Warwickshire Pension Fund

Statement of Accounts

2023/24

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

Place holder (**Independent auditor's report**)

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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 (Amendment) Regulations 2022 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 Executive Director for Resources (Section 151 Officer) is responsible for this;
- manage our affairs to use our resources efficiently and effectively and to protect our assets; and
- approve the statement of accounts.

Responsibilities of the Executive Director for Resources

As the Executive 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/Local Authority (Scotland) Accounts Advisory Committee 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 31 March 2024 and the income and expenditure for the year ended 31 March 2024. The unaudited draft accounts were authorised for issue on 31 May 2024. These accounts will then be audited and presented at a meeting of the Council, expected to be in December 2024.

Rob Powell
Executive Director for Resources

Date: 31 May 2024

Warwickshire Pension Fund Account

2022/2023			2023/2024
£m		Notes	£m
	Dealings with members, employers and others directly involved in the fund		
(93.1)	Contributions	7	(103.3)
(12.4)	Transfers in from other pension funds	8	(12.2)
(105.5)			*(115.5)*
91.4	Benefits payable	9	101.6
9.5	Payments to and on account of leavers	10	12.3
100.9			*113.9*
(4.7)	**Net (additions)/withdrawals from dealing with members**		**(1.7)**
21.1	Management expenses	11	**24.0**
16.4	**Net (additions)/withdrawals including fund management expenses**		**22.3**
	Returns on investments		
(22.4)	Investment income	13	(28.3)
(80.7)	Profit and losses on disposal of investments	23	(246.3)
117.8	Changes in the market value of investments	23	34.6
14.6	**Net return on investments**		**(240.0)**
31.0	**Net decrease/(increase) in the net assets available for benefits during the year**		**(218.0)**
(2,781.5)	**Opening net assets of the scheme**		**(2,750.5)**
(2,750.5)	**Closing net assets of the scheme**		**(2,968.5)**

Net Assets Statement

31 March 2023			31 March 2024
£ m		**Notes**	**£m**
1.2	Long-term Assets	15	1.2
2,662.6	Investment assets	15 / 16 / 17	2,839.3
65.2	Cash deposits	15 / 16 / 17	105.8
2,729.0	Total net investments		2,946.2
26.5	Current assets	29	27.9
(5.1)	Current liabilities	30	(5.7)
2,750.5	**Net assets of the fund available to fund benefits at the period end**		**2,968.5**

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

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2024

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. Warwickshire 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 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).

The Warwickshire Pension Fund is a defined benefit scheme administered by the Executive Director for Resources on behalf of Warwickshire County Council (the scheme administrator), five district councils and other scheduled and admitted public service organisations and their contractors. Teachers, police officers and firefighters are not included as they come within the remit of other national pension schemes.

The administration of the Fund is carried out through Warwickshire County Council's Staff and Pensions Committee, the Pension Fund Investment Sub-Committee and the Local Pension Board. The committees are comprised of elected County Council members whilst the Local Pension Board comprises an equal mix of representatives of scheme employers and scheme members with an independent chair. The Pension Fund Investment Sub-Committee receives advice and guidance from two independent financial advisors, its investment consultant (Hymans Robertson) and its Scheme Actuary (Hymans Robertson).

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 Pensions 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 employees 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 236 employer organisations with active members within Warwickshire Pension Fund including the County Council itself, as detailed below.

Warwickshire Pension Fund	31 March 2023	31 March 2024
Number of employers with active members	223	236
Number of employees in scheme		
County Council	8,494	8,490
Other employers	10,156	10,227
Total	**18,650**	**18,717**
Number of pensioners		
County Council	9,255	9,568
Other employers	7,666	8,115
Total	**16,921**	**17,683**
Deferred pensioners		
County Council	11,956	11,945
Other employers	9,418	9,689
Total	**21,374**	**21,634**
Total	**56,945**	**58,034**

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 2024. Contributions are also made by employers which are set based on triennial actuarial funding valuations. The valuation relevant to the 2023/24 financial year was as at 31 March 2022 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2023. Employer contribution rates ranged from 0% to 63.7% of pensionable pay.

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 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 $1/49^{th}$. 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, ill-health entitlements and life assurance.

Note 2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2023/24 financial year and its position at year-end as at 31 March 2024. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2023/24* 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 Scheme Actuary's triennial valuation.

