2,846) cannot be issued until an up to date address is found. Appointment of a third-party tracing agency is in progress.
- 12.2. For 2020, ABSs for 16,110 deferred members were issued on the 2<sup>nd</sup> June 2020 and the active Annual Statements will be sent to members on the 14<sup>th</sup> August 2020.

## 13. Data Quality

- 13.1. HMRC have sent the final data cut for the GMP Reconciliation. Work is being done with our Actuary, Hymans, who have been supporting this project.
- 13.2. PAS is in the process of reconciling pensioner membership and benefits information between pension and payroll systems, and to analyse data quality against the Pensions Regulator Common and Scheme Specific recommendations. Results will be presented at a future meeting.

## 14. Breaches

- 14.1. The PAS is now monitoring breaches in accordance with the new Breaches Policy, following its approval in January by Staff and Pensions Committee.
- 14.2. All the recorded breaches from January 2020 relate to the late submission of data or contributions by employers. Where an employer submits more than one week late on more than three occasions in one year, or more than five weeks late on one occasion, then a Green breach is escalated to Amber.
- 14.3. The table below summarises breaches to date in 2020:

	Red Breach	Amber Breach	Green Breach	No Breach	Total
Number of Employers	0	111	11	72	194

- 14.4. In accordance with the Breaches Policy, employers are being contacted to attempt resolution and the Amber breach employers will follow the escalation policy by sending further communications to employer contacts in order to support resolution of the issues.

## 15. Employer update

- 15.1. Organisational change across the employers within the Fund continues to be busy and frequently changing. The points below summarise changes.
- 15.2. Kingsway School has amended its academy conversion date to 1st September 2020 and Lillington School has amended its date to 1st September 2020.
- 15.3. Wootton Wawen, All Saints and Wellesbourne and Tysoe schools are proposing to convert to academy status on 1st September 2020 but this is not yet confirmed.
- 15.4. An employer has applied to the Fund with a potential backdated notice to 1 January 2020. The application is in progress, including putting the Admission Agreement in place. Due to potential commercial sensitivity, the employer is not named here.

## 16. IConnect Project

- 16.1. Approval was given on 10<sup>th</sup> June to proceed with the IConnect project, which will provide a digital platform to enable employers to upload scheme member data monthly online. IConnect will begin to roll out to employers in the quarter ending 31<sup>st</sup> December 2020.

## 17. Financial implications

- 17.1. There are no financial implications for the Local Pension Board to note, additional to those included in the body of the report.

## 18. Environmental Implications

18.1. There are no environmental implications for the Local Pension Board to note.

## Supporting Information

None

## Timescales associated with the decision and next steps

No decisions to be made.

## Appendices

1. Appendix 1 – Governance Action Plan Summary
2. Appendix 2 – End of Year and Annual Benefit Statement timeline
3. Appendix 3 – Template for new KPIs from April 2020

## Background Papers

No background papers.

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Lead Director	Strategic Director for Resources	
Lead Member	Portfolio Holder for Finance and Property	

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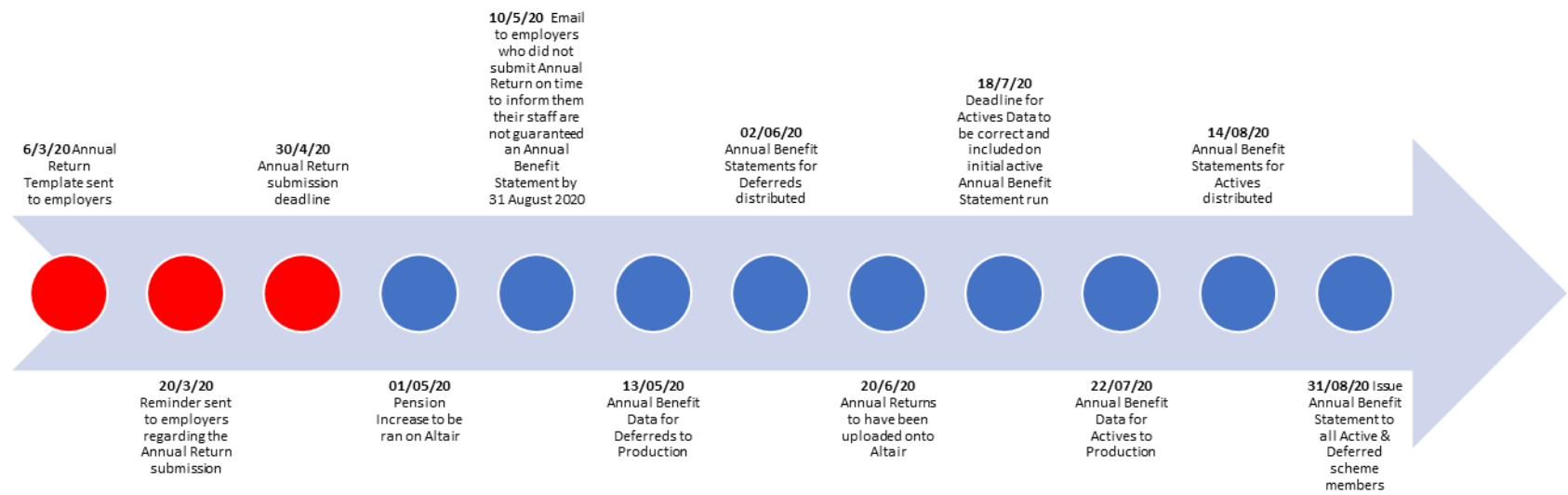
Local Member(s):

Other members:

## Appendix 1 – Governance Action Plan Summary – Update @ 12<sup>th</sup> June 2020

The Pensions Regulator Code of Practice 14	Complete	Red	Amber	Green	Notes
Knowledge & Understanding	5	1	1	0	Training logs being maintained, and training opportunities circulated to Board Members. 2 training days scheduled for 2020 (will need to be rescheduled due to Covid19). Training Needs Analysis underway and will inform content of training days. Training for new Board member can't be completed until they are appointed.
Conflicts of Interest	1	0	0	0	LPB Policy approved at SPC March 2020
Publishing Information	1	1	0	0	LPB Terms of Reference review was deferred to July 2020 meeting and will move to completed once approved by Council. ESG Policy was approved by PFISC in March 2020.
Managing Risks	4	0	0	3	Risk register now being reviewed at each LPB meeting. Managed handover of work to permanent Pensions and Investment Manager and Pensions Delivery Lead.
Record Keeping	8	2	5	1	Approval of Admin Strategy and subsequent training for Employers will help to ensure they understand and are carrying out their roles and responsibilities. Project Full Business Case submitted for approval. Aim is to roll out in 3 phases starting in October 2020.
Maintaining Contributions	9	0	1	1	New Admin Strategy and subsequent training to communicate and improve performance of employer obligations, roles and responsibilities.
Providing Information to Members	0	0	0	0	Governance requirements being met.
Internal Dispute Resolution	0	0	0	0	Governance requirements being met.
Reporting Breaches	7	1	0	0	Breaches Policy in place and breaches log maintained and reviewed regularly. Training completed for Pensions Admin Staff. Employers to be reminded of their responsibilities regarding breaches via new Admin Strategy and related training. Training/workshops have been delivered by Actuary to employees at risk of exceeding allowance thresholds, and project plan is in place for managing 2020 Annual Allowance process.
Developing Areas	2	0	0	0	RI/ESG/Climate Change policy approved at PIFSC March 2020
	37	5	7	5	
<b>Total Actions</b>	<b>54</b>				

Appendix 2 – End of Year and Annual Benefit Statement timeline



Scope at 31 March 2020:  
196 Employers  
16,000+ Actives  
18,000+ Deferreds

Employer Responsibility

Fund Responsibility

**Appendix 3 – Template for new KPIs from April 2020**

<b>Key Performance Indicator</b>	<b>Fund Target (95% service level)</b>	<b>April 2020 Performance on Fund Target</b>	<b>Legal Target (100% service level)</b>
Letter detailing transfer in quote	10 days	83%	2 months
Letter detailing transfer out quote	10 days	82%	2 months
Process and pay a refund	10 days	92%	2 months
Letter notifying estimate of retirement benefits (Active)	15 days	82%	2 months
Letter notifying actual retirement benefits (Active)	15 days	95%	2 months
Process and pay lump sum (Active)	10 days	95%	2 months
Process and pay death grant	10 Days	87.5%	2 months
Initial letter notifying death of a member	5 days	Process started 1 <sup>st</sup> May 2020.	2 months
Letter notifying amount of dependents benefits	10 days	100%	2 months
Divorce quote letter	45 days	100%	3 months
Divorce settlement letter	15 days	No cases	3 months
Send notification of joining scheme to member	40 days	91%	2 months
Deferred benefits into payment	15 days	97%	2 months
Calculate and notify deferred benefits.	30 days	89.5%	2 months
Average days from retirement to payment of lump sum.	Measure member experience	24.6 days	

**Notes:**

1. Days are working days only.
2. Payments relate to sending payment, not receipt in member account.
3. Service Levels commence when PAS have full and accurate information to process the case.

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## Warwickshire Local Pension Board

### Local Pension Board of Warwickshire Pension Fund

#### Annual Report 2019 - 2020

21 July 2020

#### **Recommendation(s)**

1. That members of the Board note the Independent Chair's annual report

#### **1. Executive Summary**

- 1.1 The Public Services Pension Act 2013 requires the Administering Authority for each Local Authority Pension Scheme (LGPS) fund in England and Wales to establish a Local Pension Board
- 1.2 The Independent Chair of the Local Pension Board of the Warwickshire Pension Fund presents his annual report (appendix 1)

#### **2. Financial Implications**

- 2.1 None

#### **3. Environmental Implications**

- 3.1 None

#### **4. Supporting Information**

- 4.1 None

#### **5. Timescales associated with the decision and next steps**

- 5.1 None

#### **Appendices**

1. The Chair's annual report

## Background Papers

1. None

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The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

## Local Pension Board of Warwickshire Pension Fund

### Annual Report

2019-20

The Public Services Pensions Act 2013 requires the Administering Authority for each Local Authority Pension Scheme (LGPS) fund in England and Wales to establish a Local Pension Board.

The role of local pension boards is to assist the Administering Authority to secure compliance with LGPS Scheme Regulations and other legislation relating to the governance and administration of the Fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Warwickshire Fund.

The Regulations also require the membership of the Board to be made up of equal numbers of employer and scheme member representatives with a minimum of four members i.e. at least two employer representatives and two scheme member representatives. The employer representatives on the Board must be independent of the Fund - that is to say they must have no involvement with the day to day management of the Fund. The Warwickshire Board has three scheme member representatives and three employer representatives.

The Warwickshire Board was established as required by the 2013 Act. The membership of the Board during the year has been as follows: -

#### **Employer Representatives**

Councillor Parminder Singh Birdi (Warwickshire County Council)

Mr Keith Francis (The Citizens Advice Bureaux Service)

Mr David Buckland (Stratford-on-Avon District Council)

#### **Scheme Member Representatives**

Mr Alan Kidner (Unison)

Councillor Dave Parsons (Warwickshire County Council)

VACANCY

The Administering Authority continues to make strenuous efforts to fill this vacancy.

#### **Independent Chairman (Non-voting)**

Mr Keith Bray (formerly Director of Financial Services at the City and County of Cardiff)

The Board met on four occasions during 2019/2020. However, before reporting on these meetings it must be noted at the outset that, since the most recent meeting of the Board held on 26 February 2019, the whole world has been devastated by the Coronavirus pandemic and as a result the day-to-day practices and procedures involved with the management and administration of the Pension Fund have,

necessarily, been subject to very significant changes. As readers will be aware, there has been unprecedented use of the word “unprecedented” by commentators worldwide in describing the pandemic and its impact on all aspects of human activity. This and the impact on stock markets worldwide has certainly presented the Fund’s Administering Authority with unprecedented challenges in both the management of its investments and in the administration of the collection of contributions and payment of benefits.

In this context, Board Members received detailed interim update reports from the Fund’s Administrators in early April, and again in mid June, setting out how the impact of the pandemic is being handled. This most challenging situation will be the subject of further report and discussion when the Board next meets on 21 July 2020.

## **Meetings held during 2019/20**

### **8 July 2019**

Attendees - David Buckland; Alan Kidner; Cllr Dave Parsons; Keith Bray (Chair)

The Board received and reviewed;-

- The Pension Fund Investment Sub Committee (PFISC) papers relating to the meetings held on 13 March 2019 and 10 June 2019
- An administration update
- The Board’s Annual Report 2018/19
- A Border to Coast Pooling update
- A valuation update
- The Fund’s Annual Report and accounts 2018/19
- An LGPS development update

The Board expressed concern about payroll administration costs and requested further details of these costs and also requested that any reports or information presented to the Staff and Pensions Committee that related to the Pension Fund should be reported to the Board, together with any related decisions of that Committee.

The question of the Fund’s approach to responsible investment and climate change was raised and it was agreed that a training day dedicated to consideration of these issues would be arranged with the Local Authority Pension Fund Forum (LAPFF)

The Board was informed that the Fund’s current funding level was around 85%.

During consideration of administration performance indicators it emerged that there had been a potential breach of the Pensions Regulators Code of Practice regarding delays in the provision of pension information by an employer. The Board recognised that scheme managers and local pension boards have a duty to ensure that breaches are recorded and, when necessary, reported to the Regulator as soon as they are identified. The Board was concerned by this revelation but acknowledged

that it could not take a view on the matter without more information. It was therefore agreed that officers should prepare a report for urgent circulation to the Board with a view to holding a special meeting, if deemed necessary

The Board requested that its minutes should be reported regularly to the PFISC as a matter of course.

### **19 September 2019 (Special Meeting)**

Attendees :David Buckland; Keith Francis; Alan Kidner; Cllr Dave Parsons; Keith Bray (Chair)

Following the concerns referred to above about a potential breach of regulations relating to delays by an employer in providing critical information to the Fund about scheme members, a detailed report by the Fund's officers setting out the background to the breach was emailed to Board members on July 22 categorising the breach as AMBER under the Pensions Regulator's RAG 'traffic light' system.

There are three RAG categories :-

GREEN recordable by the scheme manager;

AMBER – recordable and **may be considered** to be reportable to the Regulator;

RED – **must** be reported to the Regulator.

There was however a difference of opinion among Board members about the categorisation as AMBER. In view of these differences of opinion the Board Chair convened a Special Meeting of the Board to facilitate further briefing by the officers and further consideration of the issue by the Board. This was held on September 19<sup>th</sup> – the earliest date when all relevant parties were available.

During detailed consideration and discussion, it was noted that, in the light of this development, the Fund had commissioned an independent expert (via CIPFA) to review the Pension Fund administration and governance arrangements. Board members were invited to take the opportunity to talk to the expert during this process.

The scope of the independent review also considered the operating costs of the Pension Fund. Payroll charges to the Fund had been significantly reduced as a result of the implementation of the iTrent payroll system. In summary, the Chair stated that the members of the Board and officers from Warwickshire County Council agreed that there had been a breach and that it was appropriate to classify it as AMBER. and recordable but not necessarily reportable. The administration side of any pension fund involves steep learning curves with the introduction of new systems and processes. Adding value to the fund is the key objective of the local pension board. The breach has been unfortunate, but lessons have been learned

The following actions were agreed

- A summary of the outcome of internal audit reports will be reported to the Local Pension Board once they have been reported to the Audit and Standards Committee.
- A report will be presented at the next meeting of the Local Pension Board regarding Fund administration costs.
- The CPFA consultant will offer to meet with stakeholders and Board Members. Feedback will be shared with the Board.
- In future the overview report on the administration of the scheme presented at each scheduled Board meeting will include more information in respect of activity, performance, risk and breaches.

### **14 November 2019**

Attendees: Keith Francis; Alan Kidner; Cllr Parminder Singh Birdi; Cllr Dave Parsons; Keith Bray (Chair)

The Board considered and reviewed the administration and governance review referred to above.

The Strategic Director – Resources, introduced the review which had been commissioned through CIPFA to assess the pension administration function and inform an action plan to improve the service. Ian Coleman, (CIPFA independent consultant) carried out a complete review of the pension fund administration against The Pension Regulator's 46 requirements and 3 developing areas, based on documented evidence and interviews with key staff and representatives of the Board. Ian Coleman confirmed to the Board that the RAG ratings in the report were based on his judgement against the Pension Regulator's standards.

The Board reviewed the action plan, concentrating on red and amber ratings. During the discussion the following points were highlighted;

- There is a need for the board to continue ongoing training as well as maintaining a training needs analysis for each member.
- The board agreed to move to quarterly meetings.
- A summary of audit reports will be presented to the Board after they have been to the Audit & Standards Committee.

The current figure for annual benefit statements distributed by the deadline was 89%.

It was confirmed that the action plan requirements in relation to the interface with Warwickshire County Council's payroll are being implemented.

The Pension Fund Administration Update was presented by the Strategic Director . This was an extensive report and would be a standing item for all Pension Fund meetings in future. This signalled an intention to improve governance and

transparency in line with Ian Coleman's review. The report reviewed all governance matters and provided details of all current activities and progress made.

The Pensions Manager updated the Board on recent and future LGPS developments. It was agreed that a link to the Scheme Advisory Board (SAB) would be sent out to all members of the Board.

With reference to the McCloud case it was confirmed to the Board that work is still ongoing. It was difficult to state what the likely impact or final cost would be.

The Board noted the papers of the Pension Fund Investment Sub Committee meeting held on 9 September 2019 and agreed the Board's Forward Plan.

The Board received and noted a confidential presentation on the 2019 valuation from the Fund's actuary, and a confidential Pooling Update report from the Strategic Finance Manager.

### **26 February 2020**

Attendees: David Buckland; Keith Francis; Alan Kidner; Cllr Parminder Singh Birdi; Cllr Dave Parsons; Keith Bray (Chair)

The Finance Service Manager (Transformation) presented the report to the Board highlighting the key developments in the administration of the pension fund.

The Board was pleased to hear that 94% of annual benefit statements have now been issued. Those outstanding include those with no contact for members. It was confirmed that a tracing agency will now be used, and a further update will reflect this at the next meeting. It was confirmed that there are 344 which have not been issued because data issues remain outstanding, but work is in progress to work with employers to rectify this. The Board acknowledged that it may not be possible to find everyone the fund has lost contact with.

An update was provided in relation to WCC payroll; reports are now being used to improve the quality of data and monthly monitoring is now in place to ensure that issues are quickly resolved.

With reference to the current membership of the Board - The vacancy for a member representative remains open. If the post remains unfilled then the administering authority will need to refer to the terms of reference and potentially update them. The Chair said that this now had to be dealt with as soon as possible.

Actions in response to the audit report were presented to the Board, who noted that out of 54 actions, 27 are now complete. Nine actions are due to be completed by the end of March 2020. The Chair and the Board congratulated the officer team on the obvious hard work being done and the progress made so far.

The Finance Service Manager (Transformation) confirmed that as agreed at the November 2019 meeting, independent consultant, Ian Coleman had completed the review of administration costs review.

The main conclusion from his report is that the current costs associated with the Warwickshire Pension Fund are suitable for a fund of this size, although they are above the average. It was noted that there are variations that need to be reviewed. The Board thanked officers for the encouraging report and stated that they looked forward to further updates.

The Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the draft administration strategy to the Board highlighting that the document sets out the responsibility between the Fund and employers; in particular, what the fund can do if the employers do not meet their responsibilities.

He also presented the risk register report to the Board, highlighting each of the summary tables which included the high level of risks, likely impact of risks and impact of risks.

It was agreed that quarterly information will be presented at all meetings with summary reports for members.

Although this was a month before the 'lock down', in response to a foresighted question from a Board member the Strategy and Commissioning Manager acknowledged that the coronavirus; was likely to have both a short term and long-term impact. Little did the Board realise the extent to which this would be the case.

He also presented the Fund's Business Plan highlighting that it had two overall objectives;

- to ensure payments are made when they are due
- to ensure that payments are accurate.

The report highlighted the change in demand on the fund's administration team due to the growth of the fund, as well as the increased focus on data accuracy and quality.

The Board reviewed and noted the minutes of the Pension Fund Investment Sub Committee held on 9 December 2019 and the Staff and Pension Committee also held on 9 December 2019. With regard to the latter the Board Chair noted that the comment at the Committee in relation to members not being fully aware of the value of their pensions was a valid point. However, there were difficulties in how best to achieve more publicity on this matter without adding confusion.

The Board received and commented on confidential reports on the 2019 valuation; the Fund's Climate Change, Environmental Social and Governance (ESG) and Responsible Investment (RI) Policy

The Board also received and noted a confidential investment update.

The Board agreed the agenda reflected good work and indicated that it was moving in the right direction. After a challenging year during which there had been some difficult meetings both the Board and the Fund's officers agreed this had been a positive meeting.

After this meeting and following his appointment as Chief Executive at Stratford on Avon, David Buckland stood down from the Board. The Board thanks him for his invaluable contribution and wishes him well for the future. Mike Snow, Head of Finance and Section 151 Officer at Warwick District Council has joined the Board. We look forward to welcoming Mike to our first post pandemic 'virtual' meeting on 21 July 2020

Finally we thank the Fund's officers for their hard work over recent months and we will continue to assist the Fund to the best of our ability during the undoubtedly challenging times that we will all face during the months ahead.

Keith Bray

Independent Chairman

July 2020

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**Warwickshire Local Pension Board**  
**LGPS Scheme Advisory Board Update**

21 July 2020

**Recommendation(s)**

1. That the Local Pension Board note for information the latest update of the Scheme Advisory Board.

**1. Executive Summary**

- 1.1 Attached as an appendix is a summary note from the meeting of the Scheme Advisory Board held on 5<sup>th</sup> May 2020.

**2. Financial Implications**

- 2.1 None

**3. Environmental Implications**

- 3.1 None

**4. Supporting Information**

- 4.1 None

**5. Timescales associated with the decision and next steps**

- 5.1 None

**Appendices**

1. Summary note of the SAB meeting

**Background Papers**

1. None

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Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Cllr. Peter Butlin	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

## Board updates



Print

### Details

Last Updated: 20 May 2020

## Summary note of (virtual) meeting held on 5th May 2020

An archive of all previously published Advisory Board updates is available [here](#).

Full details of the meeting and agenda papers can be found on this website. The Chair opened the meeting by welcoming Rachel Brothwood (WMPF) to her first meeting as the Board's practitioner representative. Members were also advised that steps are well under way to fill the vacant Labour employer seat from the Met District administering authorities.

Main points arising from the meeting include :-

**McCloud** – Discussions with MHCLG continue on remedy. A consultation is still expected in late June with separate proposals for the LGPS. Members were also advised that a judicial review has been launched by the FBU, and four other public sector trade unions against the government's decision to pause the cost cap arrangement.

**Covid-19 issues** – Members were advised of the following work being undertaken by SAB to assist the scheme :-

- UK wide FAQ's including guidance on furloughed staff and emergency voluntary leavers
- New covid-19 section of the SAB website at [www.lgpsboard.org](http://www.lgpsboard.org)
- Establishment of a Covid-19 Practitioners Group
- Weekly meetings with MHCLG, SPPA (Scotland) and DfC (Northern Ireland)
- Three surveys launched on scheme resilience; cash flow and governance
- Employer webinars
- Scheme member FAQs

**DHSC Life Assurance arrangement** – Members were advised that full details of the DGSC life assurance scheme were still awaited but that questions are already being asked about whether similar arrangements are being considered for local government employees not covered by the DHSC scheme. Members were advised that no formal discussions have taken place but that representations have been made to MHCLG about the possibility of extending the scheme to other frontline local government staff.

**Impact of covid-19 on SAB projects and workload :-**

- Good Governance project – To allow local government officers to concentrate on priority matters during the emergency, the Board agreed that the Phase III Implementation Working Group should be stood down until further notice. In the meantime, the project team at Hymans Robertson will continue to work on draft outcomes for consideration by the working group and the Board in due course.
- Responsible Investment Guidance – Work on preparing an A-Z guide to Responsible Investment) will continue over the summer. As agreed in February the guide will not at this stage include any reference to fiduciary duty. The aim is to have a final draft for wider consultation ready to be considered by the Board by mid-August.
- Academies project – Members were advised that the various recommendations from the project's working groups on administration are to be included in ongoing work on monthly data submission and Pension Administration Strategies when possible , Third tier employers project – The working group set up to take this work forward has not been able to meet but discussions with MHCLG on whether and how the proposals on exit payments, deferred employers, etc, consulted on in May last year are being progressed.

**Supreme Court judgement** – Members were advised that the judgement of the Supreme Court in the Palestine Solidarity Campaign case was handed down on the 29th April 2020 and were asked to approve a short statement that has earlier been agreed by the Chair and Vice-Chair. The Board agreed publication of the statement that is now on the SAB website at [www.lgpsboard.org](http://www.lgpsboard.org). The Board also agreed that the Secretariat should work in conjunction with the Board's legal adviser to prepare a draft summary of the judgement for publication covering the following areas :-

- Direct effect of the decision
- Possible indirect impact of the decision, and
- Other items of interest outside of the decision.

**Date of next meeting** – 10th August 2020 but members were advised that beforehand virtual meetings with the Chairs of both the Board and investment and cost management committees will meet on a regular basis to deal with any urgent business.

## Warwickshire Local Pension Board

### Draft Annual Report and Accounts

21 July 2020

#### **Recommendation(s)**

1. That the Local Pension Board notes and comments on the draft annual report and accounts.

#### **1. Executive Summary**

- 1.1 This report introduces the draft pension fund annual report and accounts for year ended 31 March 2020, which are attached as an Appendix
- 1.2 The accounts will be considered by the Audit and Standards Committee in September 2020.

#### **2. Financial Implications**

- 2.1 None

#### **3. Environmental Implications**

- 3.1 None

#### **4. Supporting Information**

- 4.1 None

#### **5. Timescales associated with the decision and next steps**

- 5.1 The draft accounts will be presented to Audit and Standards Committee in September and to Council for approval in October. Once approved the accounts and annual report will be published on the Fund's website by the end of December 2020.

