Appendix - Warwickshire Pension Fund

Statement of Accounts

2019/20

We would welcome any comments or suggestions you have about this publication. Please send any comments or suggestions to wpfinvestments@warwickshire.gov.uk

If this information is difficult to understand, we can provide it in another format, for example, in Braille, in large print, on audiotape, in another language or by talking with you.

Contents

Note on rounding's: individual tables presented within disclosures may not sum due to rounding's. This does not reflect any inaccuracy or error.

(Independent Auditors Report)

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 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 were audited and were considered and approved at a meeting of the Council on 13th October 2020. The approved accounts were authorised for issue on that date.

Rob Powell
Strategic Director for Resources — Date: 13th October 2020

Councillor Alan Cockburn
Chair of the Council — Date: 13th October 2020

Warwickshire Pension Fund Account

2018/2019			2019/2020
£ m		Notes	£ m
	Dealings with members, employers and others directly involved in the Fund		
(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)	**Net (additions)/withdrawals from dealing with members**		**(5.1)**
12.3	Management expenses	11	**13.2**
8.5	**Net (additions)/withdrawals including fund management expenses**		**8.1**
	Returns on investments		
(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)	**Net return on investments**		**123.5**
(133.4)	**Net (increase)/decrease in the net assets available for benefits during the year**		**131.6**
(2,032.3)	**Opening net assets of the scheme**		**(2,165.7)**
(2,165.7)	**Closing net assets of the scheme**		**(2,034.1)**

Net Assets Statement

2018/2019			2019/2020
£ m		Notes	£ 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
2,158.0	Total net investments		2,025.4
11.5	Current assets	29	12.6
(3.8)	Current liabilities	30	(3.8)
2,165.7	**Net assets of the Fund available to fund benefits at the period end**		**2,034.1**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Actuary Statement Note 28.

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
Number of employees in scheme		
County Council	8,303	7,930
Other employers	8,755	8,786
Total	**17,058**	**16,716**
Number of pensioners		
County Council	7,706	8,039
Other employers	5,970	6,355
Total	**13,676**	**14,394**
Deferred pensioners		
County Council	10,680	11,262
Other employers	7,128	7,659
Total	**17,808**	**18,921**
Total	**48,542**	**50,031**

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
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension	No automatic lump sum
	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.	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 2018.*

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. The last triennial valuation was carried out as at 31st March 2019. 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).

j) 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

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. However, the fund actuary has included an allowance for the impact of McCloud in Note 28 within the fund liabilities.

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. The Fund has decided to use the investment managers' valuations as the most reasonable available estimates of the values of these assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. 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
Actuarial present value of promised retirement benefits	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%.
Private equity, Infrastructure and Private Debt	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* 2018 and US GAAP. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Due to the current Coronavirus pandemic, there is a risk that the valuation of these investments may have an increased level of uncertainty. There are a wide range of possible outcomes, resulting in a high degree of uncertainty.	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.
Pooled property funds	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. As a result of the coronavirus pandemic, the valuation of these funds have therefore been reported on the basis of "material valuation uncertainty" as set out in Valuation Practice Guidance Application (VGPA) 10 of the Royal Institute of Chartered Surveyors' Global Valuation Standards. Therefore the value of units may vary somewhat from the valuations in the accounts. Both property funds (Threadneedle and Schroders) suspended trading in March 2020. Threadneedle lifted some sector specific property trading suspensions in September 2020.	The Fund holds two property mandates managed by Schroders and Threadneedle. These are classified as Level 2 investments in the accounts. The materiality limit for the Fund accounts is £20m. The estimated value of these property funds at the balance sheet date was £217.4m. Therefore, for a material issue to be caused by the valuation of these funds, a movement of over 9.2% in their value would need to occur. Updated valuations have been received up to August 2020 and these do not show material differences in valuation from March 2020.

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.

In June 2020, Northumberland Pension Fund and Tyne and Wear Pension Fund, two of the twelve partners in the Border to Coast Pension Partnership, merged into a single fund. This merger reduced the number of partners within the partnership from 12 to 11 and required a redistribution of share capital to reflect the new arrangements, with Northumberland being repaid its £866k capital and the other 11 partners making equal contributions of £76k each to replace this.

There has been significant volatility in markets since the 31st March 2020. Although markets fell significantly before the end of the financial year they have since recovered to some degree. The total Fund asset valuation reported as at Quarter 1 2020/21 to the Pension Fund Investment Sub Committee having risen by £203m due to returns on investments.