Accounting standards issued but not yet adopted

The code requires disclosure of any accounting standards issued but not yet adopted and their potential impact on the Fund. The new standards issued but not adopted for 2023/24 are:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) issued in January 2020.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) issued in September 2022.
- Non-current Liabilities with Covenants (Amendments to IAS 1) issued in October 2022.
- International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12) issued in May 2023
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRTS 7) issued in May 2023.

These items are not expected to impact LGPS Fund Accounts and will not have a significant impact on amounts reported in the 2023/24 financial statements.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the Scheme Actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liabilities arise. 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. 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 an 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 Expenses (2016).*

i) Administrative expenses

All administrative expenses are accounted for on an accrual basis. All staff costs of the pensions administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the Fund.

ii) 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.

iii) 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*

Shareholder investment in Warwickshire’s LGPS asset pool, Border to Coast Pensions Partnership (the “pool”), 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.

The Pension Fund’s view is that the market value of investments in the Border to Coast Pensions Partnership at 31 March 2024 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 account.

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 these 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.

Contingent liabilities

Contingent liabilities arise where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed by future events. These are not recognised in the net asset statement but are disclosed by way of narrative in the notes as summarised in note 33.

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 31 March 2022.

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 (AVCs)

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 Utmost Life and Pensions 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 McCloud Judgement

On 10 March 2022, the Public Service Pensions and Judicial Offices Act 2022 received Royal Assent. The main purpose of the Act is to support implementation of the McCloud remedy in the public service pension schemes.

After reforming public service pension schemes in 2014 and 2015, the Government introduced transitional protections for older members. However, in December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them also. This ruling is called the 'McCloud judgment'. As a result of the ruling, changes have been made to the LGPS to remove the age discrimination. These changes are known as the 'McCloud remedy'.

The McCloud remedy was implemented in two phases.

Phase one involved moving all remaining active members of legacy schemes (members with protection) into the new schemes on 1 April 2022 so that, going forward, all accruals will be in the new schemes (and so all active members will be treated equally).

Phase 2 of the new regulations which came into force on 1 October 2023.

provides for the implementation of the deferred choice underpin. That is, giving eligible members a choice between legacy scheme and new scheme benefits for service between 1 April 2015 and 31 March 2022.

Other legal judgements

Other legal judgements in force include Goodwin, Walker and O'Brien. Current analysis estimates any impact to be very small for a typical fund.

Investment in Border to Coast Pensions Partnership (BCPP)

The Fund's shareholding in the asset pool Border to Coast Pensions Partnership Ltd. has been valued at cost, as an appropriate estimate of fair value. The Class A share is valued at £1 and reflects the ownership stake in the company carrying full voting rights, dividend and capital distribution rights, whilst the Class B shares are valued at £1.2m and represent the Fund's contribution to the company's regulatory capital requirement.

Fair value cannot be otherwise established for these assets as there is currently no market for the shares and no identical or similar market to compare to.

After two of the pool's partner funds merged in 2020, the obligations to meet the company's capital requirement were re-allocated between the remaining eleven partner funds. This serves as a precedent that in the event of a future exit from the partnership, the Fund's shares could be disposed of at cost back to the pool and re-issued to the remaining partners.

Border to Coast Pensions Partnership Ltd is intending to trade at a breakeven position (nominal profit or loss) with any values offset against partner funds' future costs. The company's own audited accounts show its shareholder funds to be equal to the regulatory capital invested.

The cost of these shares has therefore been determined as a reasonable and appropriate estimate of their fair value.

War in Ukraine

The Warwickshire Pension Fund's current assessment of Russian/Belarussian holdings is that they make up approximately £475k or 0.02% of the total fund value. No special amendment or adjustment is necessary for the valuation of assets due to the ongoing conflict. Valuations are correctly catered for with all assets valued as at 31 March 2024.

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 considering 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 2024 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 several 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 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £50m, a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £6m, and a one-year increase in assumed life expectancy would increase the liability by approximately £104m.
Private equity, Infrastructure, Private Debt and Property	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2018). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Other private markets (unlisted) assets are treated similarly. All underlying property valuations are carried out by independent valuation providers on a “Fair Value” basis as defined in the RICS Appraisal and Valuation Manual (Red Book). As buildings are inherently illiquid and the transactional evidence can be scarce there is the potential for a mismatch between the valuation and actual transaction pricing.	The total value of Level 3 investments stands at £708.0m. There is a risk that these investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The custodian reports a tolerance of +/- 2% around the net asset values on which the valuation is based. This equates to a tolerance of +/- £14.2m.