## Appendices

1. Draft Annual Report and Accounts

## Background Papers

None

	Name	Contact Information
Report Author	Victoria Moffett	victoriamoffett@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Peter Butlin	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

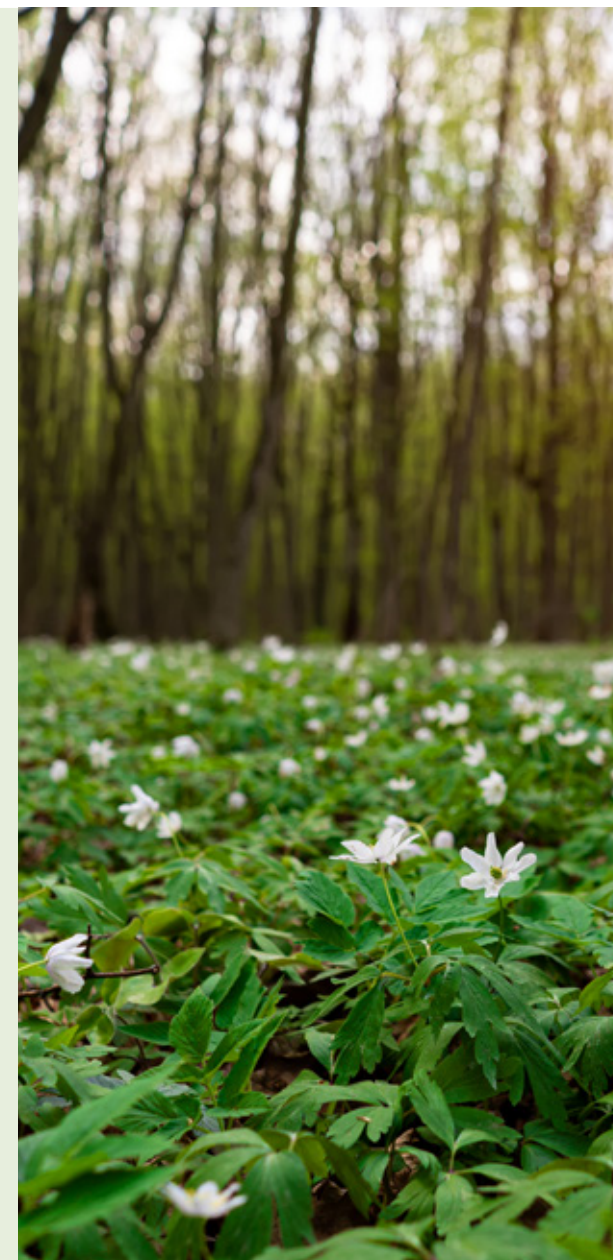
Warwickshire Pension Fund

# Annual Report & Financial Statements

2019-20

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# Chairman's Statement



2019/20 was expected to be dominated by 2019 valuation activity, the pooling of more Funds into the Border to Coast Pension Partnership, and the uncertainty

driven by Brexit and wider global economic tension. These were the key issues for most of the year but were then overtaken by the global pandemic in the last quarter.

The 2019 Valuation was successfully completed and revised strategies for funding and investment were approved in March 2020 and these are included in this Annual Report. The valuation of assets as a proportion of long-term liabilities improved significantly driven by strong investment returns, and the investment strategy has been updated with the direction of travel being to reduce exposure to more volatile growth assets and increase exposure to income generating assets.

Pooling has progressed further with more funds being transferred to the Border to Coast Pension Partnership, which won the Local Authority Pension Fund Awards "Pool of the Year" prize. We have moved a significant proportion

of our assets into the pool, with further transfers still to come.

Brexit and global trade disputes have both caused financial uncertainty, however, the Fund takes a long-term view and has been able to weather the volatility that these issues have presented.

The last quarter of the year was dominated by the global impact of the Coronavirus which appeared in December and had spread world-wide by the end of the year, causing unprecedented health, social, and economic impacts.

The volatility in financial markets has impacted on the fund significantly in the short term, however, the extent of the long-term impact is unknown. In the short term the priority for the fund has been to manage cashflow, making sure that pensions are paid when they are due, and that planned investments can be placed when they are called.

The 2019 valuation considered scenarios involving significant changes in asset values but however the specific impact of Covid-19 occurred too late to be captured directly. Ultimately Covid-19 may have an impact on the long-term funding level but this will be captured in the next valuation and the impact will

be managed over the long-term time horizon on which the pension fund operates.

Looking to the future, the Fund has created a climate change strategy, which forms a part of the overall Responsible Investment policy which you can read within this Annual Report. Climate change is an area of increasing interest to the Fund, and we will be seeking to understand better the impact of the Fund on the environment, the Fund's exposure to risks driven by environmental change, and we will also be looking at the positive opportunities in this area.

Lastly I would like to say a big thank you to the staff who work for the Fund, who deliver the administration and investment functions. A significant amount of hard work has gone into delivering the 2019 valuation, the setting up of new funds with the Border to Coast Pension Partnership, maintaining adequate cashflow and most importantly continuing to make payments to pensioners in the current crisis.

## Cllr Bob Stevens

Chairman of the Pension Fund Investment Sub Committee



# Introduction from Strategic Director for Resources



I would like to echo the Chair's thanks to staff for their hard work throughout a challenging year, both the triennial valuation and towards the end of the year in keeping the Pension Fund operations

going during the Covid-19 lockdown. It is a testament to our staff that we have maintained seamless delivery of the critical operations of the Fund during that period.

I mentioned last year that the volume of activity in the Fund has increased and this trend continues. In order to respond to the additional demand, the capacity of the Pension Fund teams has been increased and the organisation of the teams and roles within them has been changed to enable the increasing demands to be met. Most of these changes were implemented during 2019/20 and will benefit the Fund in future years.

During the last year, as well as delivering the 2019 valuation and the developments in pooling our assets, a review was undertaken looking at the overall governance of the Fund. This review was completed with oversight and support from the Local Pension Board. The Local Pension Board includes representatives of employing organisations

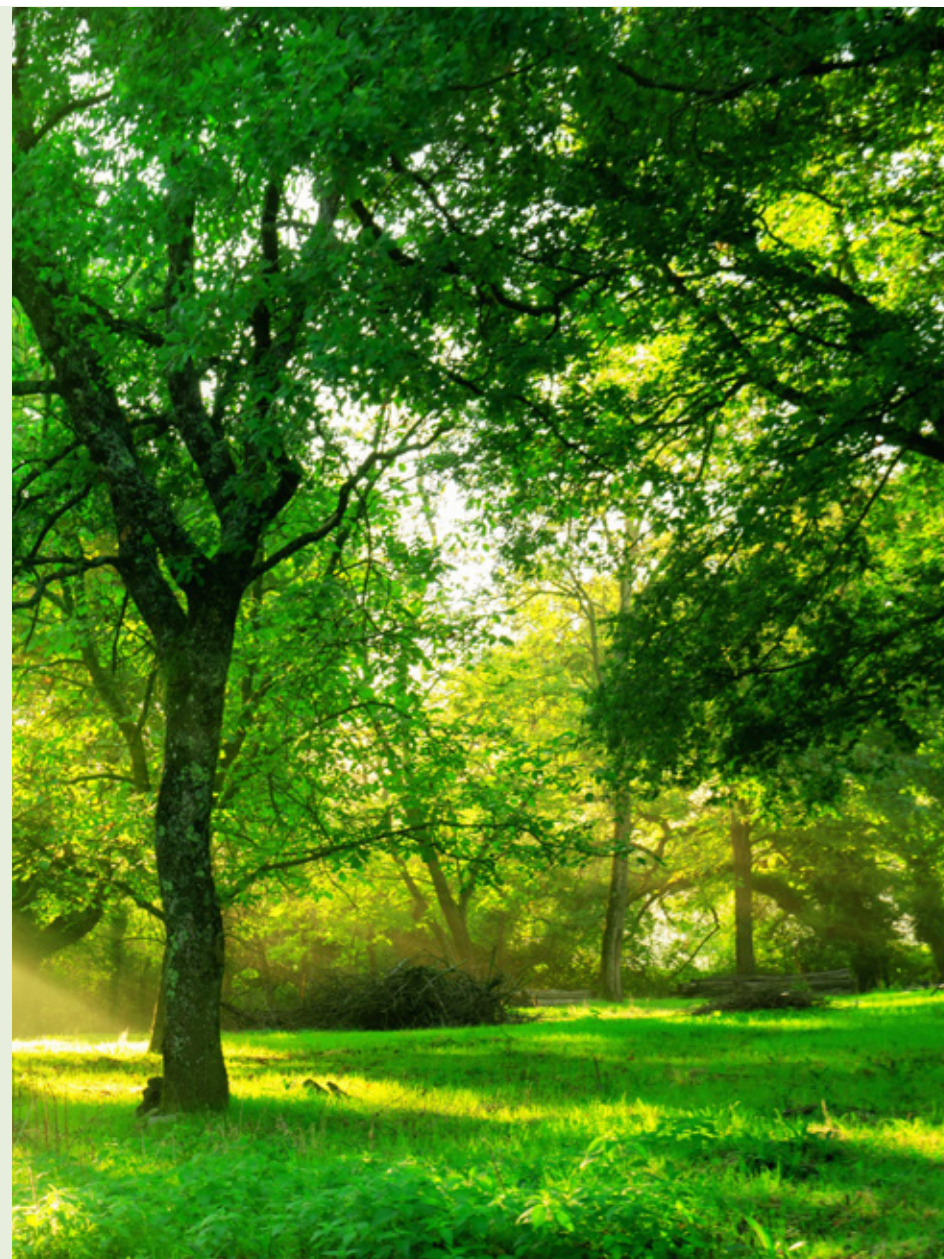
and representatives of Fund members and exists to assist the Fund in ensuring it is governing and administering the Fund appropriately. A number of positive actions were identified and delivered through the year which provide additional assurance about the overall governance of the Fund.

Investment returns have been very positive over the last 3 years, as reflected by the 2019 valuation result. However, Covid-19 has had a significant impact on asset values and there is uncertainty about the medium-term impacts of the crisis on the Fund.

Looking forwards we will be seeking to make more use of systems and automation to keep our membership data accurate and up to date. Data quality is critical for a pension Fund and will continue to be an area of focus for us. We will continue to invest in the Border to Coast Pension Partnership, and will be looking to see strong benefits being realised from our investment in pooling.

Thank you for reading this year's Annual Report.

**Rob Powell**  
Strategic Director for Resources



## 1. Pensions Administration Performance Indicators

Indicator	Target days	%
Letter detailing transfer in quote	10 days	90.98%
Letter detailing transfer out quote	5 days	77.14%
Process refund and issue payment voucher	5 days	90.91%
Letter notifying estimate of retirement benefit	10 days	84.19%
Letter notifying actual retirement benefit	5 days	79.06%
Letter notifying amount of dependant benefits	5 days	46.09%
Calculate and notify deferred benefits	10 days	88.44%

## 2. Pensions Administration Full Time Equivalent Staff

Pensions Admin total	15.7
IT staff *	0.5
Payroll staff *	1.0
Communications staff *	1.5
Employing authority work *	1.0
Work for other schemes *	1.0
<b>Admin of LGPS</b>	<b>10.7</b>

\* FTE staff time spent

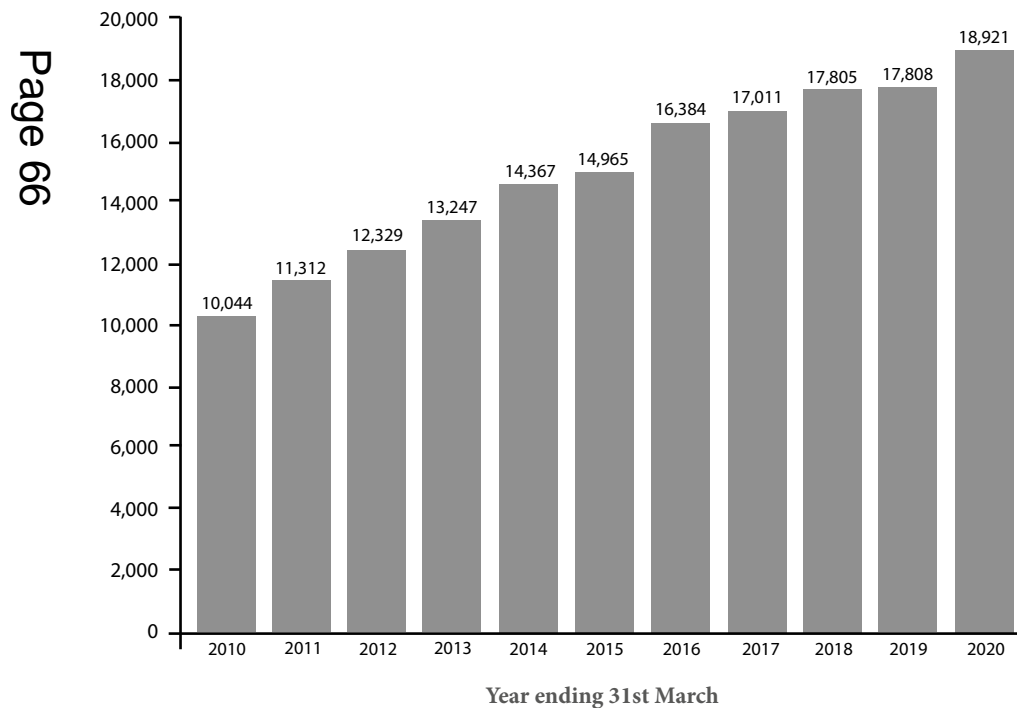
There are **2863** new starters and **4446** changes to details processed

A total of **1012** quotations to pension benefits

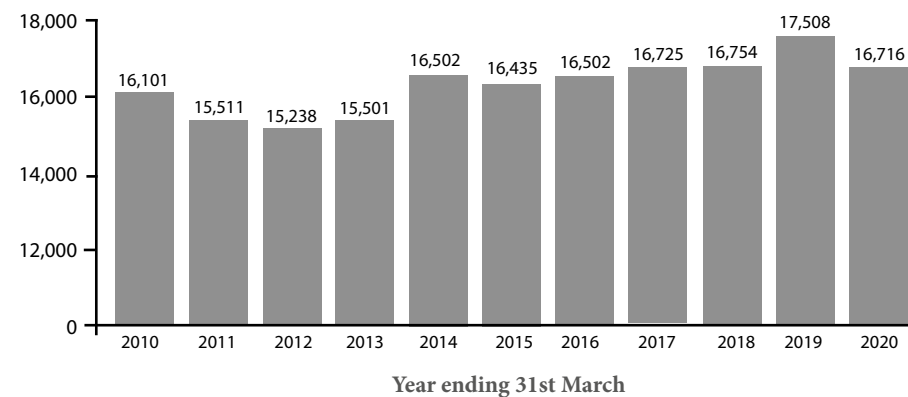
The total number of actual events (retirements, transfer, refunds, deaths) **3105**

The volume of the activity within the Fund has been increasing and this trend is set to continue. The number of employers has significantly increased primarily due to the emergence of Academies since 2010, the new CARE scheme in 2014 which has added complexity and increasing enquiries from the membership, and the additional work required for the 2019 Actuarial Valuation. Throughout 2019, the Administration Service has maintained focus on delivering a service which prioritises cases with financial payments, and has invested in the skills and capacity of the team in response to the ongoing additional demand in the years to come. From April 2020, the service has also adopted industry standard performance indicators, which it is confident in achieving.

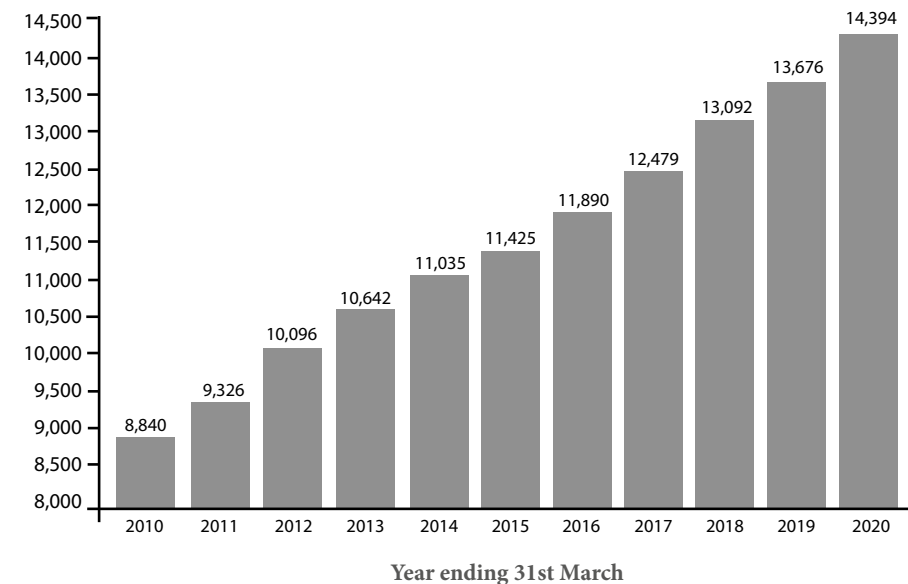
### No. of Preserved Members



### No. of Active Members

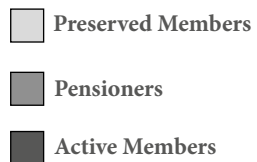
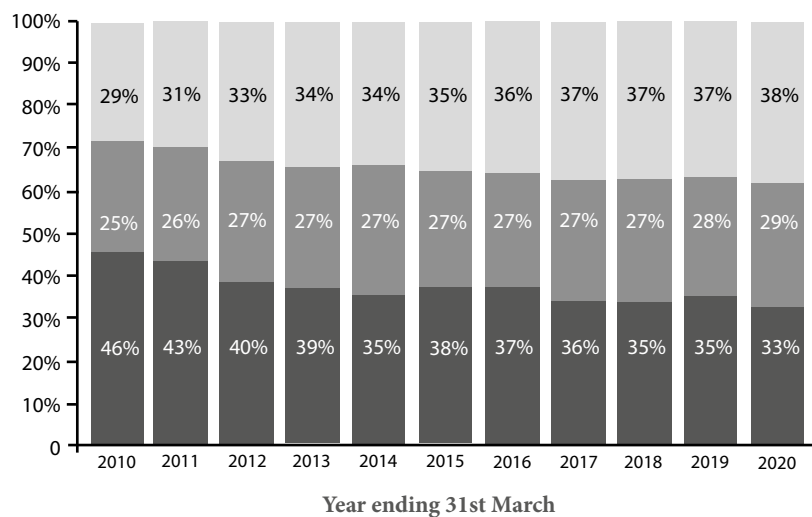


### No. of Pensioners\*

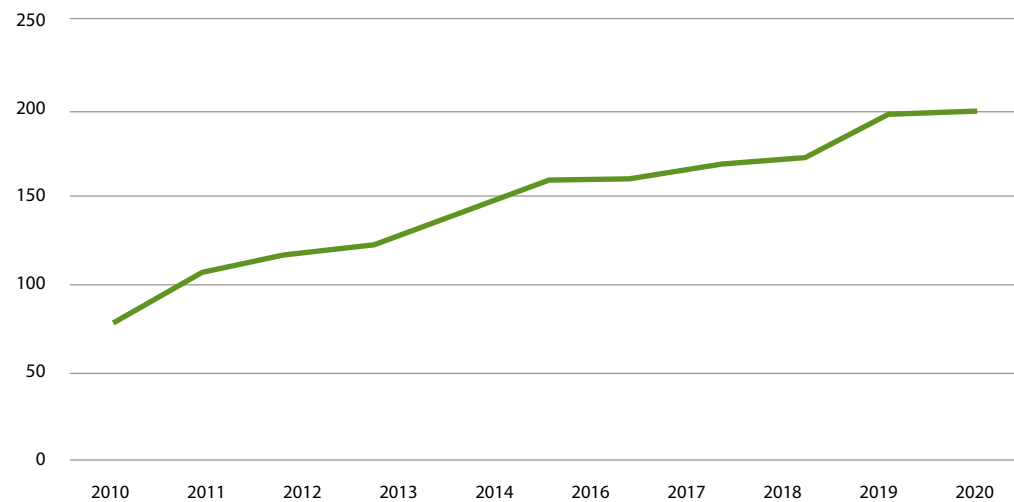


\* These figures include dependants

### Scheme Membership profile over the last 5 years



### Change in Number of Active Employers



# Contributions Paid 2019/20

## >£1m

Warwickshire County Council  
 Warwickshire Police and Crime Commission  
 Nuneaton & Bedworth Borough Council  
 Warwick District Council  
 Rugby Borough Council  
 Warwickshire College  
 Stratford-On-Avon District Council  
 North Warwickshire Borough Council  
 North Warwickshire & Hinckley College  
 Educaterers Ltd

## <£500k

Unity MAT (Brooke)  
 Oak Wood Primary and Secondary Academy  
 Unity MAT (Woodlands)  
 Warwick Schools  
 North Leamington Academy  
 Ashlawn Academy  
 South Warks AT Welcome Hills  
 Stratford upon Avon School  
 Myton Academy  
 Kenilworth Academy  
 Stowe Valley MAT (Southam Col)  
 The Griffin Trust (Nicholas Chamberlain)  
 Holy Family Catholic MAC - St. Benedict's High (Alcester)  
 Higham Lane Academy  
 Community Academies Trust The Polesworth Sch  
 Coleshill School Academy  
 Champion School Academy  
 Stowe Valley MAT (Bilton)  
 Coventry Diocese (Harris High)  
 BFMAT (King Ed VI College Nun)  
 Discovery Academy Nuneaton (Macintyre)

Coventry Diocese (St Michaels)  
 Aylesford Academy  
 Balfour Beatty (new)  
 Studley High Academy  
 Midland Academies Trust (Hartshill)  
 Ash Green Academy  
 Stratford On Avon Grammar Academy  
 Lawrence Sheriff School  
 Alcester Grammar Academy  
 Castle Phoenix Trust (Kingsbury Academy)  
 Midland Academies Trust (George Eliot)  
 Rugby Free Secondary School  
 SLM (Warwick District)  
 Arden MAT (Henley High Academy)  
 Rugby High Academy  
 Quest Academy (Macintyre)  
 Holy Spirit Academy Trust St Joseph's Catholic Junior School  
 Henley High Academy  
 ATT (Queen Elizabeth Academy)  
 Inspire Education Trust (Stockingford Primary)  
 Community Academies Trust Admin Centre

## < £100k

Central MAT (Admin Centre)  
 Midland Academies Trust (Nuneaton)  
 The Griffin Trust (Park Lane)  
 Holy Spirit Academy Trust St Joseph's Catholic Junior School  
 BDAT (Coleshill Primary)  
 Stratford upon Avon King Edward VI Academy  
 Alcester High Academy  
 Stowe Valley MAT (Kineton High)  
 Stour Federation (Shipston Primary)  
 Cawston Grange Primary Academy  
 Matrix Academy Trust

# Employers' Contributions

Coventry Diocese (St Nicolas)  
 Reach2 Academy (Oakfield)  
 BDMAT - Polesworth Nethersole Academy  
 Dunchurch Infant School  
 Tanworth in Arden Academy  
 The Brandon Trust (North Warwicks)  
 Alcester St Nicholas Academy  
 Heart of England MENCAP  
 Community Academies Trust Woodloes Primary Sch  
 Community Academies Trust Birchwood Primary Sch  
 Rugby Free Primary School  
 Coventry Diocese (Queens Middle School)  
 Stowe Valley MAT (Rokeby)  
 Reach2 (Newbold Riverside)

## < £50k

Middlemarch Middle School  
 Everyone Active (SLM)  
 Stowe Valley MAT (Bishops Itchington)  
 Futures Trust (Keresley Newland)  
 Reach2 (RaceMeadow)  
 Stratford-Upon-Avon Town Council  
 Henry Hinde Academy (Infants)  
 Coventry Diocese (St James)  
 BDMAT - Warton Nethersole  
 Midland Academies Trust (Admin)  
 Coventry Diocese (St Oswalds)  
 South Warks AT Arden Fields  
 Stowe Valley MAT (Southam Primary)  
 Community Academies Trust Stratford Primary Sch  
 People in Action  
 BDMAT - Woodside  
 Holy Spirit Academy Trust St Anne's Catholic Primary School

Transforming Lives Education Trust (Henry Hinde Junior Sch)  
 The Brandon Trust (Rugby)  
 The Griffin Trust (Race Leys)  
 Coventry Diocese (Studley St Marys)  
 Community Academies Trust Budbrooke Primary Sch  
 Stowe Valley MAT (Central)  
 Holy Spirit Academy Trust St Francis Catholic Primary School  
 Holy Family Catholic MAC - St. Gregory's Primary (Stratford)  
 Holy Spirit Academy Trust St Benedicts Catholic Primary Sch  
 Heart of England Housing & Care Ltd  
 Community Academies Trust Dordon Community Primary Sch  
 Stratford-Upon-Avon Town Trust Co. Ltd  
 Stowe Valley MAT (Temple Herdwyke)  
 St Gabriels C of E Academy  
 Coleshill Town Council  
 Henley Primary Academy  
 Coventry Diocese (Long Itchington)  
 Coventry Diocese (Southam St James)  
 Community Academies Trust Wood End Primary School  
 Community Academies Trust Heathcote  
 Mappleborough Green School  
 Coventry Diocese (All Saints Leek Wooton) MAT  
 Coventry Diocese (Burton Green) MAT  
 Royal Leamington Spa Town Council  
 Barnardo's Children & Family Centre  
 Moreton Morrell Church of England School  
 Stowe Valley MAT (Stockton Primary)  
 BDMAT - Newton Regis  
 Arden Forest MAT (Coughton)  
 Holy Family Catholic MAC - Our Lady's Primary (Alcester)

Stour Federation (Acorns)  
 Holy Family Catholic MAC - St. Mary's Primary (Henley)  
 Dunnington C of E Junior & Infant School  
 Chartwells (Compass Group) re catering for Coventry Diocese  
 Arden Forest MAT (Temple Grafton)  
 Barnardo's Rugby  
 The Priors Free School Academy  
 Coventry Diocese (Leamington Hastings C of E Academy)  
 BDMAT - Austray  
 Vinshire Plumbing and Heating Ltd  
 Wolverton Junior & Infant School  
 Atherstone Town Council  
 Southam Town Council  
 Shipston Town Council

### < £10k

Coventry Diocese (Salford Priors)  
 Studley Parish Council  
 Long Lawford Parish Council  
 Alcester Town Council  
 Tudor Grange Academy Trust (Haselor)  
 Rugby Town Centre Company  
 Reach2 (Lower Farm Academy)  
 Alliance in Partnership (Myton)  
 Bidford-On-Avon Parish Council  
 Tudor Grange Academy Trust (Meon Vale)  
 Long Itchington Parish Council  
 Whitnash Town Council  
 Wellesbourne Parish Council  
 Alliance in Partnership (St Edwards RC)  
 Barnardo's Nuneaton  
 Warwick Association for the Blind  
 Superclean (RBC Benn Hall)

ABM (King Edward)  
 Bishops Itchington Parish Council  
 ABM (North Leamington)  
 Churchill Cleaning Services (Shipston)  
 Barnardo's North Warwickshire  
 Churchill Cleaning Services (Lawrence Sheriff)  
 Tanworth in Arden Parish Council  
 Wolston Parish Council  
 Kingsbury Parish Council  
 Harbury Parish Council  
 Mancetter Parish Council  
 Tenon FM  
 Alliance in Partnership (Henley Primary Academy)  
 Class Catering (St Mary Immaculate)  
 Ryton on Dunsmore Parish Council  
 Napton Parish Council  
 Cubbington Parish Council  
 Ettington Parish Council  
 Curdworth Parish Council  
 The Parenting Project  
 Lawrence Cleaning  
 Burton Dassett Parish Council  
 Class Catering (Thomas Jolyffe)  
 ABM (St Paul's)  
 Class Catering (The Willows))  
 Barnardo's Warwick  
 Burton Green Parish Council  
 Clifton upon Dunsmore Parish Council  
 Avon Dassett Parish Council  
 Class Catering (SoA Primary Sch)  
 Baileys Catering Ltd  
 Superclean Service Wothorpe Ltd  
 Fenny Compton Parish Council