Note 7: Contributions receivable

By category

2018/2019		2019/2020
£ m		**£ m**
17.2	Employees' contributions	18.2
	Employer's contributions:	
58.0	Normal contributions	60.3
4.8	Deficit Recovery contributions	6.5
62.9	**Total employer's contributions**	**66.8**
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		2019/2020
£ m		**£ 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		2019/2020
£ m		**£ 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	1.0
12.3		**13.2**

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
£m		**£m**
8.6	Management fees	9.4
1.0	Performance related fees	1.1
0.1	Custody fees	0.1
0.3	Transaction costs	0.0
10.0		**10.6**

Note 13: Investment income

2018/2019		2019/2020
£ 000		**£ 000**
0.0	Index linked bonds	0.0
15.4	Equity dividends	5.3
13.5	Managed funds:	14.8
4.9	Property	4.9
1.0	Infrastructure	1.5
0.2	Pooled Equity	1.2
0.5	Private Debt	0.9
5.5	Absolute Return	4.9
1.4	Private Equity	1.4
0.3	Interest on cash deposits	0.2
0.0	Stock lending	0.0
29.2		**20.3**

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 £19,724.

Note 15: Investments

2018/2019		2019/2020
£ m		**£ m**
	Long term investments	
0.8	Equities	0.8
	Investment Assets	
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	**Managed funds:**	**1,997.3**
17.5	Cash deposits	20.9
5.6	Investment current assets	6.4
2,158.0	**Total Investment Assets**	**2,025.3**
	Investment Liabilities	
0.0	Investment current liabilities	0.0
	Total Investment Liabilities	
2,158.0	**Net Investment Assets**	**2,025.3**

Note 16: Reconciliation of movements in investments

	Market value 31 March 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2020
	£ m	£ m	£ m	£ m	£ m
Investment Assets					
Equities	390.1	13.8	-446.6	43.5	0.8
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
Managed funds:	**1,744.8**	**939.5**	**-497.4**	**-189.7**	**1,997.3**
Other Investment Balances					
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
Net Investment Assets	**2,158.0**	**1,013.7**	**-1,000.8**	**-145.5**	**2,025.3**

	Market value 31 March 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2019
	£ m	£ m	£ m	£ m	£ m
Investment Assets					
Equities	**638.3**	**78.8**	**-361.4**	**34.5**	**390.1**
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
Managed funds:	**1,314.1**	**681.0**	**-327.6**	**77.4**	**1,744.8**
Other Investment Balances	0.0				0.0
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
Net Investment Assets	**2,037.3**	**840.2**	**-831.9**	**112.4**	**2,158.0**

Note 17: Analysis of investments

31 March 2019		31 March 2020
£ m		**£ m**
	Equities	
0.8	UK	0.8
389.3	Overseas	0.0
390.1		**0.8**
	Managed funds	
224.4	Pooled Property	217.4
1,308.9	Pooled Investments, Unit Trusts & Other Managed Funds	1508.2
17.7	Infrastructure	24.0
1,551.0	**UK:**	**1,749.5**
62.1	Private Debt	83.1
101.2	Private Equity	120.7
0.3	Pooled Property	0.1
30.2	Infrastructure	44.0
193.8	**Overseas:**	**247.8**
1,744.8		**1,997.3**
	Cash deposits	
11.2	UK Sterling	20.4
6.3	Foreign currency	0.5
17.5		**20.9**
5.6	**Net investment current assets/(liabilities)**	**6.4**
2,158.0	**Net Investment Assets**	**2,025.3**

Note 18: Investments analysed by fund manager

Market value 31 March 2019 £ m	%		Market value 31 March 2020 £ m	%
Investments managed by BCPP asset pool				
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%**
Investments managed outside of BCPP asset pool				
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%		1,355.6	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 2020 £ m	% of total fund as at 31.03.20
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	% of total fund as at 31.03.19
	£ m	
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.

Note 22: Classification of financial instruments

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

Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
31 March 2019				31 March 2020		
£ m	£ m	£ m		£ m	£ m	£ m
			Investment Assets			
390.1			**Equities**	**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			**Managed funds:**	**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**
			Liabilities			
		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		31 March 2020
£ m		£ m
	Financial Assets	
113.2	Fair value through profit and loss	306.7
0.0	Loans and receivables	0.0
	Financial liabilities	
0.0	Fair value through profit and loss	-450.6
0.0	Loans and receivables	0.0
113.2	**Total**	**-143.9**

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 2020 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
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments – overseas unit trusts & property funds 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
Private equity, Infrastructure and Private Debt. Level 3	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and US GAAP.	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**
Financial assets				
Financial assets at fair value through profit and loss	144.0	1,582.4	271.7	1,998.1
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	144.0	1,582.4	271.7	1,998.1

Valuation at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£ m	£ m	£ m	£ m
Financial assets				
Financial assets at fair value through profit and loss	528.7	1,394.2	211.2	2,134.1
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	528.7	1,394.2	211.2	2,134.1

The following assets have been carried at cost:

Valuation at 31 March 2020	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£ m	£ m	£ m	£ m
Investment in Border to Coast Pensions Partnership			0.8	0.8
Investments held at cost				

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
	211.2	**52.2**	**-24.2**	**19.5**	**13.0**	**271.7**

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
Total	**2,024.5**	**395.3**	**2,419.8**	**1,629.2**

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
Total	**2,158.0**	**316.5**	**2,474.5**	**1,841.5**

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.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Duration	Value as at 31 March 2020	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.6	57.1	52.7	61.4
LGIM UK Index Linked	21.4	121.8	95.7	147.9
JPM Absolute Return Bonds	8.5	122.8	112.4	133.2
BCPP IGC	3.1	173.1	167.7	178.4
Total		**474.7**	**428.5**	**521.0**

Asset Type	Duration	Value as at 31 March 2019	Value on 1% increase	Value on 1% decrease
	Years	£ m	£ m	£ m
LGIM UK Corporate Bonds	7.9	229.4	211.2	247.5
LGIM UK Index Linked	22.1	119.6	93.1	146.0
JPM Absolute Return Bonds	1.5	128.2	126.3	130.1
Total		**477.1**	**430.7**	**523.6**

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 7on the Funds segregated overseas mandate which has now transitioned to the BCPP pool:

	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
Total	**727.3**	**72.7**	**800.0**	**654.6**

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
Total	**498.8**	**48.6**	**547.4**	**450.3**

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-Mar-19
Total contribution rate	
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 2019 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

28.1 Report from Fund Actuaries

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		31 March 2020
£m		**£m**
1,593	Active members	1,167
670	Deferred pensioners	651
948	Pensioners	1089
(3,211)	Present value of promised retirement benefits (£m)	(2,907)
2,166	Fair Value if scheme assets (bid value) (£m)	2,025
(1,045)	Net Liability	(882)

The fair value of scheme assets (bid value) figure as at 31 March 2020 has been provided by the Administering Authority and is as disclosed in the Fund's 2019/20 accounts.

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:

	Males	Females
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

28.2 Other Notes

In July 2020 a consultation on the remedy to a legal ruling (“McCloud”) that transitional protections introduced when the Local Government Pension Scheme was changed in 2014 were unlawful on the ground of age discrimination was launched. The impact of this is uncertain both in terms of future changes to benefits payable to individuals and the resulting financial impact for the authority. Initial high level estimates indicate this is unlikely to be a material figure.

In June 2020 a tribunal ruled that amendments to the Teachers Pension Scheme were discriminatory against survivors of female members. There is a likelihood that any remedy would eventually also impact upon the LGPS. The issue would impact on a small scale, impacting survivors or female members who were in the scheme prior to 1998 who died after 2005. The detailed financial impact and the timing are currently uncertain.

Note 29: Current assets

31 March 2019		31 March 2020
£m		£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
11.5	**Total**	**12.6**

Note 30: Current liabilities

31 March 2019		31 March 2020
£m		£m
	Liabilities:	
1.0	Owed to administering authority	1.5
1.6	Sundry Creditors	1.5
1.1	Benefits Payable	0.9
3.8	**Total**	**3.8**

Note 31: Additional Voluntary Contributions

31 March 2019		31 March 2020
£m		**£m**
2.6	Standard Life	2.4
0.2	Utmost Life and Pensions*	0.2
2.8	**Total**	**2.7**

*AVCs previously held with Equitable Life now managed by Utmost Life and Pensions

31 March 2018		31 March 2019
£m		**£m**
2.5	Standard Life	2.6
0.2	Equitable Life	0.2
2.8	**Total**	**2.8**

AVC contributions of £2.4m were paid directly to Standard Life and £0.2m was paid directly to Utmost Life and Pensions during the year (2018/19: £2.5m to Standard Life and £0.2m 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. As at the balance sheet date all 12 partners own an equal 1/12th share of the company.

The Border to Coast Pension Partnership is a joint venture that brings risks as well as benefits. The partnership has grown significantly, for example in terms of the value of assets under management and the number of personnel employed. Pooling and membership of the Border to Coast Pension Partnership is a regular and high profile feature of reporting to the Pension Fund Investment Sub Committee and the Fund's risk register has regard to key pooling risks.

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

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. The posts of Head of Resources, Assistant Director, Finance Manager and Technical Specialist are considered to be key management personnel. These employees and their financial relationship with the Fund are set out below.

	2019/20	2018/19
	£000	£000
Short-term benefits	108.0	109.5
Post-employment benefits	103	-298

Note: Post-employment benefits have been calculated on an IAS19 basis.
18/19 figures have been restated to reflect this. Year 18/19
shows a fall in post retirement benefits following departure of two KMP in year
who were not replaced until 19/20 and 20/21.

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.

Glossary

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 organisations 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*.