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 balance sheet date to the external audit opinion issuance date will be reflected in the statement of accounts. There are no significant events to report.

Note 7: Contributions receivable

By category

2022/2023		2023/2024
£m		**£m**
21.9	Employees' contributions	24.0
	Employers' contributions:	
65.5	Normal contributions	78.8
5.7	Deficit recovery contributions	4.6
0.0	Refund of surplus on exit	(4.1)
71.2	**Total employers' contributions**	**79.3**
93.1	**Total**	**103.3**

By type of employer

2022/2023		2023/2024
£m		**£m**
47.9	Administering authority	51.0
43.7	Scheduled bodies	55.8
1.6	Admitted bodies	(3.5)
93.1	**Total**	**103.3**

Note 8: Transfers in from other pension funds

2022/2023		2023/2024
£m		**£m**
12.4	Individual transfers	12.2
12.4		**12.2**

Note 9: Benefits payable

By category

2022/2023		2023/2024
£m		**£m**
74.3	Pensions	82.9
14.6	Commutation and lump sum retirement benefits	16.8
2.5	Lump sum death benefits	1.9
91.4		**101.6**

By type of employer

2022/2023		2023/2024
£m		**£m**
49.0	Administering authority	52.5
38.1	Scheduled bodies	43.2
4.3	Admitted bodies	5.9
91.4		**101.6**

Note 10: Payments to and on account of leavers

2022/2023		2023/2024
£m		**£m**
0.3	Refunds	0.5
9.2	Individual transfers	11.8
9.5		**12.3**

Note 11: Management expenses

2022/2023		2023/2024
£m		**£m**
2.4	Administration costs	2.5
16.8	Investment management expenses	19.7
1.8	Oversight and governance costs	1.8
21.0	**Total**	**24.0**

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

2022/23 Total		Management Fees	Performance Fees	2023/24 Total
£m		**£m**	**£m**	**£m**
3.1	Pooled Investments	2.8	0.0	2.8
1.7	Pooled Property	0.8	0.0	0.8
4.8	Private Equity	4.9	2.9	7.8
4.9	Infrastructure	3.4	0.0	3.4
2.2	Private Debt	3.9	0.4	4.3
0.0	Other Fund Expenses	0.5	0.0	0.5
0.1	Custody Fees	1	0.0	0.1
16.8	**Total**	**16.4**	**3.3**	**19.7**

Note 13: Investment income

2022/2023		2023/2024
£m		**£m**
0.1	*Equity dividends*	*0.0*
0.0	Managed Funds - UK	1.1
5.1	Pooled Property	4.7
4.6	Infrastructure	3.0
1.9	Pooled Equity	2.0
1.5	Private Debt	2.6
6.4	Pooled Fixed Income	9.4
2.4	Private Equity	5.5
21.9	*Managed funds*	*28.2*
0.7	*Interest on cash deposits*	*0.1*
22.6		**28.3**

Note 14: Other fund account disclosures: external audit costs

The contract for external audit services was re-tendered in 2023 and Grant Thornton were re-appointed as the Fund's auditors. Audit fees for 2023/24 are £89,936 with this core fee now incorporating IAS19 assurance. The contracted fees for 2022/23 were £21,522 but the total actually charged on completion of that audit was £63,110 which included £14,800 in respect of IAS19 assurance work.

Note 15: Investments

2022/2023		2023/2024
£m		**£m**
	Long-term investments	
1.2	Equities	1.2
	Total Long-term investments	**1.2**
	Investment Assets	
2,657.2	Pooled Funds***	2,838.0
931.4	*Pooled Global Equity*	*1,143.4*
416.2	*Pooled UK Equity*	*92.4*
189.8	*Infrastructure*	*221.5*
104.2	*Private Debt*	*165.5*
203.7	*Private Equity*	*204.7*
239.6	*Pooled Property*	*243.8*
572.3	*Pooled Fixed Income*	*766.8*
65.2	Cash	105.8
5.3	Investment Current Assets	1.3
2,727.8	**Total Investment Assets**	**2,945.1**
	Investment Liabilities	
0.0	Investment Current Liabilities	0.0
0.0	**Total Investment Liabilities**	**0.0**
2,729.0	**Total net investments**	**2,946.2**

*** This refers to the management structure of the Funds, where the Warwickshire Pension Fund does not directly own the underlying assets.