# Contributions Paid 2019/20

## >£1m

Warwickshire County Council  
Warwickshire Police and Crime Commission

## <£1m

Warwick District Council  
Nuneaton & Bedworth Borough Council  
Rugby Borough Council  
Warwickshire College  
Stratford-On-Avon District Council

## <£500k

North Warwickshire Borough Council  
North Warwickshire & Hinckley College  
Educaterers Ltd  
Warwick Schools  
Oak Wood Primary and Secondary Academy  
Unity MAT (Brooke)  
Unity Mat (Woodlands)  
Ashlawn Academy  
Stratford upon Avon School  
Myton Academy  
North Leamington Academy  
Griffin Trust (Nicholas Chamberlain)  
Avon Valley School  
Higham Lane Academy  
Kenilworth Academy  
South Works AT Welcome Hills  
Community Academies Trust The Polesworth Sch  
Coleshill School Academy  
Holy Family Catholic MAC - St. Benedict's High (Alcester)  
Coventry Diocese - Harris High  
Stowe Valley MAT (Southam Col)

## < £50k

BFMAT (King Ed VI College Nun)  
Stowe Valley MAT (Bilton)  
Ash Green Academy  
Coventry Diocese (St Michaels)  
Aylesford Academy  
Studley High Academy  
Midland Academies Trust (Hartshill)  
Lawrence Sheriff School  
Central MAT (Admin Centre)  
Alcester Grammar Academy  
Stratford On Avon Grammar Academy  
Quest Academy (MacIntyre)  
Midland Academies Trust (George Eliot)  
Balfour Beatty (new)  
Castle Phoenix Trust (Kingsbury Academy)  
Community Academies Trust Admin Centre  
Rugby High Academy  
Arden MAT (Henley High Academy)  
Holy Spirit Academy Trust St Joseph's Catholic Junior School  
ATT (Queen Elizabeth Academy)  
Midland Academies Trust (Nuneaton)  
The Griffin Trust (Park Lane)  
Stratford upon Avon King Edward VI Academy  
Rugby Free Secondary School  
Holy Spirit Academy Trust St Thomas More Catholic School  
Shipston on Stour High School Academy  
Inspire Education Trust (Stockingford Primary)  
Alcester High Academy  
SLM (Warwick District)  
Stour Federation (Shipston Primary)  
Cawston Grange Primary Academy  
Matrix Academy Trust  
Tanworth in Arden Academy  
BDMAT - Coleshill Primary

# Employees' Contributions

Reach2 Academy (Oakfield)  
Coventry Diocese (St Nicolas)  
Dunchurch Infant School  
Alcester St Nicholas Academy  
Midland Academies Trust (Admin)  
Community Academies Trust Woodloes Primary Sch  
BDMAT - Polesworth Nethersole Academy  
Community Academies Trust Birchwood Primary Sch  
Stowe Valley MAT (Kineton High)  
Coventry Diocese (Queens Middle School)  
Reach2 (Newbold Riverside)  
Heart of England MENCAP  
Rugby Free Primary School  
Futures Trust (Keresley Newland)  
The Brandon Trust (North Warwicks)  
Middlemarch Middle School  
NSL  
Stratford-Upon-Avon Town Council  
Reach2 (RaceMeadow)  
Stowe Valley MAT (Rokeby)  
Henry Hinde Academy (Infants)  
People in Action  
Coventry Diocese (St James)  
BDMAT - Warton Nethersole  
Coventry Diocese (St Oswalds)  
Community Academies Trust Stratford Primary Sch  
Stowe Valley MAT (Bishops Itchington)  
Transforming Lives Education Trust (Henry Hinde Junior School)  
Holy Spirit Academy Trust St Anne's Catholic Primary School  
BDMAT - Woodside  
The Griffin Trust (Race Leys)  
Coventry Diocese (Studley St Marys)

**<£10k**

Stowe Valley MAT (Southam Primary)  
 Everyone Active (SLM)  
 Community Academies Trust Budbrooke Primary Sch  
 Community Academies Trust Dordon Community Primary Sch  
 Holy Spirit Academy Trust St Benedicts Catholic Primary School  
 South Warks AT Arden Fields  
 The Brandon Trust (Rugby)  
 Holy Spirit Academy Trust St Francis Catholic Primary School  
 Coleshill Town Council  
 Henley Primary Academy  
 Holy Family Catholic MAC - St. Gregory's Primary (Stratford)  
 Stratford-Upon-Avon Town Trust Co. Ltd  
 Coventry Diocese (Long Itchington)  
 Community Academies Trust Wood End Primary Sch  
 Coventry Diocese (Southam St James)  
 Mappleborough Green School  
 Community Academy Trust Heathcote  
 Stowe Valley MAT (Temple Herdewyke)  
 Royal Leamington Spa Town Council  
 St Gabriels C of E Academy  
 Coventry Diocese (Burton Green) MAT  
 Coventry Diocese (All Saints Leek Wooton) MAT  
 Moreton Morrell Church of England School  
 Heart of England Housing & Care Ltd  
 Arden Forest MAT (Coughton)  
 BDMAT - Newton Regis  
 Curdworth Primary (ATLP)  
 Stour Federation (Acorns)  
 The Priors Free School Academy  
 Stowe Valley MAT (Stockton Primary)  
 Dunnington C of E Junior & Infant School  
 Barnardo's Rugby

Holy Family Catholic MAC - Our Lady's Primary (Alcester)  
 Holy Family Catholic MAC - St. Mary's Primary (Henley)  
 Chartwells (Compass Group) re catering for Coventry Diocese  
 Arden Forest MAT (Temple Grafton)  
 Coventry Diocese ( Leamington Hastings C of E Academy)  
 BDMAT - Austrey  
 Atherstone Town Council  
 Wolverton Junior & Infant School  
 Southam Town Council  
 Shipston Town Council  
 Stowe Valley MAT (Central)  
 Coventry Diocese (Salford Priors)  
 Studley Parish Council  
 Long Lawford Parish Council  
 Alcester Town Council  
 Barnardo's Children & Family Centre  
 Alliance in Partnership (Myton)  
 Tudor Grange Academy Trust (Haselor)  
 Reach2 (Lower Farm Academy)  
 Vinshire Plumbing and Heating Ltd  
 Bidford-On-Avon Parish Council  
 Whitnash Town Council  
 Wellesbourne Parish Council  
 Long Itchington Parish Council  
 Tudor Grange Academy Trust (Meon Vale)  
 Westfield Community Development Association  
 Rugby Town Centre Company Ltd  
 ABM (North Leamington)  
 Alliance in Partnership (St Edwards RC)  
 Warwick Association for the Blind  
 Superclean (RBC Benn Hall)  
 Barnardo's Nuneaton  
 Barnardo's North Warwickshire  
 ABM (King Edward)

Bishops Itchington Parish Council  
 Alliance in Partnership (Henley Primary Academy)  
 Churchill Cleaning Services (Shipston)  
 Churchill Cleaning Services (Lawrence Sheriff)  
 Tanworth in Arden Parish Council  
 Wolston Parish Council  
 Kingsbury Parish Council  
 Harbury Parish Council  
 Mancetter Parish Council  
 Class Catering (St Mary Immaculate)  
 Ryton on Dunsmore Parish Council  
 Napton Parish Council  
 Ettington Parish Council  
 Curdworth Parish Council  
 The Parenting Project  
 Lawrence Cleaning  
 Class Catering (Thomas Jolyffe)  
 Cubbington Parish Council  
 Burton Dassett Parish Council  
 Class Catering (The Willows)  
 ABM (St Paul's)  
 Barnardo's Warwick  
 Burton Green Parish Council  
 Avon Dassett Parish Council  
 Clifton upon Dunsmore Parish Council  
 Class Catering (SoA Primary Sch)  
 Baileys Catering Ltd  
 Fenny Compton Parish Council  
 Superclean Service Wothorpe Lt

**Receipt of contributions**

2019/2020

on or before 19th of each month	91%
After	9%
<b>Total</b>	<b>100%</b>

# Current Committee and Board Membership

## The Role of the Pensions and Investment Sub Committee

The Sub Committee oversees the general framework within which the Fund is managed and sets the investment policy. The Sub Committee also monitors the work of the fund managers and the investment performance for which they are responsible.

**Councillor Bob Stevens**  
Chairman

**Councillor Bill Gifford**  
Vice Chairman

**Councillor John Horner**

**Councillor Wallace Redford**

**Councillor Alan Webb**

**Councillor Richard Chattaway**  
Replaced Cllr Webb in September 19

**Councillor Neil Dirveiks**  
Replaced Cllr Chattaway due to sickness

## The Role of the Local Pensions Board

The Local Pension Board assists the fund in ensuring sound governance arrangements are in place, providing oversight and scrutiny to the fund's activities and policies, and assisting the fund in ensuring compliance with relevant regulations and codes of practice.

**Keith Bray**  
Chairman

**Vacancy**  
Member Representative

**Alan Kidner**  
Member Representative

**David Parsons**  
Member Representative

**Cllr Parminder Birdi**  
Employer Representative

**David Buckland**  
Employer Representative

**Keith Francis**  
Employer Representative

## The Role of the Staff and Pensions Committee

The Staff and Pensions Committee has overall responsibility for functions relating to local government pensions and it established the Pension Fund Investments Sub Committee to oversee pension fund investments and the management of the fund.

**Councillor Kam Kaur**  
Chairman

**Councillor Neil Dirveiks**

**Councillor Bill Gifford**

**Councillor John Horner**

**Councillor Bhagwant Singh Pandher**

**Councillor Bob Stevens**

# Staff, Advisors and Investment Managers

The management and administration of the Pension Fund is delegated to the Strategic Director for Resources.

The Pension and Investment Team within the Resources Group has responsibility for day-to-day management.

## Management and Administration

**Rob Powell** Strategic Director for Resources

**Andrew Felton** Assistant Director (Finance)

**Chris Norton** Strategy and Commissioning Manager (Treasury, Pension, Audit, Risk & Insurance)

**Liz Firmstone** Service Manager (Transformation)

**Neil Buxton** Technical Specialist - Pensions

**Andrew Marson** Interim Pensions Administration Manager

**Michael Nicolaou** Interim Treasury and Pension Fund Manager

## Global Custodian

**Bank of New York Mellon (BNY)**

## Investment Advisors

**Independent Advisors:** Peter Jones, Karen Shackleton

**Actuary:** Richard Warden, Hymans Robertson

**External Consultants:** Paul Potter, Hymans Robertson

## Investment Managers

**Passive Index Tracker:** Legal and General Investment Management

**Border to Coast Pension Partnership (BCPP):** UK Equities, Global Equities, Private Equity, Infrastructure and Investment Grade Credit

**UK Property:** Schroder Investment Management and Columbia Threadneedle Investments

**Private Debt:** Partners Group and Alcentra

**Fund of Private Equity Funds:** HarbourVest Partners

**Absolute Return:** JP Morgan Asset Management

**Infrastructure:** Standard Life Capital Partners and Partners Groups

# The Local Government Pension Scheme

**The Warwickshire Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS is governed by statute, primarily the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013 (as amended). The statutory responsibility for the LGPS falls under the remit of the Minister of State for the Department for Communities and Local Government.**

The Warwickshire Pension Fund is administered by the Director for Resources on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors. The administration of the fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Sub Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members with an independent chair.

At March 2020, the total membership of the fund stood at 50,031 (including 1711 dependants) and the total value of net assets amounted to £2 billion. Of the total membership, 16,716 are active members currently contributing to the fund, 14,394 are members with a preserved benefit and 18,921 retired or dependant members are in receipt of a pension.

All local government employees (except temporary and casual employees) are

automatically entered into the scheme and must opt out if they do not wish to remain a member. Temporary and casual employees must make an election to join the scheme. Temporary employees on a contract of less than three months duration are not eligible for membership.

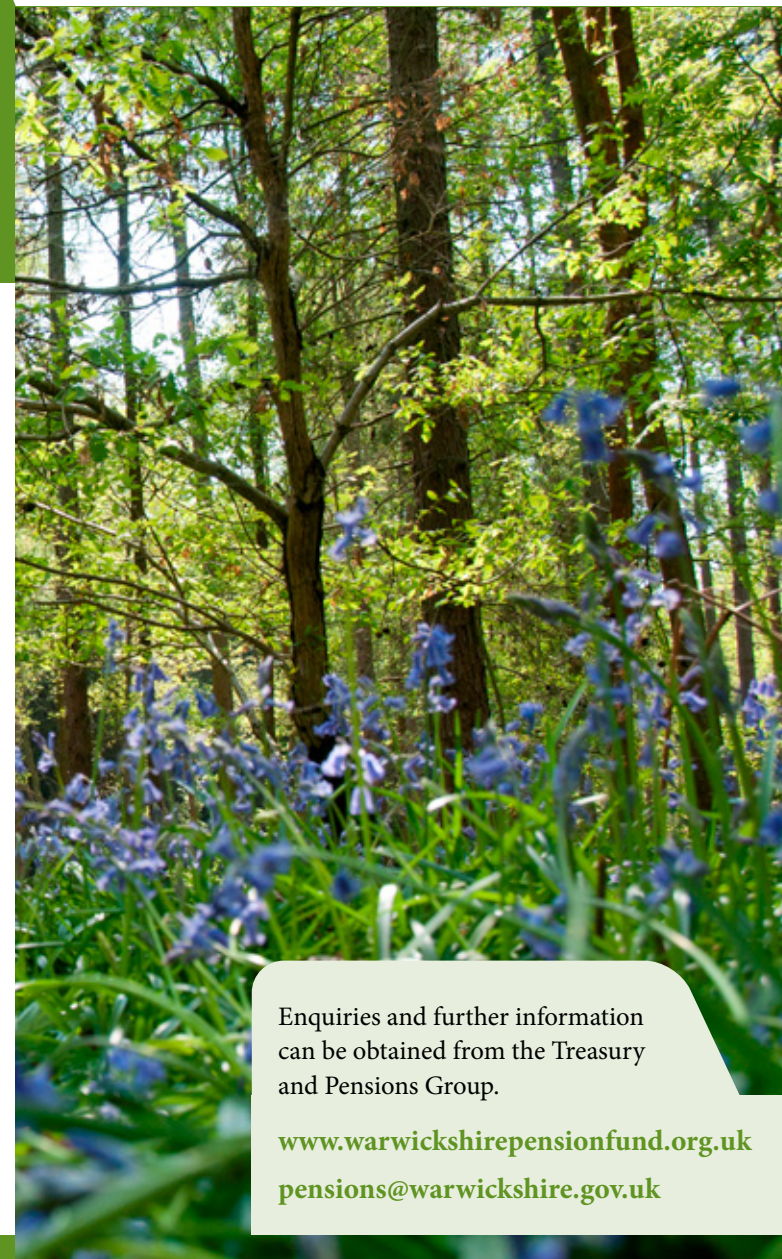
## Benefits of the Pension Fund

Members of the LGPS belong to a scheme which provides high quality pension benefits based on career average related earnings. The scheme is a defined benefit scheme and members' benefits are determined strictly in accordance with the provisions of the Regulations and are not subject to changes affecting the fund assets. For members contributing to the scheme before 1 April 2014, protections are in place for benefits to be based on accrued scheme membership and full-time equivalent pensionable pay at retirement.

Below is a brief summary of the benefits of the LGPS. It is not intended to provide details of all benefits provided or the specific conditions that must be met before these benefits can be awarded.

Enquiries and further information can be obtained from the Treasury and Pensions Group.

[www.warwickshirepensionfund.org.uk](http://www.warwickshirepensionfund.org.uk)  
[pensions@warwickshire.gov.uk](mailto:pensions@warwickshire.gov.uk)



### The core benefits of the scheme are:

- A guaranteed annual pension based on the pay received during the year and revalued in line with earnings.
- A tax free lump sum is available by commuting part of the pension.
- Life assurance of three times the member's yearly pay from the day they join the scheme.
- Pensions for spouses, civil registered partners, qualifying cohabiting partners and eligible children on the death of the member.
- Inflation proofed preserved pensions and pensions in payment.
- Pensions payable from age 55, including (with the employer's consent) flexible retirement and early retirement.
- The option to contribute a reduced contribution for a reduced benefit - the 50/50 option.

**NB** scheme members must have a minimum of two years' membership to qualify for a pension.

### Cost of membership

Employees pay on average approximately 6.1% of pensionable pay received (up from 6% at the 2016 valuation).

Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. The average employer rate at the 2019 valuation is 20.1% (up from 20% at the 2016 valuation).

The next triennial valuation will be calculated as at 31 March 2022 and will set the contribution rates for the three years from 2023 / 2024.

# Investment Report for year ending 31 March 2020

Global equities endured a volatile 12 months and all of the major markets delivered negative returns. Markets were initially swayed by the ongoing US-China trade negotiations before both sides agreed to a new phase-one deal in December, which buoyed the outlook for global economic growth. Key central banks adopted a broadly dovish approach throughout the review period, with rate cuts in the US, China, the UK and elsewhere. The mood swiftly turned negative early in 2020 as coronavirus swept across much of the world. Amid concerns about the pandemic's impact on the global economy, investors fled to safe-haven assets, buying core sovereign bonds and shunning equities. Meanwhile, governments and central banks announced significant monetary and fiscal policies to soften the blow.

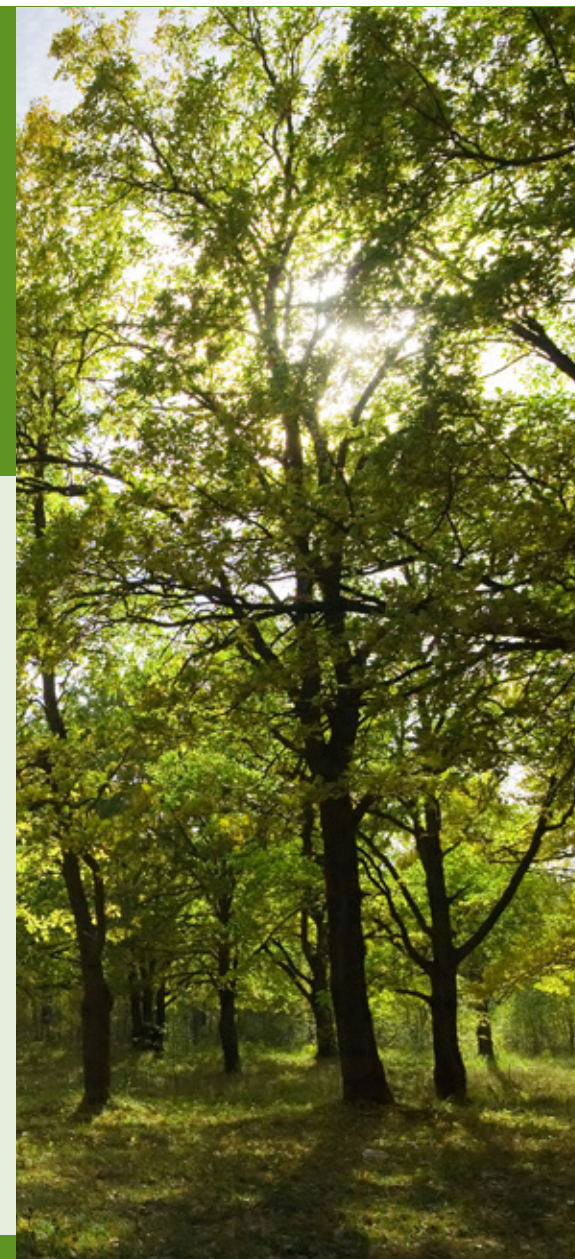
In the UK, Brexit-related uncertainty was the key theme, contributing both to the economy's 0.2% contraction in the second quarter of 2019 and to volatility throughout much of 2019. However, Brexit worries receded in the final months of 2019 as the new UK prime minister's withdrawal agreement and his subsequent general-election victory brought some clarity. His Brexit deal then passed through Parliament in late December and the UK formally left the EU in January 2020. The UK market, however, was one of the worst hit regions in March 2020, as the epicentre of the COVID-19 pandemic reached Europe. In response, policy rates were cut and the government unveiled a £350bn

stimulus plan; sterling weakened to its lowest level against the dollar since 1985.

The S&P 500 index outperformed most other equity markets but closed the review period down 7.0%. The Federal Reserve's (Fed's) dovish policy shift and hopes for a resolution of the trade war with China supported the market's initial rise, but stocks slumped during the first quarter of 2020 as the worsening coronavirus outbreak threatened to derail global economic growth. On the political front, the Democrats' impeachment of President Trump had little impact on markets and, as was generally expected, he remained in office. In

response to the coronavirus pandemic, the Fed cut interest rates to near zero and pledged to provide unlimited monetary stimulus by purchasing bonds. A \$2tn fiscal stimulus package was signed into law.

In the euro area, the review period started on an upbeat note, buoyed by some encouraging economic data and corporate results. Later in the year, however, signs of an economic slowdown multiplied. Third-quarter GDP growth was subdued for the eurozone, and Germany's economy only narrowly avoided recession. The European Central Bank (ECB) announced stimulus measures to spur growth, including lowering interest



rates further into negative territory, restarting its bond-purchase programme, and outlining more generous terms for long-term cheap financing for banks. Eurozone inflation later strengthened, a sign that the region's economy may have started to stabilise after a downturn. Early in 2020, European markets were hit, however, as coronavirus started to spread. Italy and Spain were notable laggards as the pandemic intensified in both countries. In response, the ECB expanded its bond-purchase programme even further. Overall, European equities tumbled 12.7% over the review period as measured by the MSCI Europe index.

Emerging-market (EM) equities had a challenging year, declining 12.7% as trade wars and China's slowing economy held back sentiment. While markets were supported by the Fed's dovish stance on monetary policy and selective stimulus by Chinese policymakers, US-China trade tensions worried markets. The outbreak of coronavirus towards the end of the period also caused EM equities to fall, while central-bank easing across the region attempted to cushion the blow. China outpaced the benchmark, with the MSCI China index returning -6.2% over the year. Sentiment in the country was supported by further stimulus measures from the People's Bank of China, which included cutting

a key lending rate (RRR). In Brazil, the government's high-profile pension-reform plan obtained final approval from the legislature's lower house as well as the Senate, which sparked a local-market rally.

Japan's Topix index recorded a 9.5% fall over the 12-month period. Sentiment was impacted by both the US-China trade negotiations and the US-Japan trade deal, which was agreed in September and eliminated or lowered tariffs on products. The economy was also buffeted by the consumption-tax hike and the disruption caused by Typhoon Hagibis. While Japan's manufacturing sentiment remained weak, the mood was lifted by the government's additional fiscal support. As coronavirus spread into Japan, the government's stimulus commitment strengthened, with Prime Minister Shinzo Abe vowing to take whatever policy measures were needed to soften the impact on the economy. Less positively, in a high-profile blow, the summer Olympics to be held in Tokyo were rescheduled for 2021.

While the 12 months under review constituted a volatile period for global equities, it was a good period for core sovereign debt. This was driven by a flight to safe-haven assets amid the

protracted US-China trade dispute, the accompanying deterioration in the global economy, and the rapid spread of coronavirus, while central banks cut rates to their lower policy bounds.

Despite the accommodative monetary policy backdrop, riskier debt fared poorly over the year. Corporate-bond spreads – the yield premium offered by these bonds over their 'risk-free' government equivalents – tightened over 2019, but finished the review period wider, owing to the pressure on credit markets amid the sharp sell-off in 2020. Spreads in US high yield bonds widened especially sharply, given the market's high energy exposure.

While EM bonds performed strongly for most of the year, the strong dollar and weak commodity prices in the firstquarter of 2020 led these bonds to fall over the review period. The asset class was supported by the Fed's increasingly dovish policy stance, as this undermined the case for further US dollar strength.

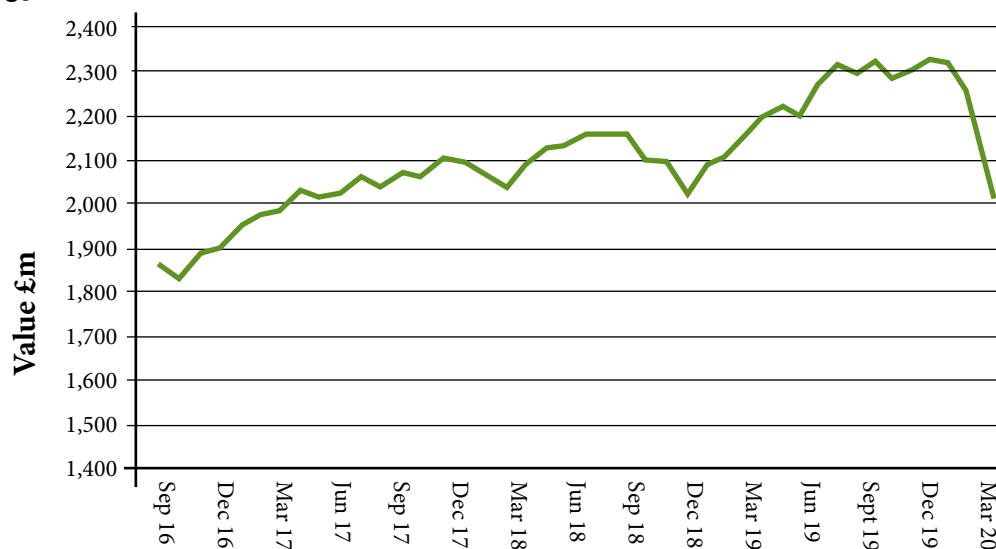
In January, concerns about the economic repercussions from coronavirus also encouraged wider central-bank dovishness, providing further support to EM bonds. Political risk was also a focus, with elections taking place in Turkey,

South Africa and Argentina. Initial trade tensions eased as Mexico escaped the tariffs proposed by President Trump, and the US and China signed an initial trade agreement in January 2020.