Note 16: Reconciliation of movements in investments

	Market value 31 March 2023	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2024
	£m	£m	£m	£m	£m
Investment Assets					
Equities	1.2	0.0	0.0	0.0	1.2
Pooled Investments	2,657.3	1,044.8	-1,068.5	204.5	2,838.0
• *Private Equity*	*203.7*	*26.0*	*-23.3*	*-1.7*	*204.7*
• *Pooled Property*	*239.6*	*9.2*	*-2.4*	*-2.6*	*243.8*
• *Pooled funds, Unit Trusts & Other Managed Funds*	*1,919.7*	*884.8*	*-1,002.0*	*200.0*	*2,002.5*
• *Infrastructure*	*189.8*	40.0	-12.4	*4.1*	*221.5*
• *Private Debt*	*104.4*	84.7	-28.3	*4.7*	*165.5*
Other Investment Balances					
Cash	65.2	323.4	-272.3	-10.6	105.8
Net investment current assets	5.3	0.2	-3.7	-0.4	1.3
Total Net Investments	**2,729.0**	**1,368.3**	**-1,344.4**	**193.5**	**2,946.2**

	Market value 31 March 2022	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2023
	£m	£m	£m	£m	£m
Investment Assets					
Equities	1.2	0.0	0.0	0.0	1.2
Pooled Investments	2,716.8	255.3	-271.0	-43.8	2,657.3
• *Private Equity*	*197.3*	*40.9*	*-42.6*	*8.1*	*203.7*
• *Pooled Property*	*273.4*	*7.7*	*-5.9*	*-35.5*	*239.6*
• *Pooled funds, Unit Trusts & Other Managed Funds*	*2,022.6*	*40.1*	*-103.3*	*-39.7*	*1,919.7*
• *Infrastructure*	*140.4*	*113.4*	*-87.0*	*23.0*	*189.8*
• *Private Debt*	*83.0*	*53.2*	*-32.1*	*0.4*	*104.4*
Other Investment Balances					
Cash	35.1	136.2	-106.1	0.0	65.2
Net investment current assets	5.4	0.0	0.0	-0.1	5.3
Net Investment Assets	**2,758.4**	**391.5**	**-377.1**	**-43.8**	**2,729.0**

Note 17: Derivatives

The Fund does not engage in any direct derivative activity however fund managers may make use of these to achieve investment objectives.

Note 18: Investments analysed by fund manager

Market value 31 March 2023 £m	%		Market value 31 March 2024 £m	%
Investments managed by BCPP asset pool				
25.1	0.9	Private Equity	41.4	1.4
102.4	3.8	Infrastructure	134.6	4.6
40.3	1.5	Private Debt	57.7	2.0
392.1	14.4	Global Equity Alpha Fund	434.4	14.7
295.4	10.8	UK Equity Alpha Fund	92.3	3.1
186.0	6.8	Investment Grade Credit	246.1	8.4
240.9	8.8	Multi-Asset Credit	265.1	9.0
665.2	24.4	Legal and General Investment Management (Index Tracker - Global Equities)*	707.0	24.0
145.4	5.3	Legal and General Investment Management (Index Tracker - Fixed Income)*	255.5	8.7
2,092.9	**76.7**	**Total BCPP**	**2,234.3**	**75.8**
Investments managed outside of BCPP asset pool				
0.2	0.0	MFS Investment Management (Global Equities)	0.1	0.0
127.0	4.7	Columbia Threadneedle Investments (Property)	128.6	4.4
120.0	4.4	Schroder Investment Management (Property)	121.1	4.1
178.5	6.5	HarbourVest (Private Equity)	167.5	5.7
27.4	1.0	Standard Life Capital (Infrastructure)	28.1	1.0
59.9	2.2	Partners Group (Infrastructure)	57.6	2.0
42.1	1.5	Alcentra (Private Debt)	36.7	1.2
21.8	0.8	Partners (Private Debt)	11.5	0.4
0.0	0.0	Barings (Private Debt)	44.8	1.5
0.0	0.0	ICG (Private Debt)	11.6	0.4
57.9	2.1	BlackRock (Cash)	103.1	3.5
1.2	0.0	BCPP Shareholding	1.2	0.0
636.1	**23.3**	**Total Outside BCPP**	**712.0**	**24.2**
2,729.0	**100.0**		**2,946.2**	**100.0**

* LGIM assets have been reclassified as under pooled management due to the LGPS contract and BCPP oversight of funds

Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2024	% of total fund 31 March 2024
	£m	%
LGIM Equity funds	707.0	24.0
Border to Coast Global Alpha Equity Fund	434.4	14.7
Border to Coast Multi-Asset Credit	265.1	9.0
LGIM Bond funds	255.5	8.7
Border to Coast Investment Grade Credit	246.1	8.4
HarbourVest (Private Equity)	167.5	5.7

Security	Market value 31 March 2023	% of total fund 31 March 2023
	£m	%
Border to Coast Global Alpha Equity Fund	386.9	14.2
Border to Coast Alpha Equity Fund	295.4	10.8
L&G Fundamental Indexation	245.3	9.0
Border to Coast Multi-Asset Credit	240.9	8.8
Border to Coast Investment Grade Credit	186.0	6.8
HarbourVest (Private Equity)	178.5	6.5
LGIM Europe (ex-UK) Equity Index	163.2	6.0
LGIM Bond funds	145.3	5.3

Note 20: Stock lending

The Fund does not currently engage in any direct stock lending.

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 2023 (£m)				**31 March 2024 (£m)**		
			Investment Assets			
1.2			Equities	1.2		
2,657.2			Pooled Investments	2,838.0		
931.4			Global Equity	1,143.4		
416.2			UK Equity	92.4		
189.8			Infrastructure	221.5		
104.2			Private Debt	165.5		
203.7			Private Equity	204.7		
239.6			Pooled Property	243.8		
572.3			Fixed Income	766.8		
	65.2		Cash deposits		105.8	
	5.3		Investment Current Assets		1.3	
	7.9		Debtors		3.9	
	18.5		Cash balances		24.0	
2,658.4	**97.0**	**0.0**		**2,839.2**	**135.0**	**0.0**
			Liabilities			
		-5.1	Creditors			-5.7
0.0	**0.0**	**-5.1**		**0.0**	**0.0**	**-5.7**
2,658.4	**97.0**	**-5.1**	**Net Assets**	**2,839.2**	**135.0**	**-5.7**

Note 23: Net gains and losses on financial instruments

2022/2023		2023/2024
£m		£m
	Financial Assets	
0.0	Fair value through profit and loss	214.3
	Financial liabilities	
-37.0	Fair value through profit and loss	0.0
-37.0	**Total**	**214.3**

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 2024 because for the main trading vehicle, Border to Coast Pensions Partnership, which only became licenced to trade in July 2018, no comparable market exists, its shares are not openly traded, and it is not for profit. Therefore, the reliability of any observable or unobservable inputs used to calculate fair value cannot 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 and quoted index linked securities.

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

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds, pooled funds and unit trusts.

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 investments 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.   All underlying property valuations are carried out by independent valuation providers on a "Fair Value" basis as defined in the RICS Appraisal and Valuation Manual (Red Book). As buildings are inherently illiquid and the transactional evidence can be scarce there is the potential for a mismatch between the valuation and actual transaction pricing.

The Fund has reviewed the classification of Property and has taken the decision to reclassify property as Level 3. This is more consistent with the classification used by other Funds and will make the accounts more comparable.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines which follow the valuation principles of International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (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 – fixed income and equity unit trusts Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	Net Asset Value (NAV) - based pricing set on a forward pricing basis	Not required
Other unquoted and private funds (including indirect property, infrastructure, private debt and private equity). Level 3	These investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 special rules 2020 and US GAAP. All underlying property valuations are carried out by independent valuation providers on a “fair value” basis as defined in the RICS Appraisal and Valuation Manual (the “Red Book”).	Earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple; Revenue multiple; Discount for lack of marketability; Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund’s own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
Shares in Border to Coast Pensions Partnership	At cost	N/A	N/A

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 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Equities*			1.2	1.2
Pooled Investments	0.0	2,002.5		2,002.5
Infrastructure			221.5	221.5
Private Debt			165.5	165.5
Private Equity			204.7	204.7
Pooled Property		128.6	115.2	243.8
Financial assets at fair value through profit and loss	0.0	2,131.2	708.0	2,839.2
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Financial liabilities				
Net financial assets	0.0	2,131.2	708.0	2,839.2