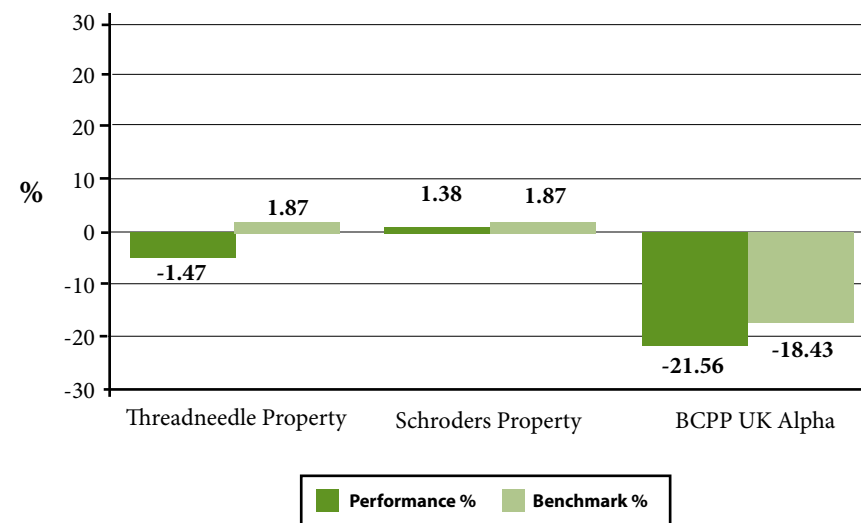
## Top Ten Holdings at 31 March 2019

Security Description	£ millions
1 BCPP Global Equity Fund	292.2
2 BCPP UK Equity Fund	199.0
3 FTSE RAFI AW 3000	183.4
4 Border To Coast Sterling Grade Credit	173.1
5 LGIM European Equity	130.2
6 JPM Strategic Bond Fund	122.8
7 LGIM Index Linked Gilt Fund	121.8
8 ThreadNeedle Property Fund	114.2
9 LGIM UK Equity	107.2
10 LGIM Corporate Bond Fund	57.1

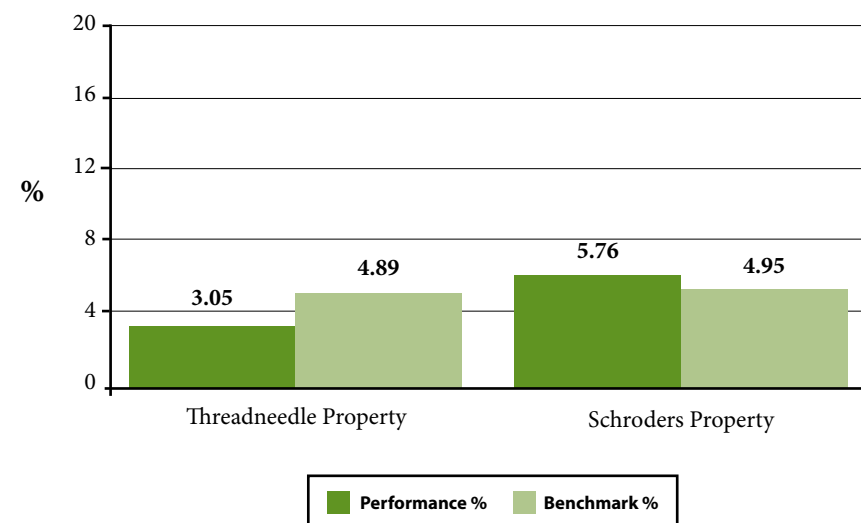
## Total Fund Value Since September 2016



## Fund Manager Performance for the Year Ending 31 March 2020



## Fund Manager Performance for 3 Years Ending 31 March 2020



# Investment Strategy Statement

## - March 2020

### Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Warwickshire Pension Fund (“the Fund”), which is administered by Warwickshire County Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Investment Sub Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 12 March 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the

contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not immediately required to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement, Responsible Investment and Climate Risk policies.

### The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the

Fund’s assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a proportion of the investments will be in growth assets such as equities.
- To help diversify equity risk and



assist with cash flow, a proportion of the investments will also be in income assets structured to deliver both capital growth and a regular income stream.

- To reduce the volatility of the Fund, and to help protect its capital value, the remaining portfolio will be invested in risk diversifying assets that have a low correlation with equity markets and the other underlying growth markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions.

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It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

In 2019, the Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long term funding target – which was defined at that time as achieving a fully funded position within the next

19 years. They also considered the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience.

A summary of the expected returns and volatility for each asset class included in the modelling is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is anticipated that a further review of the investment strategy will be carried out during 2022/23 in conjunction with the then proximate actuarial valuation.

In addition, the Committee monitors the investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has set ranges

around the strategic asset allocation for the traditional asset classes (equities and bonds) and then rebalances the portfolio if any individual asset class moves outside its range.

## Investment of money in a wide variety of investments

### Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, loans, property, infrastructure and cash either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for rebalancing

purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In addition, the Committee have agreed a new Target Asset Allocation, reflecting the likely 'direction of travel' between now and the next actuarial valuation.

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Asset class	Current Strategic Allocation (%)	Asset Allocation Range (%)	Target Allocation (%)
UK equities	17.0	+/-2.5	13.0
Overseas equities	27.5	+/-2.5	21.5
Fundamental global equity	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
<b>Total Growth</b>	<b>58.5</b>		<b>48.5</b>
Property	10.0	n/a	12.5
Infrastructure	4.0	n/a	7.0
Private debt	5.0	n/a	7.0
Absolute Return Bonds / Multi Asset Credit	7.5	n/a	10.0
<b>Total Income</b>	<b>26.5</b>		<b>36.5</b>
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
<b>Total Protection</b>	<b>15.0</b>		<b>15.0</b>
<b>Total</b>	<b>100.0</b>		<b>100.0</b>

## Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different

types of investment takes account of the various risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

## Managers

The Committee has appointed a number of Investment Managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's Investment Managers will hold a mix of investments which reflects

their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets are currently invested are as follows:-

Investment Manager	Asset Class	Investment style
Legal and General	Equities/Bonds	Passive
Legal and General	Fundamental Global Equity	Passive
Border to Coast Pensions Partnership (BCPP)	UK Equities, Global Equities	Active
BCPP Alternatives	Private Equity, Private Debt, Infrastructure	Fund of Funds
Schroders	UK Property	Fund of Funds
Threadneedle	UK Property	Balanced Fund
Alcentra	Private Debt	Direct Fund
Partners Group	Private Debt	Direct Fund
JP Morgan	Bonds	Absolute Return
Harbourvest	Private Equity	Fund of Funds
Standard Life	Infrastructure	Direct Fund
Partners Group	Infrastructure	Fund of Funds/Direct Fund

## The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve its objectives.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- 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 the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

### Asset risks

- Concentration - The risk that a 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.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's actual allocation does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds,

as well as property and other income assets, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of

default of a counterparty in meeting its obligations.

- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed Investment Managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

### The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BCPP). The proposed structure and basis on which the BCPP pool will operate was set out in the July 2016 submission to Government.

#### Assets to be invested in the Pool

The Fund's intention is to invest its assets through the BCPP pool as and when

suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

BCPP launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the next 2-3 years. The Fund has invested assets in the UK Equity Alpha fund, the Global Equity Alpha fund and the alternative sub-funds (private equity, infrastructure and private debt) and has also committed to investing in the Investment Grade Credit Fund expected to launch in Q1 2020.

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from fee savings through joint fee negotiations with other partner funds within BCPP.
- The Fund has investments in a number

of closed end funds as part of its private markets programme. These funds invest in underlying private equity, private debt and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. However, new allocations to these asset classes have been and will continue to be made through BCPP.

The assets above which are not invested in the BCPP pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2023.

#### Structure and governance of the BCPP Pool

The July 2016 submission to Government of the BCPP Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016.

A Financial Conduct Authority (FCA)

regulated company has been established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund holds all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

Oversight of the company is carried out by a Joint Governance Committee comprising representatives of each of the participating pension funds.

As the Pool develops, the Fund will include further information in future iterations of the ISS.

#### ESG Policy: How social, environmental or corporate governance ("ESG") considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors, including climate change, are financially material to the Fund's investments at all stages of decision-making as they have the potential to significantly affect long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible

investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters, including climate change, seriously and regularly reviews its policies in this area and Investment Managers' approach to ESG.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

The Fund has developed a separate more in-depth Responsible Investment Policy and Climate Risk Policy. These policies can both be found on the Fund's website. They outline how the Fund implements, monitors and discloses its approach to ESG-related risks.

Investments made via BCPP are subject to its responsible investment policies that can be found here: [https://www.bordertocoast.org.uk/?dml\\_download\\_category=download-responsible-investment-policy](https://www.bordertocoast.org.uk/?dml_download_category=download-responsible-investment-policy)

The Committee has reviewed BCPP's responsible investment policies and is satisfied they are consistent with the Fund's own policies. The Fund will regularly monitor BCPP's responsible investment policies and actively engage with the pool to facilitate change as required.

Historically the Fund's approach to Social investments has largely been to delegate this to their underlying Investment Managers as part of their overall ESG duties. The Fund's managers reported on this matter as part of the Fund's annual ESG review. The Fund does not currently hold any assets which it deems to be social investments.

## The exercise of rights (including voting rights) attaching to investments

### Voting rights

The Committee have approved its own voting policy with the objective of preserving and enhancing long term shareholder value.

Historically the Fund actively voted on the Fund's segregated equity holdings through a voting platform. The Funds segregated equities have now been transitioned into BCPP equity pooled funds. As a result, BCPP vote on behalf of the Fund in line with the BCPP voting and engagement policy. The BCPP voting and engagement policy has been reviewed by the Committee.

The funds past voting record can be found here: <http://www.warwickshire.gov.uk/pensionstatement>

The voting record of assets invested via BCPP can be found on its website here: <https://www.bordertocoast.org.uk/sustainability/>

Both the Fund and BCPP's voting policies, are reviewed on a regular basis.

### Stewardship

The Committee is a signatory to the Stewardship Code as published by the Financial Reporting Council (FRC). The Committee also expects both the BCPP and any directly appointed fund managers to comply with the Stewardship Code and this is monitored on an annual basis.

At the FRC's most recent review, the Fund and BCPP are rated as a tier 1 signatories to the code. A copy of the Fund's statement of compliance with the Stewardship code can be found in Appendix 2.

### Appendices

Appendix 1 – Expected returns

Appendix 2 – Statement of compliance with Stewardship code

Appendix 3 – Investment Guiding Principles

# Appendix 1

## Expected returns and volatilities

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) used in the 2019 investment strategy review and asset liability modelling.

Asset Class	Expected return % p.a.	Volatility
UK Equities	5.9	17
Overseas Equities	6.0	18
Private Equity	7.0	28
UK Property	4.5	14
Corporate Bonds	1.9	10
Fixed Interest Gilts	1.2	10
Index Linked Gilts	0.5	7

## Appendix 2

### Statement of compliance with Stewardship code

BCPP has become the manager for an increasing proportion of the Fund's investments and as a result has taken on responsibility for engagement with and monitoring of those investments and the underlying managers. All the active equity holdings of the Fund are now managed via BCPP.

BCPP have developed their own statement and appointed their own Head of Responsible Investing and Voting. BCPP's compliance statement can be found at:

<https://www.bordertocoast.org.uk/sustainability/>

The Fund's compliance statement is given below.

#### Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund has a long-standing commitment to responsible share ownership. The Fund views effective stewardship as an integral part of share ownership and therefore of the investment code, and requires the same commitment from its fund managers and the Border to Coast Pensions Partnership ("BCPP").

The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to: dialogue and liaison with fund managers and BCPP on key issues and through membership of the Local Authority Pension Fund Forum (LAPFF).

In addition to this Stewardship Code Statement, the Fund maintains an Investment Strategy Statement (ISS) and Responsible Investment and Climate Risk policy which explains the Committee's investment beliefs in more detail. These are made available on a public facing website.

The Fund has a responsibility to its membership to regularly engage with fund managers including the BCPP on their stewardship and it is expected to form part of their presentation(s) to the Fund Sub Committee.

Warwickshire Pension Fund believe that well managed companies provide long term value creation to the Fund and that the Fund's stakeholders will be beneficiaries, as strong investment returns improve the Fund's overall funding level which acts favourably in terms of employer contribution rates.

## Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund encourages fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Investment Sub Committee members are required to make declarations of interest prior to each quarterly meeting.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. BCPP will be responsible for monitoring and appointing Investment Managers in the future and the Committee will periodically review BCPP's selection process and conflict management policies.

Subsequent monitoring is undertaken by the Fund's investment consultant, independent advisor and BCPP where appropriate to protect the Fund's interests.

## Principle 3

Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to Legal and General and BCPP.

The Committee consider its Investment Managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to it within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's Investment Managers.

The Fund expects Legal and General and BCPP to incorporate responsible investment and stewardship issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing Environmental Social and Governance-related ("ESG") risks in relation to their mandates.

The Fund expects its managers to intervene where necessary, and report back regularly on activity undertaken.

The Fund has regular meetings with its managers and BCPP and will assess their effectiveness in their monitoring in investee companies as part of formal portfolio reviews either amongst Fund officers or the investment Sub Committee.

## Principle 4

Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities.

Responsibility for day-to-day interaction with companies is delegated to the Fund's fund managers and BCPP, including the escalation of engagement when necessary. The Fund expects managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However, the Fund could escalate through LAPFF by supporting a shareholder resolution.

The Fund's Investment Managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the fund manager will seek to add value to their clients through improved company share performance following such escalation.

## Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage if it was felt that the Fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives proposed by our fund managers or other advisors.

The Fund's contact for any such issues is:

### **Pensions and Investment Manager**

Finance Service

Resources Directorate

Tel: 01926 412227

Email: [wpfinvestments@warwickshire.gov.uk](mailto:wpfinvestments@warwickshire.gov.uk)

## Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund's Investment Managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

The Fund no longer directly holds any equity assets. Since transitioning its segregated equity portfolios into BCPP the Fund's equity assets are entirely held within pooled funds.

All voting activity is therefore delegated to its managers and BCPP.

However, the fund has reviewed its managers' voting policies and is satisfied they are consistent with the Fund's own views. The Fund will regularly monitor its managers voting policies and actively engage with them and BCPP to facilitate change as required.

Historic Fund voting records can be found at:

<http://www.warwickshire.gov.uk/pensionstatement>

The BCPP voting records can be found at: <https://www.bordertocoast.org.uk/sustainability/>

The Fund does take part in stock lending through its global custodian (Bank of New York Mellon). Stock is not routinely recalled in the event of a company meeting.

BCPP permits stock lending in their active mandates. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the Fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager.

The Fund has no direct control over stock lending in pooled funds.

## Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports annually on stewardship activity undertaken during the year in the report and accounts and a presentation is given to members who have the opportunity to ask questions about the Fund's stewardship activities.

In the event of significant engagements through any given year the voting activity of the Fund's managers will be made available with voting records published on the Fund's website for the benefit of the Fund's membership.

# Appendix 3

## Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.
2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.
3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.
4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.
5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.
6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.
7. Responsible ownership of companies benefits long term asset owners.
8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.
9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.
10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.
11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.
12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.
13. The performance of any active managers should be assessed over suitably long periods.
14. Staff and members of the Pension Fund Investment Sub Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.
15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.
16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.
17. The fund will work closely with BCPP who will be engaging with companies on the Fund's behalf on ESG issues and exercise its voting rights at company meetings.

### ESG Investment Beliefs

18. As the Fund invests for the long-term, environmental, social and governance ("ESG") factors are expected to have a bearing on the Fund's expected levels of risk and return. The Fund's Investment Managers are therefore expected to embed ESG factors into their investment process and decision making.
19. The Committee should focus on meeting its financial obligations to pay benefits to members.

20. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
21. The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.
22. The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement will be carried out by our managers or alongside other investors (e.g. LAPFF).
23. Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, the Committee believe that divestment should be actively considered.
24. The Fund's Investment Managers' approach to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.
25. Responsible ownership of companies benefits long term asset owners. Asset owners, fund managers, and companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.
26. The Fund's Investment Managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.
27. Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.
28. Climate change, and the expected transition to a low carbon economy, is a long term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.

# Responsible Investment and Climate Risk Policy - March 2019

## 1. Responsible Investment Policy

### Objectives

The Pension Fund Investment Sub Committee recognises that the primary goal of the Warwickshire Pension Fund (the “Fund”) is to be a long-term investor that aims to deliver a sustainable pension fund to its members. This goal should ensure that it is affordable and delivers financially to meet the objectives of the Fund employers.

The Committee recognises that responsible investment and Environmental, Social and Governance considerations (“ESG”) pose a financially material risk as well as an opportunity to the Fund. These considerations are relevant when it comes to the manner in which the assets are invested and in exercising of stewardship responsibilities.

As part of the 2019 investment strategy review, the Committee agreed a set of responsible investment principles which have been added to the Committee’s broader investment principles in the Fund’s ISS. These

principles strengthen the Committee’s position in regard to ESG factors and provide a framework for their engagement with their Fund managers and for investment decision making (these principles are detailed in full in the appendix).

The Committee considers the Fund’s approach to responsible investment in two key areas:

- 1. Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance factors on its investments.
- 2. Effective Stewardship** – acting as responsible and active investors/ owners, through considered voting of shares governed by a voting policy, and engaging with investee company management as part of the investment process.

The Committee expects the Fund’s Investment Managers including the Border to Coast Pensions Partnership (“BCPP”) to embed ESG factors into their investment process and decision making, with a focus on long-term sustainable returns.

The Committee has reviewed BCPP’s responsible investment policies in relation to its own views and has satisfied itself that the principles underlying both are similar. The Committee will regularly monitor BCPP’s responsible investment policies and actively engage with the pool to facilitate change as required.

### Integration

The Committee recognises that RI considerations can be integrated into all stages of the investment decision-making process and have the potential to significantly affect long term investment performance and the ability to achieve long-term sustainable returns.

The Fund’s Investment Managers will be expected to act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value are strongly encouraged.



The Committee will consider opportunities arising from a greater understanding of RI factors when setting its investment structure. However, these opportunities will be assessed with regard to the risk/return requirements of the Fund.

The Fund will incorporate RI and ESG considerations into its selection process for new Investment Managers. Potential managers' approach to responsible investment and the extent to which they incorporate ESG issues into their investment process will be a factor in the Committee's decision making.

The Committee will undertake regular formal training sessions that will include focused responsible investment training. This training will be sought from the Committee's investment advisors, Investment Managers, the Border to Coast Pension Partnership, external specialists and/or other engaged pension funds to provide exposure to a range of opinions and approaches to effective governance.

The Committee recognises that climate change represents a risk which warrants more detailed scrutiny given the wide range of impacts on financial, economic and demographic outcomes and thus has drafted a separate Climate Risk policy.

### Engagement

The Committee recognises that it can influence the behaviour and practices of

their Investment Managers with regard to stewardship through engagement, even where assets are invested through pooled funds such as those offered by Border to Coast Pensions Partnership. The Committee believe that all engagements should have a clearly defined objective.

The Fund aims to achieve engagement through regular meetings with Investment Managers, with managers expected to address RI matters as part of these meetings. Managers will be challenged on their approach where this is not aligned to the Fund's RI and Climate Risk policies.

The Committee believes that successful engagement is preferable to divestment. The Committee is supportive of collaboration to achieve better engagement, as evidenced by the Fund's membership to LAPFE, through which it collectively exercises a voice across a range of corporate governance issues. Where, over a considered period, there is no evidence of a company responding to engagement, divestment may be considered.

The Committee considers its Investment Managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's Investment Managers.

However, the Committee acknowledges that

it can work with other LGPS Funds within Border to Coast to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects passive and active managers to actively engage with companies and be signatories to the Financial Regulatory Council's UK Stewardship Code.

The Committee believes that its Investment Managers should be able to demonstrate the reasoning behind any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

### Monitoring

The Fund expects its Investment Managers to incorporate RI issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing ESG-related risks in relation to their mandates.

The Fund expects Investment Managers to provide it with regular statements on their corporate governance and voting policy.

The Fund will continue to monitor its Investment Managers, including BCPP, commitments and policies in this area to ensure that their investment process aligns

with the Funds RI and Climate Risk policies.

The Fund's Investment Managers are expected to report on the objectives of engagement activities, along with the consequent success or failure of any actions taken on, at least, an annual basis.

The Fund expects its investment consultant to provide input and analysis to assist the Trustees in assessing their managers' performance on engagement activities.

The Committee will monitor the Investment Managers compliance with the UK Stewardship Code.

### Disclosure

The Fund will report on its Stewardship and Governance activities, including voting and engagement undertaken on behalf of the Fund.

Both this policy and the Fund's Climate Risk Policy will be reviewed and updated regularly.

The Fund is committed to being transparent and accountable in terms of its responsible investment performance. As such the Fund will publish its RI and Climate Risk Policies online.

## 2. Climate Risk Policy

The Committee considers that climate change represents a materially financial risk to the Fund with the potential to disrupt economic, financial and social systems. However, the potential impact on the Fund is unknown given policy uncertainty and the unknown physical feedbacks from environmental systems.

Risks to the Fund arising from climate change include, but are not limited to:

- Economic risks: risks that the assumptions made in valuing the liabilities are inappropriate;
- Demographic risks: risks that demographic experience is different to that assumed as a consequence of climate related impacts;
- Asset risks: risks that the performance of the Fund's assets is lower than assumed due to investments being affected by physical impacts from climate change or the transition to a lower carbon economy.

This policy sets out the Committee's approach to addressing climate related risks within the Fund.

Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes and is considered to be part of the Committee's fiduciary duty.

The Committee will assess its portfolios on climate change risk where it is practical to do so and incorporate this into its investment decision making process. The Committee will monitor and review its fund managers in relation to their climate change approach and policies.

The Committee will participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF on climate risk related issues.

The Committee recognises that all companies have some level of exposure to climate-related risks, particularly transition risks, but that price, policy uncertainty and investment timeframes are determinants of risk exposure.

Where, over a considered period, there is no evidence of a company making visible progress towards carbon reduction or to address climate associated risks, divestment may be considered.

### Implementation

The Committee will actively support engagement activity that seeks to achieve:

- Increased disclosure of information on the climate related risks that could affect the value of an investment;
- Transparency of an investments' carbon exposure and how such companies are adjusting for the transition to a low carbon economy.

### Monitoring/Reporting

The Committee recognises that the monitoring and assessment of exposure to climate-related risks is developing and the metrics and tools available to the Committee may evolve.

The Committee will monitor changes in market practice to ensure that they are aware of changing best practice.

The Committee will commence monitoring the exposure to climate related risks within its portfolio. This could include measuring exposure to carbon reserves; overall carbon intensity, and alignment with future climate scenarios.

The Committee will consider climate-related risks when agreeing employer funding strategies at each formal actuarial valuation. Climate change has the potential to affect long term funding outcomes due to its impact on economic variables, such as inflation, and on longevity. These risks can be built into the asset liability modelling that underpins the funding strategies.

### Transparency

The Committee will publish details of its activity in relation to climate-related risks in accordance with its Responsible Investment Policy.

# Appendix

## ESG Investment Principles

- As the Fund invests for the long-term, environmental, social and governance (“ESG”) factors are expected to have a bearing on the Fund’s expected levels of risk and return. The Fund’s Investment Managers are therefore expected to embed ESG factors into their investment process and decision making.
- The Committee should focus on meeting its financial obligations to pay benefits to members.
- Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.
- The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.
- The Committee believes that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement via our managers or alongside other investors (e.g. LAPFF).
- Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, the Committee believes that divestment should be actively considered.
- The Fund’s Investment Managers’ approach to RI, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.
- Responsible ownership benefits long term asset owners. Asset owners, fund managers, and companies with clear responsible investment policies are expected to outperform those without responsible investment policies over the longer term.
- The Fund’s Investment Managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its Investment Managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.
- Passive and active managers should actively engage with companies and comply with the Financial Reporting Council’s Stewardship Code.
- Climate change and the expected transition to a low carbon economy are a long term financial risk to Fund outcomes and are considered to be part of our fiduciary duty.

# Funding Strategy Statement

## - March 2020

### 1. Introduction

#### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire Pension Fund (“the Fund”), which is administered by Warwickshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from March 2020.

#### 1.2 What is the Warwickshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund, in effect the LGPS for the Warwickshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and manages any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to

their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

#### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations too, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.



There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

#### 1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This

will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

#### 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any queries please contact Neil Buxton in the first instance at [wpfinvestments@warwickshire.gov.uk](mailto:wpfinvestments@warwickshire.gov.uk)

## 2. Basic Funding Issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Ministry of Housing, Communities & Local Government (MHCLG) regarding the terms of academies' membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

#### 2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

#### 2.5 How is a funding level calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s “deficit”; if it is more than 100% then the employer is said to be in “surplus”. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members’ benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term measures, whereas contribution-setting is a longer term issue.

#### 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through

housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these

techniques to apply to any given employer, the Fund will make a risk based judgement of the employer. This judgement will have regard to the type of employer, its membership profile and funding position, any guarantors or other security provision, material changes anticipated, etc. This helps the Fund to establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

## **2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?**

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary

has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. The Fund has increased the prudence in employer funding plans by increasing the likelihood of success for all employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

## 2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

### 3. Calculating contributions for individual Employers

#### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;

- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities and Police	Colleges and other FE establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	19 years	Future Working Lifetime, subject to 19 years maximum	Outstanding contract term
Secondary rate – Note (d))	Monetary	Monetary	% of payroll	Monetary	Monetary	Monetary
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	70%	80%	70%	80%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangemen	None	None	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations.					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to occur, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Exit debt/surplus calculated on the contractor exit basis. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.

\* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

### Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council
Max cont increase	+0.75% of pay per annum	+2.0% of pay per annum
Max cont decrease	-0.75% of pay per annum	-1.0% of pay per annum

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

### Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### Note (d) (Secondary rate)

The Secondary contribution for each employer covering the three year period until the next valuation will be collected as a monetary amount except for Academy Schools where it will be set as a percentage of pay.

### Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

The Administering Authority may review an employer's likelihood at any time in the event of significant changes in the Administering Authority's assessment of an employer's security.

### Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee

### Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not

be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2023 in line with the contribution rates detailed in the table below:

Year	Contribution rate (% of pay)
2020/21	23.2
2021/22	23.2
2022/23	23.2

- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii), (iv) and (v) above will be reconsidered at each valuation.

### Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt.

#### i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

#### ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

#### iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority’s default approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority’s primary rate on the contract start date. Upon cessation the contractor’s assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly

any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

#### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1% loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried

out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### 3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or

permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- payable immediately
Colleges and other FE establishments	- payable immediately
Academies	- payable immediately
Transferee Admission Bodies	- payable immediately

### 3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### 3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4. Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the Fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and the Annual General Meeting.

## 5. Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

# Appendix A – Regulatory framework

## A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS 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 framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

## A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January / February 2020 for comment;

- b) Comments were requested within 14 days;

- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2020.

## A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at [www.warwickshirepensionfund.org.uk](http://www.warwickshirepensionfund.org.uk) ;

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Local Pension Board;

A full copy included in the annual report and accounts of the Fund;

Copies made available on request.

## A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Investment Sub Committee and would be included in the relevant Committee Meeting minutes.

**A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.warwickshirepensionfund.org.uk](http://www.warwickshirepensionfund.org.uk)

# Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

## **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

## **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly

by the due date;

3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.
6. In accordance with the Fund's Administration Strategy, scheme employers should pay due costs / charges imposed by the fund.

## **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

## **B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. Investment Managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

# Appendix C – Key risks and controls

## C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;  
demographic;  
regulatory; and  
governance.

## C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.  Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.  Analyse progress at three yearly valuations for all employers.  Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.  Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.  If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change.	The Fund actively considers this risk when allocating assets and appointing Fund Managers.

## C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments.	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).</p>

## C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

## C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions are expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p>

Risk	Summary of Control Mechanisms
	<p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>
An employer ceasing to exist resulting in an exit credit being payable.	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

# Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

## D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

## D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

## D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. at the end of the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target at the end of the time horizon is equal to the required likelihood.

#### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March [2016] the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

#### **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

# Appendix E – Actuarial assumptions

## E1 What are the actuarial assumptions used to calculate employer contribution rates?

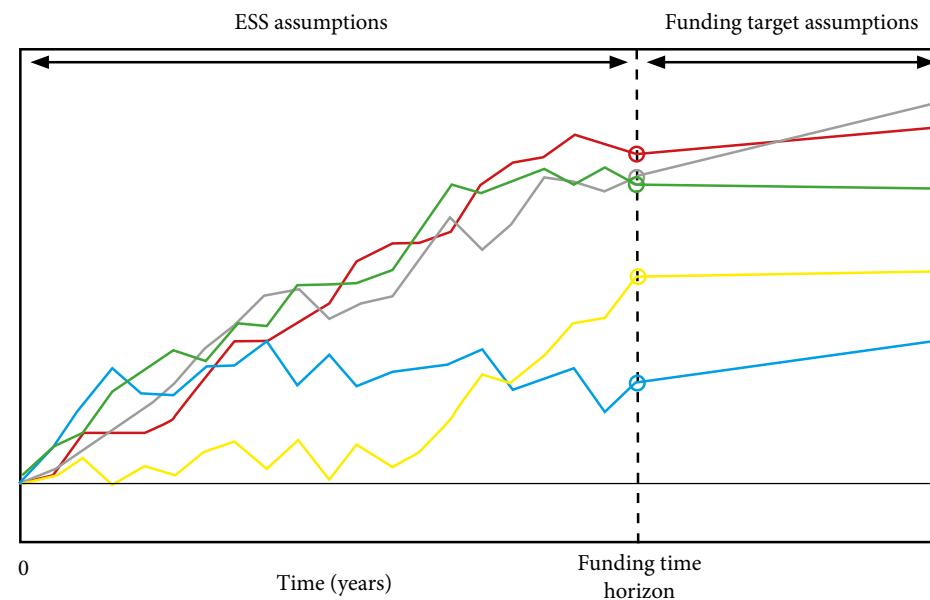
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson’s ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gifts (medium)	Fixed Interest Gifts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.4%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
Volatility (Disp) (1 yr)		1%	7%	10%	17%	17%	14%	11%	1%		

### E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future

investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

#### E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

##### a) Salary growth

The salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by
2. 1.0% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.8%. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.6% per annum. The change has led to an increase in the funding target (all other things being equal).

##### b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI inflation is 1.0% per annum lower than RPI inflation. (Note that the reduction is applied in a geometric, not arithmetic, basis).

##### c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

##### d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

# Appendix F - Glossary

## Funding basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

**Administering Authority** The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

## Admission Bodies

Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

## Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

## Designating Employer

Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

## Employer

An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

## Gilt

A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.

## Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

## Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

## LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

### Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

### Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

### Primary contribution rate

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

### Profile

The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

### Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

### Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

### Secondary contribution rate

The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.

### Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.

### Valuation

A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information, for a Fund, and usually individual employers too.

# Warwickshire Pension Fund (“the Fund”)

## Actuarial Statement for 2019/20

**This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.**

### Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also

minimise the costs to be borne by Council Tax payers);

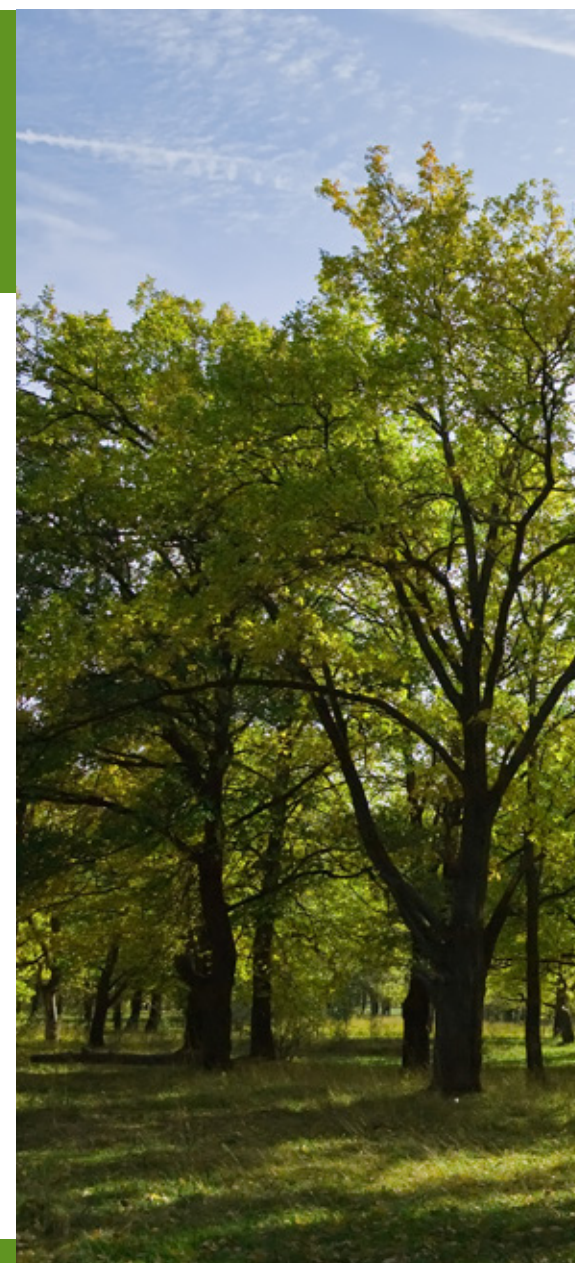
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering

Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 19 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 19 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £2,166 million, were sufficient to meet 92.3% of the liabilities (i.e. the present value of



promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £180 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

#### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.7%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.8 years
Future Pensioners*	22.5 years	25.4 years

\* Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



**Robert Bilton FFA**

2 May 2019

For and on behalf of Hymans Robertson LLP

# Covid-19 Update

**The last quarter of the year saw the rapid spread of the Covid-19 pandemic, starting with an initially unidentified illness found in Wuhan in December 2019. By the end of March the disease had spread worldwide having a very significant economic, social, and health impact, and a national lockdown was imposed to slow the spread of the virus.**

The activities of the pension fund at the end of the year focused on maintaining the safety and wellbeing of staff and scheme members and maintaining operational effectiveness, in particular ensuring that pensions continued to be paid, that cashflow is managed, and that calls to place planned investments could be made.

Pension fund staff have been able to work from home since the lockdown with a minimal presence being required in the office for business-critical functions that could not be done from home, for example dealing with physical post received.

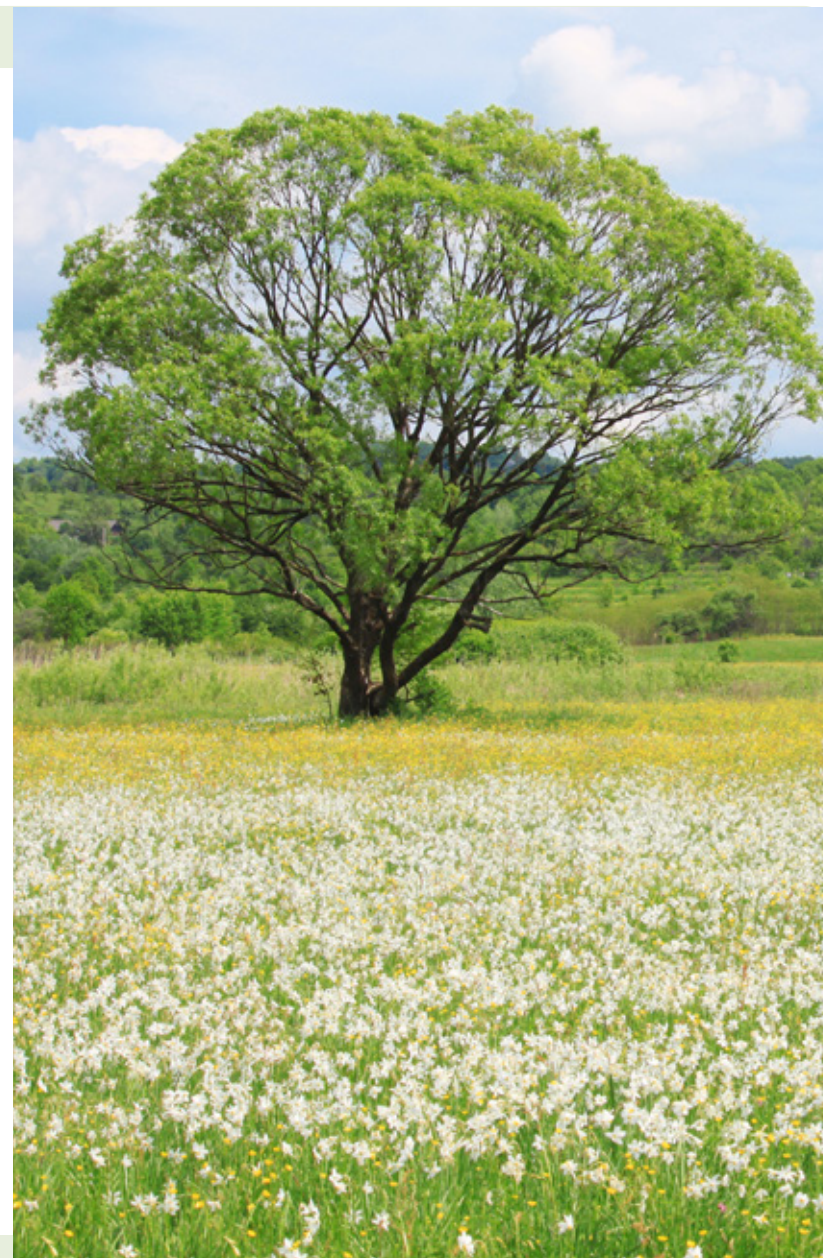
A review of risks specifically relating to Covid-19 was undertaken in late March including the identification of mitigating actions, and a briefing on fund activities was provided to the Staff and Pensions Committee, Pension Fund Investment Sub Commit, and Local Pension Board in early April.

Key operational administration and payroll activities were delivered during the lockdown, with pensions continuing to be paid. Cashflow

management has been maintained, with the fund holding higher cash balances to reduce the risk of needing to sell assets inappropriately to service cash requirements. Investment activity has continued, with the fund being able to meet calls made by fund managers relating to existing investment commitments.

The County Council recently moved to the Microsoft platform, using Microsoft 365 and issuing Surface Pros as standard. The functionality available has enabled staff to continue their roles including meeting with each other virtually, sharing information, and processing tasks.

Covid-19 caused significant volatility in financial markets towards the end of the financial year. Market activity is being monitored, however the Fund takes a long term view, and continues to work closely with its advisers on making decisions that focus on the Fund's long term objectives. Ultimately the effect of Covid-19 will be captured in the next Valuation and will be managed over the long-term time horizon to which the pension fund operates.



# Risk Management

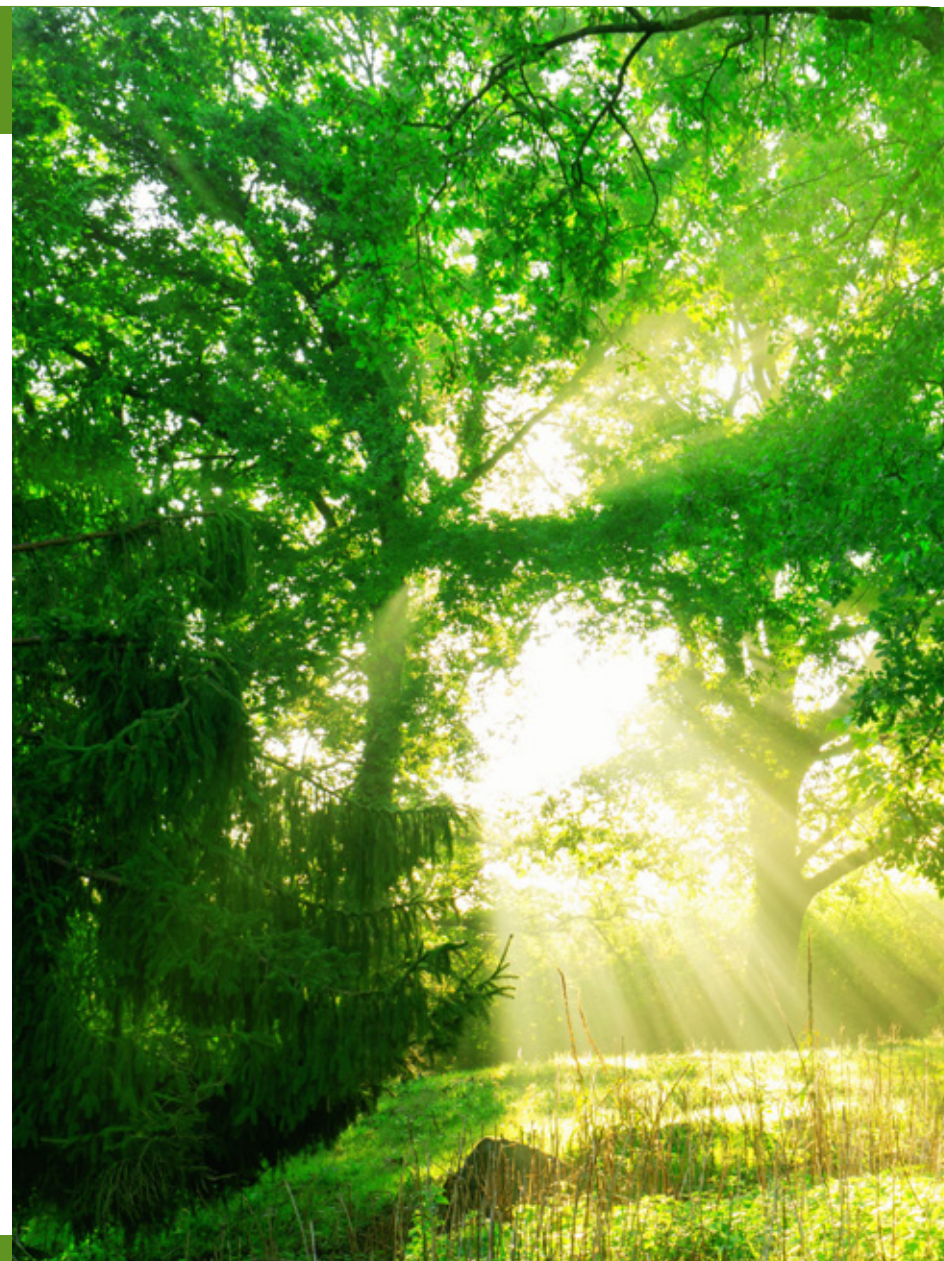
**Risks are identified and evaluated via a risk evaluation model, with controls implemented to mitigate risks being recorded in a risk register. The risks involved in achieving the objectives of the fund are identified and quantified in terms of the likelihood of them occurring and the impact if they did occur.**

The last routine review of risks was in early March 2019 based on information known up to February 2020. The review identified changing risk factors including long term increasing levels of demand on administration activity, climate change, the potential impact of McCloud on costs and on administration workload, meeting GDPR requirements and cyber security threats, maintaining good quality data, and the volatile and unpredictable national and global political climate.

However at the same time the Covid-19 pandemic was accelerating and later in March a review of risk was undertaken

focusing specifically on Covid-19 impacts and mitigating actions. The key increasing risks were assessed to be disruption to employer cashflows, short term and long term investment volatility, disruption to governance administration and fund management activity, and the health and safety of scheme members and staff.

Actions to mitigate these risks have been identified and implemented and the monitoring and management of risk will be reported quarterly to the Pension Fund Investment Sub Committee and Staff and Pensions Committee.



# Appendix 1 – Governance Compliance Statement

The Governance Compliance Statement requires LGPS funds to demonstrate their compliance (or non compliance) with best practice principles. These are contained in statutory guidance which is not mandatory but there is an obligation to comply unless there is a good reason not to do so. This approach is termed as “comply or explain”. The move to a compliance based approach reinforces the need for pension funds to have well defined and transparent governance structures.





























Principle	Warwickshire's Approach	Compliance
<b>Structure</b>		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Warwickshire County Council delegates the management of the Warwickshire Pension Fund to the Pension Fund Investment Sub Committee (PFISC) who are responsible for these areas under the terms of reference contained in the Council's constitution.	Comply
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.	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition the Local Pension Board ensures equal representation.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Minutes of the PFISC and Local Pension Board meetings are freely available.	Comply
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.	Members of the secondary committee sit on the primary committee.	Comply

Principle	Warwickshire's Approach	Compliance
<b>Representation</b>		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	County Councillors sit on the primary and secondary committee and represent all stakeholders. In addition the Local Pension Board ensures equal representation.	Explain
• scheme members (including deferred and pensioner scheme members);	There are three member representative positions on the Local Pensions Board.	Comply
• independent professional observers; and	The PFISC employs an independent financial consultant who is present at all PFISC meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Local Pension Board as required depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes.	Comply
<b>Selection and role of lay members</b>		
That Board 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.	PFISC and Local Pension Board members are given initial and ongoing training to support them in their role.	Comply
<b>Voting</b>		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Warwickshire is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with councillors because the Council retains legal responsibility as the administering authority. The Local Pension Board has its own voting system and must be independent from the PFISC.	Comply

Principle	Warwickshire's Approach	Compliance
<b>Training/Facility time/Expenses</b>		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. The Chair of the Local Pension Board receives an allowance and expenses but the remainder of the Board can be re-imbered.	Comply
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.	The policy applies equally to all elected members of the PFISC.	Comply
<b>Meetings (Frequency/Quorum)</b>		
That an administering authority's main committee or committees meet at least quarterly.	Warwickshire is fully compliant with this principle by holding quarterly and special appointment meetings.	Comply
That an administering authority's secondary committee or panel meet at least four times a year and is synchronised with the dates when the main committee sits.	The primary, secondary and The Local Pension Board meets at least four times a year and meetings are synchronised.	Comply
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited.	Comply
<b>Access</b>		
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 falls to be considered at meetings of the main committee	Certain papers involving confidential information are held to be exempt from the usual distribution process.	Explain

Principle	Warwickshire's Approach	Compliance
<b>Scope</b>		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Warwickshire is fully compliant with this principle by bringing investment issues to the PFISC and benefit issues to both the Local Pension Board and Staff and Pensions Committee. A business plan is approved each year.	Comply
<b>Publicity</b>		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Warwickshire is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

### Member Attendance at Pension Fund Investment Sub Committee Meetings in 2018/19

	13 March 2019	10 June 2019	9 Sept 2019	9 Dec 2019	12 March 2020		
Bill Gifford							
John Horner							
Wallace Redford							
Bob Stevens							
Alan Webb							
Richard Chattaway						Attended	
Neil Dirveiks						Did not attend	

# Post Pooling Report

**This section of the report provides more detailed information about LGPS pooling and the associated costs. The Fund is a member of the Border to Coast Pension Partnership. The pool is made up of 12 local authority partners and was set up in 2017/18 with the first funds transferring in 2018/19.**

The Warwickshire Pension Fund made its first investment into the pool in 2018/19, transferring funds into the Border to Coast UK Equity Alpha Fund, followed in 2019/20 by further funds including global equity fund, private equity, infrastructure, and investment grade credit. The amounts invested as at the 31st March 2020 are set out in Note 18 of the Pension Fund Account set out elsewhere in the Annual Report.

In addition to these investments the Fund holds £833k in the form of shareholder capital.

The Fund engages with the pool through a number of routes including membership of a Joint Committee that has responsibility for providing partner oversight of the pool, a

Section 151 Officer Group that provides advice on developments and an Operational Officer Group that provides a facility for regular communication and liaison between partner funds and the pool.

The pool has future funds in development. The Warwickshire Pension Fund has committed to private debt and investment grade credit, and intends to commit to a Multi Asset Credit fund. There are also further funds under development for example in respect of property.

**Table 1**  
**Set Up and Transition Costs**

Set up costs in 2019/20 were £3.163m, the majority of which related to transition costs for the Global Equity Alpha fund.

The cumulative set up cost from inception includes £833k of regulatory capital

	17/18	18/19	19/20			
	Total	Total	Direct	Indirect	Total	Cumulative
	£000s	£000s	£000s	£000s	£000s	£000s
Set up costs:						
Recruitment	17					17
Legal	27					27
Procurement	36					36
Other support costs eg IT, accommodation	2					2
Share purchase/subscription costs*		833				833
Other working capital provided e.g. Loans						
Staff costs	62					62
Other costs	41	426	250		250	718
<b>TOTAL SET UP COSTS</b>	<b>185</b>	<b>1,259</b>	<b>250</b>		<b>250</b>	<b>1,695</b>
Transition costs:						
Transition fees		3,570		2,912	2,912	6,482
Taxation (seeding relief)						
Other transition costs						
<b>TOTAL TRANSITION COSTS</b>		<b>3,570</b>			<b>2,912</b>	<b>6,482</b>
<b>TOTAL POOLING RELATED COSTS</b>	<b>185</b>	<b>4,829</b>	<b>250</b>		<b>3,163</b>	<b>8,177</b>

\*Share capital

**Table 2****Management fees and Transaction Costs**

This table reports on ongoing management fees relating to pooling activity. Costs have increased in comparison to 2018/19, however the amount of assets under management has increased.

	BCPP Asset Pool			Non-BCPP Asset Pool			Fund Total	
	Direct	Indirect	Total	Direct	Indirect	Total		
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	bps
<b>Management fees:</b>	1,468.4		1,468.4	4,736.0		4,736.0	6,204.4	30.63
ad valerom								
performance				1,097.0		1,097.0	1,097.0	5.42
research								
PRIIPS compliance								
<b>Asset pool shared costs</b>	187.8		187.8				248.0	1.22
<b>Transition costs:</b>				39.9		39.9	39.9	0.20
commisions								
aquisitions/issue costs								
disposal costs								
registration/filing fees								
taxes and STD								
<b>Custody</b>				61.9		61.9	61.9	0.31
<b>Other</b>				3,206		3,205.6	3,205.6	15.83
<b>Total £000</b>	<b>378.0</b>	<b>0.0</b>	<b>378.0</b>	<b>9,140</b>	<b>0.0</b>	<b>9,140.4</b>	<b>10,856.8</b>	<b>47.30</b>

# Accounts for the year ending 31 March 2020

## Statement of responsibilities for the statement of accounts

This section explains our responsibilities for our financial affairs and how we ensure we carry out these responsibilities properly in line with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 and the Accounts and Audit Regulations 2015.

### Responsibilities of the Pension Fund

We must do the following:

- make sure that one of our officers is responsible for managing our financial affairs. For the Pension Fund, Warwickshire County Council's Strategic Director for Resources is responsible for this;
- manage our affairs to use our resources efficiently and effectively and to protect our assets;
- comply with IFRS financial reporting framework; and
- approve the statement of accounts.

### Responsibilities of the Strategic Director for Resources

As the Strategic Director for Resources, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- selected suitable accounting policies and applied them consistently;
- made reasonable and prudent judgements and estimates; and
- followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- kept proper accounting records which are up to date; and
- taken steps to prevent and detect fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position as at the 31st March 2020 and the income and expenditure for the year ended 31st March 2020. The unaudited draft accounts were authorised for issue on 26th June 2020. These will then be audited and presented at a meeting of the Council on 13th October 2020.



**Rob Powell**

Strategic Director for Resources

23 July 2020

## Warwickshire Pension Fund Account

2018/2019 £m		Notes	2019/2020 £m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(80.1)	Contributions	7	(84.9)
(8.5)	Transfers in from other schemes	8	(12.9)
(88.7)			(97.8)
76.9	Benefits payable	9	80.7
7.9	Payments to and on account of leavers	10	12.0
84.8			92.7
(3.9)	<b>Net (additions)/withdrawals from dealing with members</b>		(5.1)
12.3	Management expenses	11	13.2
8.5	<b>Net (additions)/withdrawals inc fund management expenses</b>		8.1
	<b>Returns on investments</b>		
(29.2)	Investment income	13	(20.3)
0.5	Taxes on income		(0.1)
(79.6)	Profit and losses on disposal of investments	23	(306.7)
(33.7)	Changes in the market value of investments	23	450.6
(141.9)	<b>Net return on investments</b>		123.5
(133.4)	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		131.6
(2,032.3)	<b>Opening net assets of the scheme</b>		(2,165.7)
(2,165.7)	<b>Closing net assets of the scheme</b>		(2,034.1)

## Net Assets Statement

2018/19 £m		Notes	2019/2020 £m
0.8	Long-term Assets	15	0.8
2,139.7	Investment assets	15/16/17	2,003.6
0.0	Investment liabilities	15	0.0
17.5	Cash deposits	15/16/17	20.9
<b>2,158.0</b>	<b>Total net investments</b>		<b>2,025.4</b>
11.4	Current assets	29	12.6
(3.8)	Current liabilities	30	(3.8)
<b>2,165.7</b>	<b>Net assets of the fund available to fund benefits at the period end</b>		<b>2,034.1</b>

# Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2020

## Note 1: Description of fund

The Warwickshire Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The County Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Warwickshire County Council to provide pensions and other benefits for pensionable employees of Warwickshire County Council, the district and borough councils in the county of Warwickshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Warwickshire Pension Fund Investment Sub-Committee, which is a Sub-Committee of Warwickshire County Council and is made up of five

County Councillors. Two independent specialists provide advice and guidance to the Sub-Committee.

The Public Service Pensions Act 2013 included a requirement to establish a Local Pension Board, with responsibility to assist the administering authority to:

- secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS and; the requirements imposed by the Pension Regulator in relation to the LGPS; and
- perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A local Pension Board has been in place since February 2015.

### b) Membership

Membership of the LGPS is automatic for entitled employees, but they are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 190 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	192	190
<b>Number of employees in scheme</b>		
County Council	8,303	7,930
Other employers	8,755	8,786
<b>Total</b>	<b>17,058</b>	<b>16,716</b>
<b>Number of pensioners</b>		
County Council	7,706	8,039
Other employers	5,970	6,355
<b>Total</b>	<b>13,676</b>	<b>14,394</b>
<b>Deferred pensioners</b>		
County Council	10,680	11,262
Other employers	7,128	7,659
<b>Total</b>	<b>17,808</b>	<b>18,921</b>
<b>Total</b>	<b>48,542</b>	<b>50,031</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Contributions are also made by employers which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2020.

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3 x pension In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

## Note 2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the actuary's triennial valuation.

## Note 3: Summary of significant accounting policies

### a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

### c) Investment income

#### i) Interest Income

Interest income is recognised in the fund account as it accrues, using the effective

interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

#### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as dividends.

#### iii) Distributions from managed funds

Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

#### iv) Profit and losses on disposal of investments

Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

#### v) Movement in the market value of investments

Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. And amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas

investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

##### Administrative expenses

All administrative expenses are accounted for on an accrual basis. All staff costs of the pension's administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the Fund.

##### Oversight and governance costs

All oversight and governance expenses are accounted for on an accrual basis. All costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

##### Investment management expenses

All investment management expenses are accounted for on an accrual basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and increase the investment income.

#### g) Investment assets

Investment in the LGPS asset pool, Border to Coast Pensions Partnership, is valued at transaction price i.e. cost. The pool's main trading company, Border to Coast

Pensions Partnership Limited, became licensed to trade in July 2018 and does not have established trading results or profit forecasts available yet.

The Pension Fund's view is that the market value of investments in the Border to Coast Pension Partnership at 31 March 2020 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the net assets statement on a fair value basis as at the reporting date. An investment asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 24). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The values of investments as shown in the Net Assets Statement have been determined as follows:

##### i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price on the final day of the accounting period.

##### ii) Fixed interest securities

Are recorded at net market value based on their current yields.

##### iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity.

The valuation of these is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or to the management agreement;

- investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager; and
- investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income, which is reinvested in the Fund net of applicable withholding tax.