*Equities which represent Border to Coast Pensions Partnership shareholding

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equities*	0.0	0.0	1.2	1.2
Pooled Investments	0.0	1,919.7	0.0	1,919.7
Infrastructure	0.0	0.0	189.8	189.8
Private Debt	0.0	0.0	104.2	104.2
Private Equity	0.0	0.0	203.7	203.7
Pooled Property	0.0	127.0	112.6	239.6
Financial assets at fair value through profit and loss	*0.0*	*2,046.7*	*611.4*	*2,658.2*
Financial liabilities at fair value through profit and loss	*0.0*	*0.0*	*0.0*	*0.0*
Net financial assets	**0.0**	**2,046.7**	**611.4**	**2,658.2**

*Equities which represent Border to Coast Pensions Partnership shareholding

The following assets have been carried at cost:

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investment in: Border to Coast Pensions Partnership	0.0	0.0	1.2	1.2
Investments held at cost	0.0	0.0	**1.2**	**1.2**

Note 25: Reconciliation of fair value measurements within Level 3

	Market value 31 March 2023	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 2024
	£m	£m	£m	£m	£m	£m
Private Debt	104.5	84.7	-28.3	4.1	0.6	165.5
Private Equity	203.7	26.0	-23.3	-14.8	13.1	204.7
Infrastructure	189.8	40.0	-12.4	1.3	2.8	221.5
Pooled Property*	112.6	9.2	-2.4	-4.2	0.0	115.2
Total	**610.5**	**160.0**	**-66.4**	**-13.7**	**16.5**	**706.8**

*Reclassified Pooled Property to Fair Value Level 3

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. The selection of securities and other financial instruments is monitored to ensure price risk 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 2023/24 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	2023/24 Potential market movement %
UK Pooled Funds	16
Overseas Pooled Funds	17
Bonds	6
Cash	0
Property	16
Alternatives	8

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:

Asset Type	Value as at 31 March 2024	Potential market movement	Value on increase	Value on decrease
	£m	£m	£m	£m
UK Pooled Funds	93.5	15.0	108.5	78.6
Overseas Pooled Funds	1,143.4	194.4	1,337.8	949.0
Total Bonds	766.8	46.0	812.8	720.7
Cash	106	0.0	106.0	106.0
Infrastructure, Private Debt and Private Equity	591.7	47.3	639.0	544.3
Property	243.8	39.0	282.8	204.8
Total	**2,945.0**	**341.7**	**3,286.9**	**2,603.5**

The prior year comparator is shown in the following table:

Asset Type	Value as at 31 March 2023	Potential market movement	Value on increase	Value on decrease
	£m	£m	£m	£m
UK Pooled Funds	417.4	75.1	492.5	342.3
Overseas Pooled Funds	931.4	177.0	1,108.4	754.4
Total Bonds	572.3	40.1	612.4	532.3
Cash	70.5	0.0	70.5	70.5
Infrastructure, Private Debt and Private Equity	497.7	44.8	542.5	452.9
Property	239.6	35.29	275.6	203.7
Total	**2,729.0**	**372.9**	**3,101.9**	**2,356.1**

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 2024	Value on 1% increase	Value on 1% decrease
	Years	**£m**	**£m**	**£m**
LGIM UK Corporate Bonds	5.6	86.9	82.0	91.8
LGIM UK Index Linked	15.5	168.6	142.5	194.8
BCPP Multi-Asset Credit	3.7	265.1	255.3	275.0
BCPP Investment Grade Credit	6.1	246.1	231.1	261.1
Cash balances	0.0	129.8	129.8	129.8
Total		**896.5**	**840.7**	**952.4**

Asset Type	Duration	Value as at 31 March 2023	Value on 1% increase	Value on 1% decrease
	Years	**£m**	**£m**	**£m**
LGIM UK Corporate Bonds	5.8	50.0	47.1	52.9
LGIM UK Index Linked	16.8	95.3	79.3	111.3
BCPP Multi-Asset Credit	3.7	240.9	232.0	249.9
BCPP Investment Grade Credit	6.5	186.0	173.9	198.1
Cash balances	0.0	83.7	83.7	83.7
Total		**656.0**	**616.1**	**695.9**

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.

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 Fund’s segregated overseas mandate which has now transitioned to the Border to Coast Pension Partnership (BCPP) pool:

	Value as at 31 March 2024	Volatility	Value on increase	Value on decrease
	£ m		**£ m**	**£ m**
Overseas Pooled Funds				
LGIM Fundamental Indexation	149.82	9.4%	163.90	135.74
LGIM Europe (ex-UK)	61.79	9.4%	67.60	55.98
LGIM Asia Pacific (ex-Japan)	15.65	9.4%	17.13	14.18
LGIM Emerging Markets	13.26	9.4%	14.51	12.02
LGIM Japan	15.75	9.4%	17.23	14.27
LGIM North America	8.44	9.4%	9.24	7.65
BCPP Global Equity	434.39	9.4%	475.22	393.56
Total	**699.10**	**9.4%**	**764.82**	**633.39**

	Value as at 31 March 2023	Volatility	Value on increase	Value on decrease
	£ m		**£ m**	**£ m**
Overseas Pooled Funds				
LGIM Fundamental Indexation	245.34	10%	269.87	220.80
LGIM Europe (ex-UK)	163.18	10%	179.50	146.86
LGIM Asia Pacific (ex-Japan)	44.51	10%	48.96	40.06
LGIM Emerging Markets	37.38	10%	41.12	33.64
LGIM Japan	35.42	10%	38.96	31.87
LGIM North America	18.72	10%	20.59	16.85
BCPP Global Equity	386.86	10%	425.55	348.18
Total	**931.4**	10%	**1,024.55**	**838.27**

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.

The Pension Fund closely monitors employer contributions each month. Most contributions from employers due to the Fund for March 2024 were received by the Fund in April 2024. The Fund's current policy for all new employers into the scheme is to obtain a guarantee that will ensure all pension obligations are covered in the event of that employer facing financial difficulties.

The Pension Fund's bank account is held at Lloyds, which holds an 'A+' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. In addition, Lloyds has a 0% historic risk of default. As at 31st March 2024 the balance at Lloyds stood at £24.3m.

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 2024 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 2022 and set contribution rates for the three years commencing 1 April 2023.

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 2022 actuarial valuation, the Fund was assessed as 104% funded. This corresponds to a surplus of £98m.

Following the 2022 actuarial valuation, contribution rate changes (primary and secondary) are being phased in from 1 April 2023. The common contribution rate (i.e. the rate which all employers in the Fund pay) is as follows:

Valuation Date	**31-Mar-22**
Total contribution rate	
Primary Rate (% of pay)	20.7%
2023/24 Secondary Rate £000	4,865
2024/25 Secondary Rate £000	4,688
2025/26 Secondary Rate £000	4,495

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 2022 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	31 March 2022
	%
Discount Rate	4.0
Salary Increases	3.7
Price Inflation/Pension Increases	2.7

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

Demographic assumptions	31 March 2022	
Assumed life expectancy at age 65	Male	Female
Pensioners	21.8	24.4
Non-pensioners	22.6	26.0

Commutation assumptions

At the 2022 valuation, it was assumed that future retirees will take 65% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 65% of the maximum for post-April 2008 service.

50:50 Option

The assumption in the 2022 Actuarial Valuation was that 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 (see Note 27).

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 27). The following is the full Pension Fund Accounts Reporting Requirement provided by the Scheme Actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2023/24 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.

Present value of promised retirement benefits

Year ended	**31 March 2023**	**31 March 2024**
Active members (£m)	1,157	1,223
Deferred members (£m)	514	507
Pensioners (£m)	903	863
Total present value of promised retirement benefits (£m)	**2,574**	**2,593**
Fair value of scheme assets (bid value) (£m)	***2,728***	***2,945***
Net Asset / (Liability) (£m)	**154**	**352**

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. 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.

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 2024 and 31 March 2023. I estimate that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £150m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £16m.

Financial assumptions

Year ended	**31 March 2023 % p.a.**	**31 March 2024 % p.a.**
Pension Increase Rate (CPI)	2.95	2.75
Salary Increase Rate	3.95	3.75
Discount Rate	4.75	4.85

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	**Females**
Current pensioners	21.3 years	24.0 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	22.1 years	25.5 years

All other demographic assumptions are unchanged from last year and are as per the latest funding valuation of the Fund.