#### h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

#### i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

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

#### j) Investment Liabilities

The Fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the Fund becomes party to the liability and are summarised in Note 15. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

#### k) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

#### l) Additional Voluntary Contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Equitable Life and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

#### m) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement - The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

### Note 4: Critical judgements in applying accounting policies

#### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

#### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27. This estimate is subject to significant variances based on changes to the underlying assumptions.

The McCloud and Sargeant judgements upheld the claimant's cases that the method

of implementation of the new public sector pension schemes discriminated against younger members. No allowance has been made for this in the accounts as the remedy to resolve the age discrimination has yet to be agreed and the financial impact remains uncertain.

#### Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reasonably assessed as set out under Note 3.

#### Impact of COVID-19

The impact of COVID-19 has been felt throughout the Fund. The Fund has exposure to several Property and Infrastructure funds which have experienced some uncertainty surrounding their valuations. Transactions in the market have been limited due to the lockdown therefore valuers have not been able to rely on previous market experience. Most Property funds have suspended trading to protect the interest of investors during this time. As a result, the valuations presented in the accounts as at 31 March 20 are based on less certainty.

### Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts as at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £294m - a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £27m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
<b>Private equity, Infrastructure and Private Debt</b>	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of Level 3 investments stand at £271.7m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the valuation is based. This equates to a tolerance of +/- £5.4m.
<b>Pooled property funds</b>	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data.  The valuation of these funds includes a material uncertainty clause therefore the value of units may vary somewhat from the valuations in the accounts.	The Fund holds two property mandates managed by Schroders and Threadneedle. These are classified as Level 2 investments in the accounts.

### Note 6: Events after the reporting date

Events from the balance sheet date to the date of authorisation for issue would be reflected as an adjustment to The Statement of Accounts whether favourable or adverse. This would occur where there was provision of evidence that these conditions were in place by the end of the reporting period and that these events were significant to the fair value of the Fund's net assets. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

### Note 7: Contributions receivable

By category

2018/2019 £m		2019/2020 £m
17.2	Employees' contributions	18.2
	<b>Employer's contributions:</b>	
58.0	Normal contributions	60.3
4.8	Deficit Recovery contributions	6.5
<b>62.9</b>	<b>Total employer's contributions</b>	<b>66.8</b>
80.1		84.9

By authority

2018/2019		2019/2020
£m		£m
36.9	Administering authority	39.3
39.7	Scheduled bodies	42.8
3.4	Admitted bodies	2.7
0.1	Bodies no longer contributing	0.1
80.1		84.9

### Note 8: Transfers in from other pension funds

2018/2019		2019/2020
£m		£m
0.7	Group transfers	0.7
7.8	Individual transfers	12.2
8.5		12.9

### Note 9: Benefits payable

By category

2018/2019 £m		2019/2020 £m
62.1	Pensions	65.6
13.3	Commutation and lump sum retirement benefits	13.3
1.5	Lump sum death benefits	1.8
76.9		80.7

By authority

2018/2019 £m		2019/2020 £m
41.8	Administering authority	43.2
30.7	Scheduled bodies	32.7
3.7	Admitted bodies	4.0
0.8	Bodies no longer contributing	0.9
76.9		80.7

**Note 10: Payments to and on account of leavers**

2018/2019		2019/2020
£m		£m
0.3	Refunds	0.4
0.0	Group transfers	0.0
7.7	Individual transfers	11.7
7.9		12.0

**Note 11: Management expenses**

2018/2019		2019/2020
£m		£m
1.3	Administration costs	1.6
10.0	Investment management expenses	10.6
1.0	Oversight and governance costs	0.8
12.3		13.0

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

**Note 12: Investment management expenses**

2018/2019		2019/2020
£000		£000
8,644.6	Management fees	9,409.5
975.1	Performance related fees	1,097.0
76.1	Custody fees	61.9
323.3	Transaction costs	39.9
10,019.0		10,608.3

**Note 13: Investment income**

2018/2019 £000		2019/2020 £000
15,381.7	Equity dividends	5,329.9
4,864.5	Property	4,911.16
1,010.6	Infrastructure	1,528.18
190.2	Pooled Equity	1,185.18
489.1	Private Debt	860.58
5,499.1	Absolute Return	4,857.10
1,435.3	Private Equity	1,428.34
13,488.8	Managed funds:	14,770.5
252.0	Interest on cash deposits	192.3
45.7	Stock lending	11.5
29,168.2		20,304.2

#### Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2019/20 was £18,397 excluding VAT. The fee for 2018/19 was £22,647.

#### Note 15: Investments

2018/2019 £m		2019/2020 £000
	<b>Long term investments</b>	
0.8	Equities	0.8
	<b>Investment Assets</b>	
389.3	Equities	0.0
101.2	Private Equity	120.7
224.7	Pooled Property	217.4
1,308.9	Pooled Investments, Unit Trusts & Other Managed Funds	1508.2
47.9	Infrastructure	67.9
62.1	Private Debt	83.1
1,744.8	<b>Managed funds:</b>	<b>1997.3</b>
17.5	Cash deposits	20.9
5.6	Investment current assets	6.4
<b>2,158.0</b>	<b>Total Investment Assets</b>	<b>2,025.3</b>
	<b>Investment Liabilities</b>	
0.0	Investment current liabilities	0.0
	<b>Total Investment Liabilities</b>	
<b>2,158.0</b>	<b>Net Investment Assets</b>	<b>2025.3</b>

**Note 16: Reconciliation of movements in investments**

	Market value 31 March 2019 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2020 £ m
<b>Investment Assets Equities</b>	<b>390.1</b>	<b>13.8</b>	<b>-446.6</b>	<b>43.5</b>	<b>0.8</b>
Private Equity	101.2	14.8	-17.7	22.3	120.7
Pooled Property	224.7	12.8	-10.3	-9.8	217.4
Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9	874.5	-463.0	-212.3	1508.2
Infrastructure	47.9	14.5	-0.7	6.3	67.9
Private Debt	62.1	22.8	-5.7	3.8	83.1
<b>Managed funds:</b>	<b>1,744.8</b>	<b>939.5</b>	<b>-497.4</b>	<b>-189.7</b>	<b>1,997.3</b>
<b>Other Investment Balances</b>					
Cash deposits	17.5	59.9	-56.9	0.4	20.9
Net investment current assets	5.6	0.5	0.0	0.3	6.4
<b>Net Investment Assets</b>	<b>2,158.0</b>	<b>1,013.7</b>	<b>-1,000.8</b>	<b>-145.5</b>	<b>2,025.3</b>

	Market value 31 March 2018 £ m	Purchases during the year £ m	Sales during the year £ m	Change in market value during the year £ m	Market value 31 March 2019 £ m
<b>Investment Assets Equities</b>	<b>638.3</b>	<b>78.8</b>	<b>-361.4</b>	<b>34.5</b>	<b>390.1</b>
Private Equity	78.1	17.1	-15.9	21.9	101.2
Pooled Property	207.8	13.3	-3.7	7.3	224.7
Pooled Investments, Unit Trusts & Other Managed Funds	996.3	574.4	-305.3	43.5	1308.9
Infrastructure	31.9	16.1	-2.5	2.5	47.9
Private Debt	0.0	60.2	-0.2	2.1	62.1
<b>Managed funds:</b>	<b>1,314.1</b>	<b>681.0</b>	<b>-327.6</b>	<b>77.4</b>	<b>1,744.8</b>
<b>Other Investment Balances</b>	<b>0.0</b>				<b>0.0</b>
Cash deposits	73.7	80.3	-137.0	0.4	17.5
Net investment current assets	11.2	0.1	-5.8	0.1	5.6
<b>Net Investment Assets</b>	<b>2,037.3</b>	<b>840.2</b>	<b>-831.9</b>	<b>112.4</b>	<b>2,158.0</b>

## Note 17: Analysis of investments

31 March 2019 £m		31 March 2020 £m
	<b>Equities</b>	
0.8	UK	0.8
389.3	Overseas	0.0
<b>390.1</b>		<b>0.8</b>
	<b>Managed funds</b>	
224.4	Pooled Property	217.4
1,308.9	Pooled Investments, Unit Trusts & Other Managed Funds	1508.2
17.7	Infrastructure	24.0
<b>1,551.0</b>	<b>UK:</b>	<b>1,749.5</b>
62.1	Private Debt	83.1
101.2	Private Equity	120.7
0.3	Pooled Property	0.1
30.2	Infrastructure	44.0
<b>193.8</b>	<b>Overseas:</b>	<b>247.8</b>
<b>1,744.8</b>		<b>1,997.3</b>
	<b>Cash deposits</b>	
11.2	UK Sterling	20.4
6.3	Foreign currency	0.5
<b>17.5</b>		<b>20.9</b>
<b>5.6</b>	<b>Net investment current assets/(liabilities)</b>	<b>6.4</b>
<b>2,158.0</b>	<b>Net Investment Assets</b>	<b>2,025.3</b>

### Note 18: Investments analysed by fund manager

Market value 31 March 2019			Market value 31 March 2020		
£ m	%		£ m	%	
<b>Investments managed by BCPP asset pool</b>					
253.6	11.8%	UK Equity Alpha Fund	199.0	9.8%	
0.8	0.0%	BCPP Shareholding	0.8	0.0%	
0.0	0.0%	Private Equity	0.9	0.0%	
0.0	0.0%	Infrastructure	3.7	0.2%	
0.0	0.0%	Global Equity Alpha Fund	292.2	14.4%	
0.0	0.0%	BCPP Investment Grade Credit	173.1	8.5%	
254.5	11.8%		669.7	33.1%	
<b>Investments managed outside of BCPP asset pool</b>					
0.7	0.0%	Columbia Threadneedle Investments (UK Equities)	0.0	0.0%	
396.9	18.4%	MFS Investment Management (Global Equities)	2.3	0.1%	
578.3	26.8%	Legal and General Investment Management (Index Tracker - Global Equities)	542.4	26.8%	
349.3	16.2%	Legal and General Investment Management (Index Tracker - Fixed Income)	179.0	8.8%	
121.8	5.6%	Columbia Threadneedle Investments (Property)	114.2	5.6%	
105.5	4.9%	Schroder Investment Management (Property)	107.1	5.3%	
101.2	4.7%	HarbourVest (Private Equity)	119.8	5.9%	
128.2	5.9%	JP Morgan (Strategic Bond)	122.8	6.1%	
17.7	0.8%	Standard Life Capital (Infrastructure)	22.3	1.1%	
30.2	1.4%	Partners Group (Infrastructure)	41.9	2.1%	
10.3	0.5%	Alcentra (Private Debt)	29.9	1.5%	
51.8	2.4%	Partners (Private Debt)	53.2	2.6%	
11.7	0.5%	BNY Mellon (Global Custodian)	20.8	1.0%	
1,903.5	88.2%		1355.6	67%	
2,158.0	100.0%		2,025.3	100.0%	

### Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2019 £m	% of total fund as at 31 March 2020
Border to Coast Global Alpha Equity Fund	292.2	14.48%
Border to Coast Alpha Equity Fund	199.0	9.86%
L&G Fundamental Indexation	183.4	9.09%
Border to Coast Investment Grade Credit	173.1	8.58%
L&G Europe (Exc UK) Equity Index	130.2	6.45%
JPM Strategic Bond Fund	122.8	6.08%
L&G Index linked Bonds	121.8	6.04%
Columbia ThreadneedleTPN Property A	114.2	5.66%
L&G UK Equity Index	107.2	5.31%

Security	Market value 31 March 2019 £m	% of total fund as at 31 March 2019
Border to Coast Alpha Equity Fund	253.6	11.79%
L&G Investment Grade Corporate Bond	229.4	10.66%
L&G Fundamental Indexation	216.6	10.07%
L&G Europe (Exc UK) Equity Index	136.0	6.32%
JPM Strategic Bond Fund	128.2	5.96%
Columbia ThreadneedleTPN Property A	121.8	5.66%
L&G Index linked Bonds	119.6	5.56%
L&G UK Equity Index	117.6	5.47%

### Note 20: Stock lending

The Fund's Statement of Investment Principles sets the parameters for the Fund's stock-lending programme. At the year-end, the value of stock on loan was £0.0m (31 March 2019: £4.0m). Any investments continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year-end the Fund held no collateral (via the custodian) (31 March 2019: £4.3m). Collateral is obtained at 102% for sterling denominated equities and 106% for all other currency denominations and consists of government debt.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

### Note 21: Property holdings

The Fund does not hold property directly. Property is held in the form of pooled funds.

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

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
31 March 2019				31 March 2020		
£ m	£ m	£ m		£ m	£ m	£ m
			<b>Investment Assets</b>			
390.1			<b>Equities</b>	0.8		
101.2			Private Equity	120.7		
224.7			Pooled Property	217.4		
1,308.9			Pooled Investments, Unit Trusts & Other Managed Funds	1,508.2		
47.9			Infrastructure	67.9		
62.1			Private Debt	83.1		
1,744.8			<b>Managed funds:</b>	1,997.3		
	17.5		Cash deposits		20.9	
	5.6		Investment current assets		6.4	
	9.8		Debtors		9.0	
	1.7		Cash balances		3.6	
2,134.9	34.5	0.0		1,998.1	39.8	0.0
			<b>Liabilities</b>			
		0.0	Investment current liabilities			0.0
		-3.8	Creditors			-3.8
0.0	0.0	-3.8		0.0	0.0	-3.8
2,134.9	34.5	-3.8		1,998.1	39.8	-3.8

### Note 23: Net gains and losses on financial instruments

31 March 2019 £m		31 March 2020 £m
	<b>Financial Assets</b>	
113.2	Fair value through profit and loss	306.7
0.0	Loans and receivables	0.0
	<b>Financial liabilities</b>	
0.0	Fair value through profit and loss	-450.6
0.0	Loans and receivables	0.0
<b>113.2</b>	<b>Total</b>	<b>-143.9</b>

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

### Note 24: Valuation of financial instruments carried at fair value

The Unquoted equities holding in Border to Coast Pensions Partnership is valued at cost (i.e. transaction price), as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2019 because the main trading vehicle of Border to Coast Pensions Partnership only became licenced to trade in July 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year.

All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

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

#### Level 1

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

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

#### Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

#### Level 3

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

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

The values of the investment in private equity, infrastructure and private debt are based on valuations provided by the general partners to the funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b> Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Pooled investments – overseas unit trusts &amp; property funds</b> Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
<b>Private equity, Infrastructure and Private Debt</b> Level 3	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension funds own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2020	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	144.0	1,582.4	271.7	1,998.1
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
<b>Net financial assets</b>	<b>144.0</b>	<b>1,582.4</b>	<b>271.7</b>	<b>1,998.1</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2019	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	528.7	1,394.2	211.2	2,134.1
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
<b>Net financial assets</b>	<b>528.7</b>	<b>1,394.2</b>	<b>211.2</b>	<b>2,134.1</b>

The following assets have been carried at cost (no investment assets were carried at cost in 2017/18):

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2020	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
Investment in Border to Coast Pensions Partnership <b>Investments held at cost</b>			0.8	0.8

### Note 25: Reconciliation of fair value measurements within Level 3

	Market value 31 March 2019	Purchases during the year	Sales during the year	Change in market value during the year	Realised profit or loss (-) during the year	Market value 31 March 2020
	£ m	£ m	£ m	£ m	£ m	£ m
Private Debt	62.1	22.8	-5.7	4.8	-1.0	83.1
Private Equity	101.2	14.8	-17.7	13.4	9.0	120.7
Infrastructure	47.9	14.5	-0.7	1.3	5.0	67.9
	<b>211.2</b>	<b>52.2</b>	<b>-24.2</b>	<b>19.5</b>	<b>13.0</b>	<b>271.7</b>

### Note 26: Nature and extent of risks arising from financial instruments

#### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Investment Sub-Committee. Risk management policies are established to identify and

analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels; and
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund's investment strategy.

Following analysis of historical data and expected investment return movement, the Fund has determined that the following movements in market price risk were reasonably possible for the 2019/20 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	2019/20 Potential market movement
	%
UK Pooled Funds	27%
Overseas Pooled Funds	28%
Total Bonds, Index Linked & Pooled Managed Funds	10%
Cash	0%
Property	14%
Alternatives	11%

The potential price changes disclosed above are broadly consistent with a one-year dispersion in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Pooled Funds	306.1	82.7	388.8	223.5
Overseas Pooled Funds	727.3	203.6	930.9	523.6
Total Bonds	352.0	35.2	387.1	316.8
Cash	27.3	0.0	27.3	27.3
Alternatives	394.5	43.4	437.8	351.1
Property	217.4	30.4	247.9	187.0
<b>Total</b>	<b>2,024.5</b>	<b>395.3</b>	<b>2,419.8</b>	<b>1,629.2</b>

Note: Segregated mandates have fully transitioned the BCPP pool

Asset Type	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	578.3	98.3	676.7	480.0
Overseas Equities	652.0	117.4	769.4	534.6
Total Bonds & Pooled Managed Funds	349.3	34.9	384.2	314.3
Cash	11.7	0.1	11.8	11.6
Alternatives	339.4	33.9	373.4	305.5
Property	227.3	31.8	259.1	195.4
<b>Total</b>	<b>2,158.0</b>	<b>316.5</b>	<b>2,474.5</b>	<b>1,841.5</b>

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. Our investment adviser has provided an estimate of 10% volatility for a pooled overseas fund.

A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below and based on the Funds segregated overseas mandate which has now transitioned to the BCPP pool:

Asset Type	Value as at 31 March 2020	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Overseas Pooled Funds	727.3	72.7	800.0	654.6
<b>Total</b>	<b>727.3</b>	<b>72.7</b>	<b>800.0</b>	<b>654.6</b>

Note: Segregated mandates have fully transitioned the BCPP pool

Currency	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.7	0.2	3.0	2.5
Euro	136.4	12.3	148.6	124.1
Japanese Yen	10.8	1.4	12.2	9.4
Mexican Peso	1.0	0.1	1.2	0.9
Swedish Krona	9.2	0.9	10.0	8.3
Swiss Franc	30.2	3.4	33.6	26.8
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	307.0	30.1	337.1	276.9
Hong Kong Dollar	0.7	0.1	0.8	0.7
<b>Total</b>	<b>498.8</b>	<b>48.6</b>	<b>547.4</b>	<b>450.3</b>

### Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

### Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and has had a long-term positive cash flow. Cash flow surpluses are invested with fund managers. The Pension Fund is authorised to borrow on a short-term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2020 are due within one year.

## Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and set contribution rates for the three years commencing 1 April 2020.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but, in some cases, an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2019 actuarial valuation, the Fund was assessed as 92% funded. This corresponded to a deficit of £180m.

Contribution increases were phased in over the three-year period ending 31 March 2023. The common contribution rate (i.e. the rate which all employers in the Fund pay) is as follows:

Valuation Date	31 March 2019
<b>Total contribution rate</b>	
Primary Rate (% of pay)	20.1%
2018/19 Secondary Rate £000	60.71
2018/19 Secondary Rate £000	62.51
2019/20 Secondary Rate £000	64.36

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

### Financial assumptions

Financial assumptions	Nominal	Real
	%	%
Post Retirement Discount Rate	3.7%	1.4%
Pre Retirement Discount Rate	3.7%	1.4%
Salary Increases	3.1%	0.8%
Price Inflation/Pension Increases	2.3%	-

### Demographic assumptions

Assumed life expectancy from age 65 is as follows:

Demographic assumptions	31 March 2019	
Assumed life expectancy at age 65	Male	Female
Pensioners	21.6	23.8
Non-pensioners	22.5	25.4

### Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

### 50:50 Option

1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

### Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

31 March 2019 £m		31 March 2020 £m
1,593	Active members	1,167
670	Deferred pensioners	651
948	Pensioners	1089
<b>3,211</b>	<b>Present value of promised retirement benefits</b>	<b>2,907</b>

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2020 include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £275m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £90m.

### Financial assumptions

Year ended (% p.a.)	31 March 20	31 March 19
	%	%
Inflation/pensions increase rate	1.9%	2.5%
Salary increase rate	2.7%	3.1%
Discount rate	2.3%	2.4%

### Longevity assumptions

Life expectancy is based on the Fund’s VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Male	Female
Current pensioners	21.6 years	23.8 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	22.5 years	25.4 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

### Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	275
0.5% p.a. increase in the Salary Increase Rate	1%	27
0.5% p.a. decrease in the Real Discount Rate	10%	294

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1-year increase in life expectancy would approximately increase the liabilities by around 3-5%.

#### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes.' The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

**Robert Bilton**

23 April 2020

For and on behalf of Hymans Robertson LLP

#### Note 29: Current assets

31 March 2019 £m		31 March 2020 £m
	Debtors:	
1.4	Contributions due: Employees	1.2
6.1	Contributions due: Employers	5.7
1.7	Invoiced debtors	1.6
0.6	Sundry debtors	0.6
1.7	Cash balances	3.6
<b>11.5</b>	<b>Total</b>	<b>12.6</b>

#### Note 30: Current liabilities

31 March 2019 £m		31 March 2020 £m
	Liabilities:	
1.0	Owed to administering authority	1.5
1.6	Sundry Creditors	1.5
1.1	Benefits Payable	0.9
<b>3.8</b>	<b>Total</b>	<b>3.8</b>

#### Note 31: Additional Voluntary Contributions

31 March 2018 £m		31 March 2019 £m
2.5	Standard Life	2.4
0.2	Utmost Life and Pensions*	0.2
<b>2.8</b>	<b>Total</b>	<b>2.7</b>

\*AVCs previously held with Equitable Life now managed by Utmost Life and Pensions

31 March 2017 £m		31 March 2018 £m
2.7	Standard Life	2.5
0.3	Equitable Life	0.2
<b>3.0</b>	<b>Total</b>	<b>2.8</b>

AVC contributions of £0.3 m were paid directly to Standard Life and £2000 was paid directly to Equitable Life during the year (2017/18: £0.3m to Standard Life and £2000 to Equitable Life).

## Note 32: Related Party Transactions

### Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £1,244,413 (2018/19: £892,212) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £39.9m in 2019/20 (£36.9m in 2018/19).

### Border to Coast Pensions Partnership

The Warwickshire Pension Fund, through Warwickshire County as the Administering Authority, is a shareholder in the Border to Coast Pension Partnership Limited. The Partnership is a wholly owned private limited company registered in England and Wales founded to carry out pension fund asset pooling obligations set out by the Government. The company provides the facility to pool the pension fund investments of 12 local authorities in order to gain the benefits of economies of scale, concentration of expertise and improved ability to reduce investment costs. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool occurred in 2018/19. All 12 partners own an equal 1/12th share of the company

### Governance

There are two members of the Pension Fund Investment Sub-Committee who are in receipt of pension benefits from the Warwickshire Pension Fund

Each member of the Pension Fund Investment Sub-Committee is required to declare their interests at each meeting.

There are three members of the Local Pension Board who are active members of the Warwickshire Pension Fund.

### Key management personnel *(post employment benefits to be updated)*

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. These employees and their financial relationship with the Fund are set out below.

	2019/20	2018/19
	£000	£000
Short-term benefits	99.2	109.5
Post-employment benefits	tbc	tbc

Note: Post-employment benefits have been calculated on an IAS19 basis. As a result, 18/19 figures have been restated to reflect this.

## Note 33: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments at 31 March 2020 totalled £302.6m. Of this, £108.7 related to Private Equity, £135.9 related to Infrastructure, £23m related to Private Debt and £35m related to Private Credit.

## A

### Actuarial valuation

A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

### Alternative investments

Investments other than the mainstream *asset classes* of *equities* and *bonds*. Alternatives include *hedge funds*, *private equity*, *infrastructure* and *commodities*. Property is also sometimes described as an alternative.

### Asset allocation

The apportionment of a fund's assets between different *asset classes*.

## B

### Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

## C

### Currency risk

Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the *volatility* of foreign exchange rates.

## D

### Defined benefit scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution scheme*.

## Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

## H

### Hedge Funds

A hedge fund is a capital pool that has the ability to use *leverage* and to take both *long* and *short* positions with the aim of achieving an *absolute return*. A large variety of hedge fund strategies exist, and the level of *risk* taken will vary. Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds – a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

## I

### IAS19 (International Accounting Standards)

An accounting standard which requires organisation's to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

### IAS1

An accounting standard that sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

## P

### Private equity

Funds put up by investors to finance new and growing businesses. Also known as venture capital.

## Private Debt

Private debt comprises mezzanine and other forms of debt financing that comes mainly from institutional investors such as funds and insurance companies – but not from banks.

## R

### Risk

In its simplest sense, risk is the variability of *returns*. Investments with greater inherent *risk* must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models.

## S

### Stocklending

The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

## T

### Transaction costs

Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.

## We communicate with our scheme members and employers in various ways:

- Periodic newsletters are produced for scheme members, pensioners and preserved beneficiaries. These are either sent to their home address or are made available online and via employer intranets.
- All new employees have the opportunity to opt out of the pension scheme by completing an online form.
- A brief guide is available online for all new employees.
- Comprehensive guides are available online for all members.
- The Fund's website is available allowing employers and members to access key information and to stay up to date with changes to the scheme. Updates are made available on employer intranets.
- Factsheets are produced on a variety of circumstances such as, divorce/ dissolution, dependant benefits, TUPE etc. These are available online.
- Online newsletters are issued periodically to our employers.
- Campaigns notifying members of specific scheme benefits, for example nominated cohabiting partners and expressions of wish (death grants), are issued on employer intranets.
- An annual benefit statement is issued to the home address of all current active and preserved members.
- All our benefit statements, newsletters and factsheets are produced in partnership with several neighbouring pension funds including Staffordshire, Shropshire, Cheshire West, Worcestershire, Cambridgeshire and Northamptonshire (LGSS), Oxfordshire, Bedfordshire and Surrey.
- An annual meeting is held for all pension fund employers to attend.
- Pension administration staff are available to present to employers and members. We hold pension surgeries providing members with the opportunity to discuss their benefits in confidence.
- An annual training forum is held for all scheme employers.
- Staff are available to discuss general enquiries from 8am to 5:30pm at our office either by telephone or to visit. In exceptional circumstances we are available for home visits either by telephone or emailing [pensions@warwickshire.gov.uk](mailto:pensions@warwickshire.gov.uk).
- Quarterly bulletins on the investment performance of the fund are distributed to all members of the Pension Fund Sub Committee.
- An annual report is made available online.
- The report is produced on our website and hard copies are available on request.



# Contact Details

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# Glossary

## An A to Z of Investment terms used

### Absolute Return

Absolute return investing aims to produce a positive return over time, regardless of the prevailing market conditions.

### Active management

A style of investment management where the fund manager aims to outperform a *benchmark* by superior *asset allocation*, market timing or *stock selection* (or a combination of these). Compare with *passive management*.

### Active risk

A measure of estimated *volatility* of fund performance against the *benchmark*. Also known as forecast *tracking error* or *relative risk*. In technical terms, it is defined as the forecast standard deviation of annual returns versus the *benchmark*. Active risk is usually quoted *ex-ante*, the *ex-post* measure of *volatility* of actual returns more usually being referred to as realised *tracking error*.

### Actuarial valuation

A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

### Alternative investments

Investments other than the mainstream *asset classes* of *equities* and *bonds*. Alternatives include *private equity*, *infrastructure*, *private debt*, *gold* and *commodities*. Property is also sometimes described as an alternative.

### Asset allocation

The apportionment of a fund's assets between *asset classes*. See *strategic asset allocation* and *tactical asset allocation*.

### Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

### Corporate governance

Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management. Governance issues include executive pay levels and how institutional investors use their votes.

### Currency risk

Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the *volatility* of foreign exchange rates.

### Defined benefit scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution scheme*.

### Defined contribution scheme

A type of pension scheme where employees' and the employer's contributions are fixed but the pension ultimately paid to the employee depends on the investment returns achieved by the contributions and annuity rates at retirement. Compare with *defined benefit scheme*.

### Derivatives

Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby adjusting the *risk* characteristics of a fund. Common types of derivative include *forward* contracts, *futures*, *options*, and *swaps*. Derivatives may be traded on an exchange, or *over the counter* (OTC).



### Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

### FRS 17/IAS19

An accounting standard which requires companies to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the company's balance sheet, and can potentially increase the *volatility* of a company's share price.

### FTSE All-Share Index

An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the *London Stock Exchange*, the UK's main exchange for trading in shares. Updated daily. The FTSE 100 Index (or "Footsie") covers only the largest 100 companies.

### Hedging

A strategy that aims to reduce *risk*. For example, a *forward* currency transaction might be executed when investing in overseas *shares* or *bonds* to avoid volatility of returns due to exchange rate movements.

### LIBID

London Inter-Bank Bid Rate. Interest rate at which prime banks will offer to take funds on deposit from other banks in the London Inter-Bank market.

### LIBOR

London Inter-Bank Offer Rate. Interest rate at which prime banks will offer to lend money in the London Inter-Bank market.

### Myners Report

Paul Myners published a review of issues affecting the pension fund industry on behalf of the government in 2001. His report and subsequent documents have undergone consultation and the Myners' Principles established. These are in the process of being implemented in the industry.

### Passive Management

A management strategy that seeks to match the return and risk characteristics of a market segment or index, by mirroring its composition.

### Private equity

Funds put up by investors to finance new and growing businesses. Also known as venture capital.

### Risk

In its simplest sense, risk is the variability of *returns*. Investments with greater inherent *risk* must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models. See also *active risk*.

### SORP

Statements of Recommended Practice issued by the accountancy profession. One SORP sets out recommendations on the form and content of the financial statements of pension schemes.

### Statement of Investment Principles (SIP)

Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

### Stocklending

The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

### Strategic Asset Allocation

Strategic asset allocation is a portfolio strategy that involves setting target allocations for various asset classes, then periodically rebalancing the portfolio to maintain these original allocations.

### Transaction costs

Those costs associated with trading on a portfolio, notably stamp duty and commissions.

### Transition

The transfer of assets from one fund manager to another which may involve buying and selling assets.

### Value Manager

The strategy of selecting stocks that trade for less than their intrinsic values. Value investors actively seek stocks of companies that they believe the market has undervalued.



Publication Date: September 2020

Division: Treasury and Pensions

Group: Resources

Contact: Chris Norton

[www.warwickshirepensionfund.org.uk](http://www.warwickshirepensionfund.org.uk)

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# Warwickshire Local Pension Board

## 21<sup>st</sup> July 2020

### Terms of Reference

#### 1 Recommendations

- 1.1 That the Local Pension Board comments on the draft updated terms of reference.

#### 2 Executive Summary

- 2.1 This report sets out a revised and updated Terms of Reference for the Local Pension Board along with specific protocols for its periodic review in the future. This review actions recommendations from the recent governance review of The Pension Regulator code of practice requirements.
- 2.2 The Local Pension Board operates within defined terms of reference which were put in place when the Board was first formed in 2015. The key changes to the document are highlighted in the table below:

Section	Change
3.9	Protocol introduced for employer representatives if an employer leaves the fund
3.10	Protocol introduced for identifying and selecting employer and member representatives
4.2	Protocol introduced for chairing the board if the Chair is not in attendance
7	Additional clarification around roles of officers and advisers
7.4	Protocol introduced for setting the terms of reference of sub groups
9.1	Meeting frequency updated to quarterly
9.2	Annual schedule of meetings must now include a forward plan of future agenda items
9.4	Protocol introduced for meeting location and timing
9.5	Protocol introduced for exempt/confidential reports
9.6	Protocol introduced for calling special meetings
10.2	Code of conduct updated in respect of County Councillor responsibilities
14.3	Reference added for training costs
14.4	Protocol introduced for claiming for expenses
14.5	Protocol introduced for setting a budget for Board costs
16	Scope of the reporting breaches section broadened to encompass breaches or wider concerns, including specification for reporting to the Scheme Administrator, pension fund committees, and scheme members and employers

### 3 Financial Implications

3.1 None.

### 4 Environmental Implications

4.1 None.

### 5 Supporting Information

5.1 This report and draft Terms of Reference were reported to the Local Pension Board in February 2020 but the agenda item was deferred to a later meeting due to lack of time. The draft terms of reference are unchanged from the version previously reported.

5.2 The terms of reference have been updated to reflect the possibility of remote meetings.

5.3 The Scheme Advisory Board explains how terms of reference should be created and updated as follows:

*“...The Administering Authority when establishing its Local Pension Board should create terms of reference for the Board on the basis that the Board is a stand-alone body. The terms of reference are the rules setting out how the Board will be constituted and operate on a day to day basis. The terms of reference for a Local Pension Board should be reviewed periodically and at each material change in regulations impacting on Local Pension Boards...”*

5.4 The Terms of Reference have been reviewed alongside the Scheme Advisory Board’s *“Guidance on the creation and operation of Local Pension Boards in England and Wales”*.

5.5 The Terms of Reference includes the Board’s Conflict of Interest Policy as Annex A. This policy was reviewed by the Local Pension Board in November 2019. No further changes are proposed.

### 6 Timescales and Next Steps

6.1 The Terms of Reference are required to be approved by the County Council and this will be sought following comments received from the Local Pension Board. Revised Terms of Reference would only come into effect following Council approval.

## Appendices

### Appendix 1 – Draft Terms of Reference

## Background Papers

None.

	<b>Name</b>	<b>Contact Information</b>
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk
Assistant Director		
Lead Director	Strategic Director for Resources	
Lead Member	Portfolio Holder for Finance and Property	

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

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## **Terms of Reference for the Local Pension Board of Warwickshire Pension Fund**

**Reviewed and Updated February 2020 - Draft**

### **1) Introduction**

1.1 The Public Services Pensions Act 2013 (the '2013 Act') requires the establishment of a Pension Board with responsibility for assisting the Scheme Manager in securing compliance with all relevant pensions laws, regulations and directions and the Pension Regulator's codes of practice.

1.2 This document sets out the terms of reference for the Local Pension Board of the Warwickshire Pension Fund (the 'Pension Board').

### **2) Role and Responsibilities of the Pension Board**

2.1 The role of the Pension Board (as defined by sections 5 (1) and (2) of the 2013 Act) is to –

2.1.1 Assist the Scheme Manager –

- a. to secure the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) for the Warwickshire Pension Fund by effectively and efficiently complying with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator;
- b. to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- c. to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and d. in such other matters as the LGPS regulations may specify.

2.1.2 Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have an inappropriate conflict of interest.

2.1.3 Produce an annual report to the Scheme Manager outlining the work of the Board throughout the scheme year.

2.2 The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

2.3 The Pension Board will not have decision making powers in relation to the Warwickshire Pension Fund save as to refer issues to the Scheme Administrator, Pension Fund Committees, or the Pension Regulator. It will have the ability to hear disputes employers may have with the Fund.

### **3) Membership**

3.1 The membership of the Pension Board shall consist of seven (7) members each to include –

- a. Scheme Member Representatives x 3
- b. Employer Representatives x 3
- c. Independent Representative x 1

3.2 Scheme Member Representatives nominated by Scheme employers need to ensure a broad representation of scheme membership - for example to include deferred and active pensioner representation.

3.4 Employer representatives nominated by categories of employers to include:

- a. 1 x Elected Member (acting for WCC)
- b. 1 x Precepting Employer
- c. 1 x non-precepting employer.

3.5 The Independent Representative shall be appointed by the Scheme Manager following a recruitment and selection process involving role specification, application form, shortlisting and interviews accordance with current Warwickshire County Council's policy and procedure.

3.6 The Chair of the Pension Board shall be the Independent Representative.

3.7 Attendance is expected of Board members at all meetings; no substitution is allowed.

3.8 In the event of consistent non-attendance, or failure to achieve and maintain the required level of knowledge and skills by any Board member, then the tenure of that member should be reviewed by the Chair in liaison with the Scheme Manager. The Scheme Manager will have the final decision on whether to remove the Board member.

3.9 Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the Scheme Manager:

- 1. after consultation with the Board members
- 2. in the case of an Elected Member of Warwickshire County Council acting as a Board Member, ceasing to hold office as an Elected Member.
- 3. in the case of other employer representatives in the case of the employer no longer being in the pension fund.

3.10 The Scheme Administrator will be responsible for identifying and evaluating employer representatives from the pool of employers, and scheme members from the membership. The Scheme Administrator, after consulting with the Chair of the Board, may determine and undertake an evaluation process to ensure that potential

new Local Pension Board members understand and are able to undertake the role.

#### **4) Quorum**

4.1 3 members of the Pension Board will represent a quorum for Board meetings to go ahead.

4.2 In the absence of the Chair of the Board at a meeting, the meeting may be chaired by a senior officer of the Scheme Administrator. Officers may not chair the meeting whilst presenting agenda items.

#### **5) Conflicts of Interest**

5.1 The 2013 Act requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interests in line with legal requirements in the Act and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member's tenure to the Scheme Manager's satisfaction.

5.2 A Conflicts of Interest policy with which Local Pension Board Members must comply is included at Annex A to these Terms of Reference.

#### **6) Board Review Process**

6.1 The Board will undertake each year a formal review process to assess how well it and the members are performing with a view to seeking continuous improvement in the Board's performance.

#### **7) Role of Officers and Advisers**

7.1 The Pension Board will receive appropriate reports, information, and advice from fund officers in support of meeting its objectives.

7.2 The Pension Board will have access to pension fund officers, the Fund's Section 151 Officer, and the Fund's Legal Adviser as required to carry out its duties.

7.3 The Pension Board may be supported in its role and responsibilities through the appointment of professional advisers and shall (subject to any applicable regulation and legislation from time to time in force) consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties.

7.4 This will be done on an 'as required' basis; any advisor attending a Board meeting is not a Board member and does not have a vote. Professional advisers will be commissioned by the Scheme Manager. If required, sub-groups may be established to assist the Board. The terms of reference for sub groups will be set by the Local Pension Board in consultation with the Scheme Manager.

7.5 Officer and professional advisers shall support the Pension Board in delivering the Board's responsibilities by;

- a. providing advice as requested by the Board;
- b. having regard to the need effectively and efficiently comply with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator;
- c. having regard for the need to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- d. notifying the Board of any matter which they decide the Board may need to know to carry out its responsibilities; and
- e. providing the Board with access to information necessary to perform its functions;

## **8) Knowledge and Skills**

8.1 Members of the Pension Board must have full capacity to act and will be expected to have good sound knowledge of the LGPS rules and administration adopted by the Warwickshire Pension Fund, pension law and regulations as set out in the 2004 Pensions Act.

8.2 The performance of Board members will be assessed on a periodic basis by the Scheme Manager to ensure that all members are adequately meeting their duties. Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member.

8.3 Pension Board members must be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Board members are therefore required to maintain a written record of relevant training and development.

8.4 Board members will comply with the Scheme Manager's training policy.

8.5 Board members will undertake a personal training needs analysis undertaken on behalf of the Scheme Manager and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

## **9) Board Meetings**

9.1 The Pension Board will meet quarterly with meetings timed to follow after the pension fund executive committee meetings so that the Local Pension Board can review and scrutinise Pension Fund activity in a timely way. The Scheme Administrator may from time to time review this arrangement to ensure that it provides sufficient capacity to enable the delivery of the Board's key responsibilities.

9.2 The Scheme Manager will undertake the committee secretariat functions for the Board and will ensure that:

- a. facilities are available to hold meetings;
- b. an annual schedule of meetings and forward plan of agenda items is organised and shared with members;
- c. suitable arrangements are in place to hold additional meetings if required - ensuring adequate notice;
- d. papers are distributed at least 5 clear working days before each meeting except for exceptional circumstances;
- e. a formal record of meetings is maintained; and
- f. following the approval of the minutes by the Chair, they are circulated to all Board members.

9.3 Meetings will be open for Scheme members and employers to observe.

9.4 Board meetings may be held at the Scheme Manager offices in Warwick, or remotely, with the specific location or meeting method published with the agenda. Meetings will be held during normal office hours.

9.5 Agenda items will normally be public papers. However an agenda item may meet the criteria to be exempt from publication and be heard in private session. Reports must meet the Council's standards for being made exempt. Local Pension Board Members must maintain the confidentiality of exempt reports and discussions.

9.6 Additional special meetings of the Local Pension Board may be convened at the request of the Scheme Administrator or by the Local Pension Board through a majority vote.

## **10) Standards of Conduct**

10.1 The role of Pension Board members requires the highest standards of conduct and the "seven principles of public life" will be applied to all Pension Board members and embodied in their code of conduct. These are

- a. Selflessness;
- b. Integrity;
- c. Objectivity;
- d. Accountability;
- e. Openness;
- f. Honesty; and
- g. Leadership.

10.2 Any elected Member scheme representative is also responsible for adhering to the County Council Member code of conduct.

### **11) Decision Making and Voting**

11.1 The Pension Board is expected to operate on a consensus basis; however each Scheme Member Representative and Employer Representative member will have individual voting rights. Independent Members shall have no voting rights. In the event that consensus cannot be reached, a vote will be taken. The Chair should report to the Scheme Manager when a decision is reached in this manner.

11.2 It will be the role of the Chair to ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met.

### **12) Publication of Pension Board information**

12.1 Scheme members and other interested parties will want to know that Warwickshire Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with Scheme regulations, the governance and administration of the Scheme and requirements of the Pension Regulator.

12.2 Up to date information will be posted on the Warwickshire Pension Fund website showing –

- a. The names of the Pension Board members;
- b. How the Scheme members are represented on the Pension Board;
- c. The responsibilities of the Pension Board as a whole;
- d. The full terms of reference and policies of the Pension Board and how they operate;
- e. The Pension Board appointment process;
- f. Who each individual Pension Board member represent; and
- g. Any specific roles and responsibilities of individual Pension Board members.

12.3 The Pension Board papers, agendas and minutes of meetings will be published on the Warwickshire Pension Fund website. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 2018.

12.4 The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

### **13) Accountability**

13.1 The Pension Board will be collectively, and members individually, accountable to the Scheme Manager. The Board will also be given the opportunity to present its findings at the Fund's annual meeting.

### **14) Remuneration and Expenses**

14.1 Remuneration for Board members will be limited to a refund of actual expenses incurred in attending Board meetings. The Chair's remuneration will be agreed on appointment and reviewed every three years.

14.2 The expenses of the Board are to be regarded as part of the administration costs of the Pension Fund.

14.3 Training and associated costs will be met by the Pension Fund.

14.4 Any costs / expenses must be claimed within 3 months of being incurred.

14.5 The Scheme Manager will set a budget each year for Local Pension Board costs including expenses, remuneration, training, professional advice, and costs incidental to conducting the business of the Board.

### **15) Tenure**

15.1 Tenure period for Board members will be for a 3 year period on a rolling appointment basis - up to a maximum of 9 years.

15.2 The term of office for the Chair will also be for a three (3) year period at which point it will be the decision of the Scheme Manager to confirm re-appointments.

15.3 Resignation of Board members will be documented in writing to the Chair. A suitable notice period must be given which is no less than one (1) month.

### **16) Reporting Breaches and Concerns**

16.1 Any breach brought to the attention of the Pension Board whether potential or actual shall be dealt with in accordance with the procedure set out in the policy document.

16.2 The Local Pension Board may report concerns to the Scheme Administrator and may report concerns to decision making pension committees.

16.3 Breaches and concerns will be documented and made available to scheme employers and scheme members with the published Board papers, except where a

report is exempt.

## **17) Review**

17.1 These Terms of Reference may be reviewed and amended at any time by the Scheme Manager, in consultation with the Board, and any changes communicated to the Pension Board in advance of the next Board meeting.

## **18) Definitions**

18.1 The undernoted terms shall have the following meaning when used in this document:

“Pension Board” or “Board” Means the local Pension Board for the administering authority for the Warwickshire Pension Fund as required under the Public Service Pensions Act 2013

“Scheme Manager” Means Warwickshire County Council as administering authority of the Warwickshire Pension Fund.

“Chair” Reference to duties to be performed, or authority exercised, by the Chair.

“LGPS” The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

“Scheme” Means the Local Government Pension Scheme as defined under “LGPS”

## **19) Interpretation**

19.1 Any uncertainty or ambiguity or interpretation required relating to any matters contained in this document shall be resolved by reference to the Scheme Manager.

## **Annex A to Terms of Reference for the Local Pension Board for the Warwickshire Pension Fund**

### **Conflicts of Interest Policy**

#### **Introduction**

The Public Sector Pensions Act 2013 requires that members of the Local Pension Board (the Board) do not have conflicts of interests. As such all Board Members (Members) will be required to declare any interests and any potential conflicts of interests in line with legal requirements in the Act and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as regular intervals throughout a Member's tenure to the Scheme Manager's satisfaction.

#### **Conflict of Interests – General Principles**

A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. The basic principle in relation to conflicts of interest can be found in the High Court case of *Re Thompson's Settlement* [1986] where the Court held that:

'...a man must not put himself in a position where duty and [personal] interest conflict or where his duty to one conflicts with his duty to another unless expressly authorised'

Conflicts of interest may arise for Members and their advisers. This simply reflects the fact that individual Members and their advisers will have a variety of other roles and responsibilities outside the Board.

Members and their advisers must be able to identify potential conflicts of interest and have procedures in place to manage them. This document outlines the procedure the Members have adopted to do this.

#### **Procedure**

For this procedure to work the Members have agreed that they must:

- declare any actual or potential conflict of interest they may have;
- be open with each other on any conflicts of interest they may have;
- provide information reasonably requested to assess whether there is any actual or potential conflict of interest;
- adopt practical solutions; and
- plan ahead and agree on how they will manage any conflicts of interest which arise.

With these objectives in mind the Members have adopted the following procedure:

1. Maintaining a register of Members' interests which could give rise to a conflict.
2. Maintaining a register of interests which could give rise to a conflict covering the Members' advisers.
3. Each Member and adviser will sign an annual return confirming that their information contained in the register of interests is correct. The updated register will then be circulated to all Members and the Scheme Manager. These two events will be added to the Members' calendar of events distributed with each set of Member meeting papers.

4. The Board's Administration Manager is to identify any potential or actual conflicts of interest and to advise the Chair. The Chair in conjunction with the Scheme Manager is to decide on the action required and to advise the Members of any actions taken.

5. Any Member who feels that they, another Member or adviser has a conflict of interest must seek early advice from the Administration Manager.

6. Any member or advisor must withdraw from a Board meeting if they have a conflict of interest. The conflict of interest and the action taken must be recorded in the minutes.

7. If a conflict is identified outside of a Board meeting the Chair shall consult with the other Members prior to making a decision. The conflict of interest and the action taken must be recorded.

### **Management of Confidential Information**

With regard to Members sharing confidential information received by them in their capacity as a Board Member with other parties, it is important to remember that each Member has a fundamental responsibility to act on behalf of the Board and this duty should not be compromised by acting on behalf of other groups.

### **Advisors**

There may be circumstances where advisors are asked to give advice to the Board but this can only happen where there is no conflict of interest. All of the Board's advisors have a professional responsibility to advise the Members if any circumstances arise in which they feel they are conflicted. These responsibilities and guidelines for dealing with actual or potential conflicts of interest are covered by rules of their respective professional bodies.

## Warwickshire Local Pension Board

### Review of the triennial valuation

21 July 2020

#### Recommendation(s)

That the Local Pension Board notes the contents of the report

#### 1. Executive Summary

- 1.1 This report is a review of the 2019 triennial valuation of the Warwickshire Pension Fund. It identifies possible areas of improvement.

#### 2.. Supporting Information

- 2.1 Every three years, a formal valuation of the whole Fund is carried out under Regulation 62 (1) of the Local Government Pension Scheme Regulations 2013 to assess and examine the ongoing financial position of the Fund. Its purpose is to value the assets and liabilities of each individual employer and the Fund as a whole.
- 2.2 This process is data intensive and involves the collection of data from 200 scheme employers, data on 50,000 scheme members and from the Fund on investment returns and cash analysis.
- 2.3 It is a labour-intensive period for officers and the Fund Actuary.
- 2.4 This report will briefly look at the following areas and will identify improvements upcoming or for consideration:

- **Data**

- Overall the Actuary reported that the data was fit for purpose and similar to that submitted for the 2016 valuation.
- The Administration team experienced problems with data accuracy and cleansing particularly when loading to Hymans Robertson's portal.
- There were significant issues with data submitted by the administering authority's payroll system, initiated by the

implementation of a new system.

- There was a significant data cleansing workload the last year and last months of the valuation process.

*Improvements:*

- The planned implementation of *i-connect* will improve the submission and quality of data from employers.
- Submission of data to the Hymans Robertson's portal more frequently to check the quality of the data. The more frequent submission of cash data would also assist the end process.
- Regular and routine liaison with the administering authority payroll to be maintained through the whole valuation period.
- Identification of tasks that could be done more frequently to prevent workload from peaking at year-end and valuation-end.

- **Engagement**

- Engagement with the majority of employers is good, however the Fund did not appropriate levers to enforce employer actions where training, support, and encouragement/reminding did not work.
- The Fund spends a considerable amount of time reminding employers of their responsibilities including holding roadshows in the build up to the valuation emphasising the importance of clean data.
- Engagement between officers and Hymans Robertson was good.

*Improvements:*

- More experienced officers hold most of the knowledge about employers; this needs to become more widely accessible through formalised documentation.
- The introduction of *i-connect* will improve employer engagement.
- A revised Administration Strategy with more options to enforce employer activity.

- **Assumptions**

- There was good engagement and a rigorous review of the assumptions.
- Where necessary, officers and elected members sought the advice of the Scheme Actuary throughout the process.

- There was discussion about whether assumptions were too prudent and therefore the valuation too high and employer contributions unnecessarily high. However this was discussed in detail and assumptions were approved in light of this feedback. In hindsight the impact of Covid-19 makes assumptions look robust.

*Improvements:*

- None

- **Funding Strategy**

- The Fund carried out detailed asset liability modelling for the larger employers.
- It recognised different types of employers when setting employer rates by listening to feedback from certain groups (e.g. academies).
- The Fund consulted all employers on the funding strategy statement.

*Improvements:*

- The Fund undertakes limited covenant reviews and should expand this to include high risk employers.

- **Final Results**

- There was a high flow of information between the Fund and Hymans Robertson as the valuation came to a conclusion with the despatching of the final results to employers.
- There was good engagement between the Scheme Actuary, Elected Members, Officers and Employers before the Rates and Adjustment certificate is issued and the final schedules to employers.

*Improvements:*

- Acknowledging feedback from employers who want a final schedule of results issued following the draft schedule.
- Expediting liaison with employers who challenge their contribution rates.

### **3. Financial Implications**

3.1 None

### **4. Environmental Implications**

4.1 None

## 5. Timescales associated with the decision and next steps

5.1 None

## Appendices

1. None

## Background Papers

1. None

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
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Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Peter Butlin	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None

Other members:

THIS PART MUST BE COMPLETED WITH THE NAMES OF THE COUNCILLORS CONSULTED.

## **Warwickshire Local Pension Board**

### **Investments Update**

**21 July 2020**

#### **1.0 Recommendation(s)**

1.1 That the Board notes and comments on the report.

#### **2.0 Executive Summary**

2.1 This report provides an update on investment activity for note and comment.

2.2 The following is covered in the report:

- Funds Development: Border to Coast Pension Partnership (BCPP) Capability Launch Calendar
- UK and Global Equities Alpha Funds Update
- Alternative Funds Update
- Fixed Income Update
- Fund's Voting Record
- ESG Policy
- Cashflow

#### **3.0 Funds Development – Timetable**

3.1 The latest BCPP Capability Launch Calendar is given in Appendix 1.

3.2 The timetable is subject to review.

#### **4.0 UK and Global Equities Alpha Fund Update**

4.1 The Fund has contributed to the BCPP UK and Global Equities Alpha Funds.

4.2 These funds have been impacted by the recent coronavirus induced fall in markets but are being monitored by BCPP.

#### **5.0 Alternative Funds Update**

5.1 The Warwickshire Pension Fund has subscribed to the following BCPP alternatives sub-funds:

- Private Equity
- Infrastructure
- Private Credit/Debt

5.2 At its meeting in March the Pension Fund Investment Sub-committee resolved to make further contributions to the BCPP private equity and infrastructure sub-funds.

5.3 The Fund has been able to meet all capital calls made to date.

## **6.0 Fixed Income Update**

6.1 The Warwickshire Pension Fund has subscribed to the BCPP Investment Grade Credit sub-fund at launch.

6.2 The transition of assets over to the BCPP Investment Grade sub-fund has now taken place.

6.3 A review of the transition process has been reported to the Pension Fund Investment Sub Committee.

## **7.0 Fund's Voting Record**

7.1 Reports to the investment sub-committee now include updates on the fund's voting record. All listed equities where the fund has voting rights are now managed via Border to Coast who provide voting activity to the fund.

## **8.0 ESG Policy**

8.1 The fund has approved its own environmental, social and governance policy, incorporating a specific climate change policy.

8.2 The proposed policy was put to the Pension Fund Investment Sub-committee at its meeting in March 2020 and was accepted.

8.3 A draft of the proposed policy was supplied to the Local Pension Board at its last meeting.

## **9.0 Cashflow**

9.1 A cashflow strategy has been reported to the Pension Fund Investment Sub Committee. To date all cash flow requirements have been met and there has been no need to sell volatile assets to service cashflow needs.