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 obligations are set out below:

Change in assumption at 31 March 2024	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2	50
1 year increase in member life expectancy	4	104
0.1% p.a. increase in the Salary Increase Rate	0	3
0.1% p.a. increase in the Rate of CPI Inflation	2	51

Professional notes

This paper accompanies the ‘Accounting Covering Report – 31 March 2024’ which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:

Barry Dodds FFA

15 May 2024

For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2023		31 March 2024
£m		**£m**
	Debtors:	
3.3	Contributions due: Employees	0.8
4.0	Contributions due: Employers	2.6
0.6	Invoiced debtors	0.4
0.1	Sundry debtors	0.1
18.5	Cash balances	24.0
26.5	**Total**	**27.9**

Note 30: Current liabilities

31 March 2023		31 March 2024
£m		**£m**
2.2	Owed to administering authority	3.6
1.9	Sundry Creditors	1.9
1.0	Benefits Payable	0.2
5.1	**Total**	**5.7**

Note 31: Additional Voluntary Contributions

Contributions Paid 2022/23	Market Value 31 March 2023		Contributions Paid 2023/24	Market Value 31 March 2024
£000	**£m**		**£000**	**£m**
508.4	3.2	Standard Life	841.2	3.9
1.6	0.2	Utmost Life and Pensions	3.4	0.2
510.0	**3.4**	**Total**	**844.6**	**4.1**

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 £2.3m (2022/23: £2.4m) 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 £49.4m (£48.6m in 2022/23).

Border to Coast Pensions Partnership (BCPP)

The Warwickshire Pension Fund, through Warwickshire County Council as the Administering Authority, is a shareholder in BCPP 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 11 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 11 partners own an equal 1/11th share of the company.

BCPP 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. At Fund level the pool manages 75.8% of total assets under management. Pooling and membership of the Border to Coast Pensions 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 was one member of the Pension Fund Investment Sub-Committee and the Staff and Pensions Committee who was in receipt of pension benefits from the Warwickshire Pension Fund.

There are two members of the Local Pension Board who are active members of the Warwickshire Pension Fund and one active pensioner.

Each member of the Pension Fund Investment Sub-Committee, Staff and Pensions Committee and Local Pension Board is required to declare their interests at each meeting.

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 following percentages represent the time each post has spent on pension fund activities during the financial year. The posts of Executive Director for Resources (5%), Director of Finance (13%), Head of Investments, Audit and Risk (40%), Head of Finance Transformation & Transactions (30%), Technical Specialist Pensions (100%), Investment Analyst (100%), Lead Commissioner Pensions and Investment (100%), and Pensions Administration Delivery Lead (100%) are considered to be key management personnel. These employees and their financial relationship with the Fund are set out below.

2022/23		2023/24
£000		**£000**
348.5	Short-term benefits	463.0
-200.5	Post-employment benefits	413.3

Note 33: Contingent Liabilities and Contractual Commitments

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

Outstanding capital commitments at 31 March 2024 were as follows:

31 March 2023		31 March 2024
£m		**£m**
98.0	Private Equity	100.0
120.4	Infrastructure	187.8
77.9	Private Debt	134.0
296.3	**Total**	**421.8**

Note 34: Going Concern

Going concern is assessed by management using four key factors as follows:

- Investment returns and Net Asset Values;
- Cashflow forecast and liquidity;
- Membership trends; and
- Funding level and delivery of agreed recovery plans.

Each is considered in turn below:

- The number of employing bodies has increased over time and currently stands at the highest number it has ever been (236) and current membership increased from 56,945 to 58,034, also an all-time high.
- The diversification of the Fund's assets provides protection from market volatility.
- The Fund has adequate liquidity in place to meet cashflow requirements.
- The 2022 valuation assessed the Funding level to be 104%. For the reasons set out above, management are satisfied that the Warwickshire County Council Pension Fund is a going concern and the financial statements for 2023/24 have been prepared on this basis accordingly.

Glossary

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*, *private debt*, *infrastructure* and *commodities*. Property is also sometimes described as an alternative.

Asset allocation
The apportionment of a fund's assets between different *asset classes*.

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared.

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*.

Deferred Pensioners
Members of the Pension Fund who are no longer active employees making contributions to the Fund but who are not yet receiving their pension (may also be referred to as Deferred Members).

Diversification
The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

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.

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.

Private equity
Funds put up by investors to finance new and growing businesses. Also known as venture capital

Pooled funds
Pooled funds are where the Fund does not directly own underlying assets.

Pool or LGPS Pool
This term refers to where LGPS administrating authorities have grouped into pools specifically set up to enable investment in line with the Local Government Pension Scheme: investment reform criteria and guidance (November 2015). The Warwickshire Pension Fund is part of the Border to Coast Pensions Partnership pool, which currently has 11 LGPS partner funds.

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.

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.

Stock lending
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.

Transaction costs
Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.