## **10.0 Financial Implications**

10.1 None for this Board.

## 11.0 Supporting Information

11.1 None

## 12.0 Environmental Implications

The report includes an Environmental, Social and Governance policy for the Warwickshire Pension Fund

## 13.0 Timescales associated with the decision and next steps

None

## Appendices

1. Appendix 1 - [BCPP Capability Launch](#)

## Background Papers

None

	Name	Contact Information
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Lead Director	Rob Powell	01926 412564 <a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Lead Member	Cllr. Peter Butlin	01788 816488 <a href="mailto:cllrbutlin@warwickshire.gov.uk">cllrbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

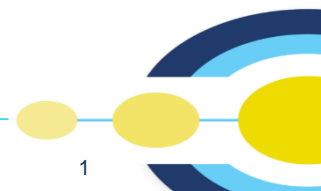
Local Member(s):

Other members:

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# Capability Launch - Timetable

	Launched 2018/19	2020 Launches	Scheduled 2021	2022 and beyond
Internal Equities	UK Listed Equity Overseas Developed Emerging Markets	Emerging Market Hybrid		
External Equities	UK Listed Equity Alpha Global Equity Alpha		ESG Passive/Factor Regional Alpha Emerging Markets Alpha	
Alternatives	Private Equity Infrastructure Private Credit	Private Equity Series 1b Infrastructure Series 1b (continued annually)	Listed Alternatives Cashflow Management & Asset Allocation	Legacy Diversified Alternatives
Fixed Income		UK IG Credit Inflation Linked Bonds	Multi-Asset Credit	
Property			Global Property	UK Property



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# Warwickshire Local Pension Board

Wednesday, 26 February 2020

## Minutes

### Attendance

#### Committee Members

David Buckland  
Keith Bray  
Alan Kidner  
Councillor Dave Parsons

#### Officers

Aneeta Dhoot, Senior Finance Officer  
Neil Buxton, Technical Specialist - Pension Fund Policy and Governance  
Liz Firmstone, Service Manager (Transformation)  
Michael Nicalaou, Treasury and Pension Fund Manager  
Jane Pollard, Legal Service Manager (Corporate)  
Helen Barnsley, Democratic Services Officer  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)  
Richard Ennis, Consultant on Special Projects  
Andrew Felton, Assistant Director - Finance  
Andrew Marson, Head of Pensions Administration

### 1. Introductions and General Business

#### (1) Apologies

Apologies were received from Councillor Parminder Singh Birdi and Keith Francis

#### (2) Board Members' Disclosures of Interests

The Chair stated that he works for the Local Authority Pension Fund Forum. In addition, he works for a firm of American lawyers which has Pension Fund clients, but these did not include Warwickshire.

Alan Kidner stated that his sister-in-law works for J.P. Morgan. It was acknowledged that these were unlikely to present any issues but still merited recording.

#### (3) Minutes of the Previous Meeting

The following amendment was requested in relation to Governance Review (item 2 of the agenda), with reference to point iv), the figure should read 89% and not 93%.

Following this amendment, the minutes were agreed by the Board as a true and accurate record.

## **2. Forward Plan**

It was noted that the Forward Plan now reflects quarterly meetings and highlights other meetings linked to the Board meeting. The Board was asked to note that the time between meetings allows manageable workloads for officers.

It was confirmed that training plans have also now been included on the forward plan. Following a discussion in relation to member attendance at training days it was agreed that dates will be confirmed to include all members of the Board.

It was agreed that the training plan circulated by Andrew Marson will be completed by members and sent back to in order to collate the training needs of the Board. Andrew is happy to answer any questions or queries in relation to the training needs analysis.

## **3. Terms of Reference**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the report to the Board highlighting a revised and updated Terms of Reference for the Board.

Members of the Board confirmed that some were missing pages of the report included in the pack while others had all pages.

It was agreed that the item would be deferred until the next meeting to allow all members to have time to read all the pages.

## **4. Administration Activity and Performance Update**

Liz Firmstone, Finance Service Manager (Transformation) presented the report to the Board highlighting the key developments in the administration of the pension fund and updates following matters arising from previous Board meetings.

In relation to the update on training it was confirmed that any request for any training needs can be logged through the administration team. Training logs for all members are now up to date and are being maintained.

It was confirmed that the administration update report presented at future Board meetings will include a summary of any internal audit reports.

The Board was pleased to hear that 94% of annual benefit statements have now been issued. Those outstanding include those with no contact for members. It was confirmed that a tracing agency will now be used, and a further update will reflect this at the next meeting. It was confirmed that there are 344 which have not been issued because data issues remain outstanding, but work is in progress to work with employers to rectify this.

The Board acknowledged that it may not be possible to find everyone who the fund has lost contact with. The hope is that they will get in touch with the fund when they reach retirement.

An update was provided in relation to WCC payroll; reports are now being used to improve the quality of data and monthly monitoring is now in place to ensure that issues are quickly resolved.

With reference to the current membership of the Board - The vacancy for a member representative remains open. If the post remains unfilled then the administering authority will need to refer to the terms of reference and potentially update them. The Chair confirmed that this matter is now urgent, and consideration needs to be given after the summer as to how to move forward. The Board members agreed that they would like to see the 3-and-3-member split remain and hope that the next round of recruitment is successful.

It was confirmed that there are two vacant posts within the Administration team, and one in the Investment team, with two of these currently filled by interim officers. Once filled the extra capacity will have a positive impact on managing workloads and enable further improvements in the administration of the fund.

Actions in response to the audit report were presented to the Board, who noted that out of 54 actions, 27 are now complete. Nine actions are due to be completed by the end of March 2020. The Chair and the Board congratulated the officer team on the obvious hard work being done and the progress made so far.

The Chair thanked officers for the comprehensive report – the Board found it extremely useful and were pleased to see positive reports. The administration practice is moving closer to industry best practice.

## **5. Administration Costs**

Liz Firmstone, Finance Service Manager (Transformation) confirmed that as agreed at the November 2019 meeting, independent consultant, Ian Coleman has completed this review. This report highlights his findings.

The main conclusion from the report is that the current costs associated with the Warwickshire Pension Fund are suitable for a fund of this size, although they are above the average. It was noted that there are variations that need to be reviewed. Some component costs included Fire Pension costs which should not have been included and once they are removed the component costs are more acceptable.

The Board thanked officers for the encouraging report and stated that they looked forward to further updates.

## **6. Administration Strategy**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the draft administration strategy to the Board highlighting that the document sets out the responsibility between the fund and employers; in particular, what the fund can do if the employers do not meet their responsibilities.

It was noted that page 6 of 24, the first paragraph should read LGA regulations 2013 not 2014; it was agreed that Jane Pollard, Legal Services Manager will check.

## **7. Risk Register**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the report to the Board, highlighting each of the summary tables which included the high level of risks, likely impact of risks and impact of risks.

It was agreed that quarterly information will be presented at all meetings with summary reports for members.

Following a question in relation to the potential impact of the coronavirus; Chris Norton confirmed that it is likely to have a short term and long-term impact. There may also be an impact on business continuity and access to funds.

## **8. Business Plan 2020/21**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) confirmed that the Business Plan has two overall objectives; ensure payments are made when they are due and ensure that payments are accurate. The report highlights the change in demand on the fund's administration team due to the growth of the fund, as well as the increased focus on date accuracy and quality.

## **9. Review of the minutes of the Pension Fund Investment Subcommittee**

The Board noted the minutes of the Pension Fund Investment Sub Committee from the meeting held on the 9 December 2019

## **10. Review of the minutes of the Staff and Pensions Committee**

The Board noted the minutes of the Staff and Pension Committee from the meeting held on the 9 December 2019

The Chair noted that the comment under point 8 in relation to members not being fully aware of the value of their pensions was a valid point. However, there were difficulties in how best to achieve more publicity on this matter without adding confusion.

## **11. Reports Containing Confidential or Exempt Information**

## **12. 2019 Valuation**

## **13. Climate Change and Environmental, Social, and Governance Policy**

## **14. Investments Update**

## **Warwickshire Local Pension Board**

### **Summary of PFISC Papers**

**21 July 2020**

#### **Recommendation(s)**

That the Board note and comment on the contents of this Report.

#### **1. Executive Summary**

**1.1** This report introduces the Pension Fund Investment Sub-committee (PFISC) public papers for note and comment

**1.2** These papers are in relation to the PFISC meeting held on 12 March 2020.

**1.3** The report covers:

- Agenda Front Sheet of the public meeting for 12<sup>th</sup> March 2020 (Appendix 1).
- March 2020 Draft Forward Plan (Appendix 2).
- Minutes of the public meeting of the 12<sup>th</sup> March 2020 (Appendix 3).

#### **2.0 Supporting Information**

**2.1** None.

#### **3.0 Financial Implications**

**3.1** None for this Board.

#### **4.0 Environmental Implications**

**4.1** The agenda for the 12<sup>th</sup> March meeting included an Environmental, Social and Governance policy for the Warwickshire Pension Fund.

#### **5.0 Timescales associated with the decision and next steps**

**5.1** None.

## Appendices

1. Appendix 1 - Agenda Front Sheet of the public PFISC meeting for 12<sup>th</sup> March 2020
2. Appendix 2 - March 2020 Draft Forward Plan for the PFISC
3. Appendix 3 - Minutes of the PFISC public meeting of the 12<sup>th</sup> March 2020

## Background Papers

None

	Name	Contact Information
Report Author	Chris Norton	01926 412035 <a href="mailto:chrisnorton@warwickshire.gov.uk">chrisnorton@warwickshire.gov.uk</a>
Assistant Director	Andrew Felton	01926 412441 <a href="mailto:Andrewfelton@warwickshire.gov.uk">Andrewfelton@warwickshire.gov.uk</a>
Lead Director	Rob Powell	01926 412564 <a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Lead Member	Cllr. Peter Butlin	01788 816488 <a href="mailto:cllrbutlin@warwickshire.gov.uk">cllrbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

# Pension Fund Investment Sub-Committee

Date: Thursday, 12 March 2020  
Time: 10.00 am  
Venue: Committee Room 2, Shire Hall

## Membership

Councillor Bob Stevens (Chair)  
Councillor Neil Dirveiks  
Councillor Bill Gifford  
Councillor John Horner  
Councillor Wallace Redford

Items on the agenda: -

## 1. General

### (1) Apologies

### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting.

### (3) Minutes of the previous meeting

5 - 12

<b>2. Forward Plan</b>	13 - 14
<b>3. Risk Register</b>	15 - 22
<b>4. Business Plan</b>	23 - 34
<b>5. Review of the minutes of the Local Pension Board</b>	35 - 42
<b>6. Reports Containing Exempt or Confidential Information Resolved</b>	
<p>That members of the public be excluded from the meeting for the items below on the grounds that their presence would involve the disclosure of confidential or exempt information as defined in Paragraph 3, Schedule 12A of the Local Government Act 1972 as amended.</p>	
<b>7. Review of the exempt minutes and matters arising</b>	43 - 48
<b>8. Investment Performance Quarter 3</b>	49 - 66
<b>9. Fund Performance</b>	67 - 78
<b>10. Valuation and Funding Strategy Statement Update</b>	79 - 126
<b>11. Investment Strategy Statement</b>	127 - 146
<b>12. Responsible Investment, Climate Change, and ESG</b>	147 - 154
<b>13. Pooling Update</b>	155 - 180
<b>14. Pooling - Funds Transfers</b>	181 - 224
<b>15. Harbourvest - Fund Manager Presentation</b>	225 - 256

## Disclaimers

### Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
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- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct.

These should be declared at the commencement of the meeting

The public reports referred to are available on the Warwickshire Web

<https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1>

### Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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## Pension Fund Investment Sub Committee

12 March 2020

### Forward Plan

#### Recommendations

- i) That the Sub Committee notes and comments on the forward plan.
- ii) That the Sub Committee considers the option to request attendance and presentations from fund managers on a planned and rolling basis.

#### 1.0 Introduction

The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub Committee rolled forward to cover the year ahead. The plan is set out at Appendix A.

- 1.1 A standing item for policy reviews has been added to the forward plan. This will be replaced in due course with a specific schedule of policy reviews at specific times of the year to ensure that all relevant policies approved by the Pension Fund Investment Sub Committee are kept relevant and up to date.

#### Background papers

None.

	Name	Contact Information
Report Author	Chris Norton	<a href="mailto:chrisnorton@warwickshire.gov.uk">chrisnorton@warwickshire.gov.uk</a> 07767003428
Interim Assistant Director Finance	Andrew Felton	01926 412441 <a href="mailto:andrewfelton@warwickshire.gov.uk">andrewfelton@warwickshire.gov.uk</a>
Strategic Director (Resources)	Rob Powell	01926 412564 <a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Portfolio Holder	Peter Butlin	<a href="mailto:cllrbutlin@warwickshire.gov.uk">cllrbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s): none

Other members: none

May 2020	June 2020	September 2020	December 2020	March 2021
	Investment Performance Fund Performance Report	Investment Performance Fund Performance Report	Investment Performance Fund Performance Report	Investment Performance Fund Performance Report
Election of Chair and Vice Chair	BCPP General Update BCPP Fund Transfers	BCPP General Update BCPP Fund Transfers	BCPP General Update BCPP Fund Transfers	BCPP General Update BCPP Fund Transfers
	Forward Plan	Forward Plan	Forward Plan	Forward Plan
	Fund Manager Presentation	Fund Manager Presentation	Fund Manager Presentation	Fund Manager Presentation
	Local Pension Board minutes of meeting	Local Pension Board minutes of meeting	Local Pension Board minutes of meeting	Local Pension Board minutes of meeting
			Training Plan	Business Plan
	Policy Reviews	Policy Reviews	Policy Reviews	Policy Reviews
	Risk Register	Risk Register	Risk Register	Risk Review

# Pension Fund Investment Sub-Committee

Thursday, 12 March 2020

## Minutes

### Attendance

#### Committee Members

Councillor Bob Stevens (Chair)

Councillor Bill Gifford

#### Officers

Helen Barnsley, Democratic Services Officer

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance

Aneeta Dhoot

Michael Nicalaou, Treasury and Pension Fund Manager

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)

Jane Pollard, Legal Service Manager (Corporate)

Andrew Felton, Assistant Director - Finance

Shawn Gladwin, Senior Finance Officer Pensions Investment

Sukhdev Singh, Principal Accountant

#### Others Present

Paul Potter – Hymans Robertson

Karen Shackleton – Independent Investment Adviser

Richard Warden – Hymans Robertson

### 1. General

#### (1) Apologies

Apologies were received from Councillor Neil Dirveiks, Councillor John Horner and Councillor Wallace Redford.

Apologies were also received from Peter Jones (Independent Advisor) and Emma Garrett (Hymans Robertson)

#### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

None

### **(3) Minutes of the previous meeting**

The minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising.

## **2. Forward Plan**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk), presented the report which sets out the next twelve months for the Sub-Committee.

The following points were highlighted –

- Policies will be reviewed under a rolling programme over the next twelve months to ensure that policies approved by the Sub-Committee are relevant and up to date.
- Normal business for the Pension Fund will return after the valuation project is complete.
- Training days for the Sub-Committee have been planned with two scheduled for later this year. Members of the Sub-Committee were reminded that training days were compulsory, especially in view of the latest guidelines from the FCA.
- It was agreed that a schedule of conferences will be shared with the Sub-Committee.

## **Resolved**

The Pension Fund Investment Sub-Committee notes and comments on the forward plan.

## **3. Risk Register**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk), presented the report to the Sub-Committee who noted that risks have now been consolidated to 13 strategic headings; full details of all the risks are available under each of the headings.

The Sub-Committee agreed with the proposal to present a summary of the Risk Register every quarter. The report will include a summary of risks that have changed or that require attention.

Following a question from Councillor Bill Gifford in relation to Coronavirus it was noted by the Sub-Committee that the virus is considered to be a short-term investment risk. Andy Felton (Assistant Director – Finance) stated that there are three areas of likely impact –

- Assets
- Memberships
- Workforce

In relation to the potential impact on the workforce mitigation plans are in place. Staff will have the option to work at home if necessary and any high-level sickness may mean staff are drafted in elsewhere to cover key meetings etc.

It was noted by the Sub-Committee that Warwickshire County Council is carefully monitoring Coronavirus and are following guidelines from Public Health, the NHS and the Government.

#### **Resolved**

The Pension Fund Investment Sub-Committee comments on and approves the Risk Register.

#### **4. Business Plan**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the report to the Sub-Committee which includes the business plan for the next twelve months including a review of the value of the investments which have been continually increasing.

It was noted that the business plan covers all activity to do with the fund –administration and investments. The Sub-Committee agreed that there was flexibility within the plan and that it seems robust and straightforward.

Karen Shackleton, Independent Investment Adviser suggested that the Sub-Committee looked at including climate change into their training plan and to ensure that it is regularly reviewed so that the Sub-Committee fully understands the profile of climate change, sustainable development and that climate action is a priority. The Sub-Committee agreed that climate change was increasingly important and a growing topic; training on this area was an opportunity not to be missed.

#### **Resolved**

The Pension Fund Investment Sub-Committee comments on and notes the Business Plan.

#### **5. Review of the minutes of the Local Pension Board**

The minutes of the local pension board were noted by the Sub-Committee.

It was confirmed that the role of the Local Pension Board was to assist this Sub-Committee by offering a form of scrutiny; for example, over the last 12 months the pension fund administration was independently reviewed, and an action plan created.

The work of the Local Pension Board is beneficial in helping the Pension Fund Investment Sub-Committee identify where to focus their work programme.

#### **6. Reports Containing Exempt or Confidential Information**

#### **Resolved**

That members of the public be excluded from the meeting for the items below on the grounds that their presence would involve the disclosure of confidential or exempt information as defined in Paragraph 3, Schedule 12A of the Local Government Act 1972 as amended.

## **7. Review of the exempt minutes and matters arising**

The exempt minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising

## **8. Investment Performance Quarter 3**

### **Resolved**

The Pension Fund Investment Sub-Committee notes the fund value and investment performance for the 3<sup>rd</sup> Quarter of 2019/20 to December 31<sup>st</sup>, 2019.

## **9. Fund Performance**

### **Resolved**

The Pension Fund Investment Sub-Committee notes the content of the report

## **10.Valuation and Funding Strategy Statement Update**

### **Resolved**

The Pension Fund Investment Sub-Committee notes the report and approves the Funding Strategy Statement.

## **11.Investment Strategy Statement**

### **Resolved**

The Pension Fund Investment Sub-Committee notes the Investment Strategy and approves the strategy as set out in Appendix 1 of the report.

## **12.Responsible Investment, Climate Change, and ESG**

### **Resolved**

The Pension Fund Investment Sub-Committee notes the ESG/RI Policy and accepts the policy as set out in Appendix 1 of the report.

## **13.Pooling Update**

**Resolved**

The Pension Fund Investment Sub-Committee notes the content of the report

**14.Pooling - Funds Transfers**

**Resolved**

The Pension Fund Investment Sub-Committee notes the content of the report

**15.Harbourvest - Fund Manager Presentation**

Due to Coronavirus, Harbourvest officers were unable to travel to the meeting today. This item will be added to the agenda for the next meeting of the Pension Fund Investment Sub-Committee which is scheduled for June 2020.

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**Warwickshire Local Pension Board****Review of the minutes of the Staff and Pensions Committee****21 July 2020****Recommendation(s)**

The Local Pension Board notes and comments on the report.

**1. Executive Summary**

- 1.1 The Local Pension Board has a responsibility to assist the Scheme Manager in the management of the pension fund. In order to fulfil this role it is important for the Local Pension Board to be sighted on relevant pension fund activity.

**2.. Supporting Information**

- 2.1 Set out at Appendix A are the minutes of the Staff and Pensions Committee (12 March 2020) for information. These are an abridged version for the Local Pension Board.
- 2.2 The Full agenda and reports for the Staff and Pensions Committee are available on the County Council's website.

**3. Financial Implications**

- 3.1 None

**4. Environmental Implications**

- 4.1 None

**5. Timescales associated with the decision and next steps**

- 5.1 None

## Appendices

1. Staff and Pensions minutes

## Background Papers

1. None

	Name	Contact Information
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Peter Butlin	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None

Other members:

THIS PART MUST BE COMPLETED WITH THE NAMES OF THE COUNCILLORS CONSULTED.

# Staff & Pensions Committee

Thursday, 12 March 2020

## Minutes – For Local Pension Board

### Attendance

#### Committee Members

Councillor Kam Kaur (Chair)  
Councillor Bill Gifford  
Councillor Bhagwant Singh Pandher  
Councillor Bob Stevens

#### Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance  
Liz Firmstone, Service Manager (Transformation)  
Sarah McCluskey, HR Business Partner  
Isabelle Moorhouse, Trainee Democratic Services Officer  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)  
Keira Rounsley, Senior Equality and Diversity Advisor  
Nichola Vine, Strategy and Commissioning Manager (Legal and Democratic)

### 1. General

#### (3) Minutes of previous meeting

The minutes of the meeting held on 9 December 2019 were considered and agreed as a true and accurate record for signing by the Chair.

### 2. Equality, Diversity and Inclusion Developments

### 3. Staff Benefits

### 4. Conflicts of Interest Policy

Chris Norton (Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented the report. Governance of the Pension Fund had been investigated for the past year to make sure they are up to date. They are currently ensuring that all the policies that are required for the pension management fund are going through a 'revolving door of review'. The report so far has just been reviewed by the Local Pension Board who made no comments. Chris Norton concluded that Staff and Pensions approve and enforce the policy. It was added that there is the issue of ensuring conflicts of interest are covered for the pension scheme, which would encompass the other pension committees.

Councillor Stevens stated that conflicts of interests are an advisory guide for members and their actions in meetings. Councillor Gifford added that they are more relevant for advisors than for members, but it is important that conflicts of interest are transparent.

**Resolved:**

That the Staff and Pensions Committee review and approve the attached Conflicts of Interest Policy.

## **5. Pensions Administration Activity and Performance Update**

Liz Firmstone (Service Manager (Transformation)) explained the key elements of the report. She stated that they had already undertaken some 'scene setting' with Staff and Pensions committee to ensure the right things were being reported to the right place. The committee was informed that the report will be the first of regular reports to the committee, showing the key work being undertaken within the Pensions Administration Team.

Liz Firmstone continued that 89% of the annual benefit statements have been issued, the shortfall has been reported to the Pensions Regulator as a breach but there is a process in place to resolve this. The remaining 11% could not be issued primarily due to the Pensions Administration service not holding the current addresses for these members but they are engaging with a tracing agency in line with best industry practice. She stated that an independent consultant was brought in to review the Pension Fund governance arrangements. Following this, a comprehensive action plan has been established following the recommendations from the recent audit reports. The committee was informed that half of these actions have been completed and good progress is being made; time activity and actions with the greatest impact on governance compliance requirement impacts are being prioritised to ensure requirements are met.

Liz Firmstone stated that the performance indicators are now being reported on and they are looking to refine these in line with best practice for the financial year. Performance against some targets is low due to the number of staff vacancies in the team at the start of the year, but these have now been filled and performance is expected to improve. Liz Firmstone continued that the format is likely to change in the next financial year to ensure best performance reporting. In February several key performance indicators were on target. Liz Firmstone concluded that there had been two difficult employer issues with delayed contributions, but this is being resolved.

The Committee agreed that it was a good report. It was clarified that the Local Pension Board actively engaged in this report when it was received by them.

**Resolved:**

That the Staff and Pensions Committee note and comment on the latest developments in pensions administration and note the progress made since the last meeting.

## **6. Regulatory Update**

Neil Buxton (Technical Specialist Pensions Fund Policy and Governance) summarised the report. He stated the only updates are regarding the McCloud and Firefighter's Pension Scheme (FPS). A complaint was upheld by the Employment Tribunal in December 2019 which ruled that the

changes made to the FPS in 2015 discriminated members because of their age and they should be put back into the old scheme. Neil Buxton concluded that they are waiting for guidance from the Home Office and Local Government Association regarding this.

In response to Councillor Stevens, Neil Buxton stated they are not sure what the resolution will be with regards to the firefighters; they could remain in the old scheme and this could be defined as, when that person retires and how cost effective it is. He added that there have got to be the adjustments to the contributions that the employer and employee made. Neil Buxton continued that the Local Government Pension Scheme cost is interminable, and this has been reflected in the evaluations with contingencies put in place.

Chris Norton added that the complexity of the scheme was observed over the years regarding the care scheme and McCloud. He concluded that McCloud has the potential to be another layer of complication and when things stack up, the scheme gets more difficult.

**Resolved:**

That the Staff and Pensions Committee note and comment on the report.

## **7. Administration Strategy**

Chris Norton summarised that the Administration Strategy attempts to provide a deviation of roles and responsibilities between the Warwickshire Pension Fund's role and what employers must do. There are approximately 50,000 members and 200 employers in the fund; all the employers submit data and pay regular contributions to the fund. Extra requirements have been implemented around options for fining and charging interest; the fund will provide information on what is required, the format process, provide support and training and run annual seminars. The Council will be responsible for making sure the data is accurate, but employers are responsible for carrying this work out.

There is an emphasis on financial charges in the strategy as the Council cannot afford to force an employer to pay the required contributions into the fund. Chris Norton continued that meeting the regulatory requirements is the Council's responsibility. The pensions regulator cannot touch employees, but they can hold the Pension Fund to account; therefore, the Council must be ready to state what they would do if contributions were not received from an employer. Chris Norton raised that they do not intend to use these extra fine levers all the time.

He concluded that this report went to the Local Pension Board for comment and after the Staff and Pensions meeting, there will be an external consultation before returning to the committee for sign off and enforcement.

In response to Councillor Gifford, Chris Norton stated that if one person and a big business were both in the scheme, they would not be dealt in the same way. Therefore, the emphases on employer fines was noted, as big businesses would know if they are in the wrong with pensions schemes.

In response to the Chair, Chris Norton clarified it will be enforced following June's Staff and Pensions meeting, if approved.

**Resolved:**

That the Staff and Pensions Committee approve the Administration Strategy.

**8. Pension Fund Admissions - Academies**

Neil Buxton informed the committee of the schools' applications to become academy trusts, if the schools are not converted by June then they must resubmit their application. He added that Heartwood CofE MAT is being transferred to the Birmingham Diocese; therefore, any liabilities will be transferred to them at no risk to the Pension Board.

The committee was informed that as it is still a Warwickshire school it will still be administered by the Pension Board.

**Resolved:**

That the Staff and Pensions Committee delegates authority to the Strategic Director for Resources to approve applications from schools converting to academy status, subject to the applications meeting the criteria:

Kingsway Primary School (Community Academy Trust; 1 April 2020)

Lillington Primary School (Finham Park MAT; 1 April 2020)

Wootton Wawen Primary School (Arden Forest MAT; 1 April 2020)

Henley Primary Academy (Arden Forest MAT; 1 April 2020)

**9. Community Academy Trust Administration Centre**

Neil Buxton summarised that the Community Academy Trust Administration Centre is currently in Warwickshire but is moving to Staffordshire. Therefore, they should transfer to Staffordshire's Pension Fund, however, they applied to the Secretary of State to remain in Warwickshire's Pension Fund and this was approved.

It was reiterated that Staffordshire agreed to this arrangement too.

**Resolved:**

That the Staff and Pensions Committee note the Direction issued by the Secretary of State for Housing, Communities and Local Government (HCLG) for the Community Academy Trust's Administration Centre to remain part of the Warwickshire Pension Fund although it has relocated to Staffordshire.

**10. Barnardo's Childrens and Family Centres**

Neil Buxton stated that the report informs the committee of the closures of the children's centres; these are being replaced by children and family centres. This has been through the Pension Fund and only the administration function remains to be processed.

The Committee was informed that Barnardo's now have their own pension scheme for new employees, but old employees will remain in the Warwickshire Pension Fund.

**Resolved:**

That the Staff and Pensions Committee notes the cessation of Barnardo's as a Scheme Employer in respect of the Children Centres contracts and approves the admission of Barnardo's as a Scheme Employer (the Applicant Body) in respect of the Family Centre contract.

**11.Next Meeting**

The next meeting of the Committee will be held at 2pm 8 June 2020 in committee room 1.

The meeting rose at 14:53

.....  
Chair

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