

Warwickshire Pension Fund  
Statement of Accounts  
2017/18



We would welcome any comments or suggestions you have about this publication. Please contact Chris Norton, Strategic Finance Manager, Resources Group, Warwickshire County Council.

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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.

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

## Independent auditor's report to the members of Warwickshire County Council on the pension fund financial statements

### Opinion

We have audited the pension fund (entitled "Warwickshire Pension Fund") financial statements of Warwickshire County Council (the 'Authority') for the year ended 31 March 2018 set out in Section D to the Authority's Statement of Accounts which comprise the Warwickshire Pension Fund Account, the Net Assets Statement and Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2018, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Head of Finance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

### Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in Sections A, B, C and D in the Authority's Statement of Accounts other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Authority's Statement of Accounts set out in Sections A, B, C and D for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

**Responsibilities of the Authority, the Head of Finance and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 6 in Section D, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance. The Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Head of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit & Standards Committee is Those Charged with Governance.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Grant Patterson**

**GRANT PATTERSON**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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27 July 2018

## Statement of responsibilities for the statement of accounts

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2015, for our financial affairs and how we ensure we carry out these responsibilities properly.

### Responsibilities of the Pension Fund

We must do the following:

- Make sure that one of our officers is responsible for managing our financial affairs. In the Pension Fund, Warwickshire County Council's Head of Finance is responsible for doing this.
- Manage our affairs to use our resources efficiently and effectively and to protect our assets.
- Comply with IFRS financial reporting framework
- Approve the statement of accounts.

### Responsibilities of the Head of Finance

As the Head of Finance, 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
- Followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

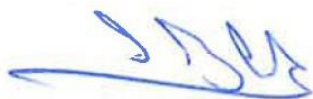
I have also:

- Kept proper accounting records which are up to date; and
- Taken steps to prevent and detect fraud and other irregularities.

I confirm that the accounts were considered and approved at a meeting of the Council on 26 July 2018.

**John Betts**  
Head of Finance

**Date: 26 July 2018**



**Councillor John Cooke**  
Chair of the Council

**Date: 26 July 2018**



## Warwickshire Pension Fund Account

2016/2017		2017/2018
£ m	Notes	£ m
	<b>Dealings with members, employers and others directly involved in the fund</b>	
(71.8)	Contributions 7	(65.8)
(7.4)	Transfers in from other schemes 8	(11.4)
(79.2)		(77.2)
72.2	Benefits payable 9	72.9
5.1	Payments to and on account of leavers 10	8.3
77.3		81.2
<b>(1.9)</b>	<b>Net (additions)/withdrawals from dealing with members</b>	<b>4.0</b>
9.1	Management expenses 11	10.5
<b>7.2</b>	<b>Net (additions)/withdrawals inc fund management expenses</b>	<b>14.5</b>
	<b>Returns on investments</b>	
(26.8)	Investment income 13	(27.4)
0.1	Taxes on income	0.1
(34.2)	Profit and losses on disposal of investments 23	(100.0)
(265.0)	Changes in the market value of investments 23	64.3
<b>(325.9)</b>	<b>Net return on investments</b>	<b>(63.0)</b>
<b>(318.7)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>	<b>(48.5)</b>
<b>(1,665.1)</b>	<b>Opening net assets of the scheme</b>	<b>(1,983.8)</b>
<b>(1,983.8)</b>	<b>Closing net assets of the scheme</b>	<b>(2,032.3)</b>

## Net Assets Statement

2016/2017		2017/2018
£ m	Notes	£ m
1,992.8	Investment assets 15/16/17	1,963.6
(44.8)	Investment liabilities 15	0.0
30.8	Cash deposits 15/16/17	73.7
1,978.8	Total net investments	2,037.3
8.7	Current assets 29	12.6
(3.7)	Current liabilities 30	(17.6)
<b>1,983.8</b>	<b>Net assets of the fund available to fund benefits at the period end</b>	<b>2,032.3</b>



## **Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2018**

### **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 2017/18 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)
- 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 voluntary and 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.
- 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 181 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	160	181
<b>Number of employees in scheme</b>		
County Council	9,106	8,193
Other employers	7,619	8,561
<b>Total</b>	<b>16,725</b>	<b>16,754</b>
<b>Number of pensioners</b>		
County Council	6,195	6,487
Other employers	4,707	5,002
<b>Total</b>	<b>10,902</b>	<b>11,489</b>
<b>Deferred pensioners</b>		
County Council	10,441	10,707
Other employers	6,570	7,098
<b>Total</b>	<b>17,011</b>	<b>17,805</b>
<b>Total</b>	<b>44,638</b>	<b>46,048</b>

## c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Contributions are also made by employers' which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2017.

## d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	Automatic lump sum of 3 x pension  In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum  Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated 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 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* 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.

##### **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 accruals 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.

#### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals 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 accruals 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 reduce the investment income.

#### **g) Investment assets**

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 Assets 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 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.

- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012*.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

**h) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank

accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**i) Cash and cash equivalents**

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**j) Investment Liabilities**

The fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the fund becomes party to the liability and are summarised in Note 13. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

**k) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

**l) Additional voluntary contributions**

Warwickshire Pension Fund provides an additional voluntary contributions (AVC) 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).

## **Note 4: Critical judgements in applying accounting policies**

### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*. The value of unquoted private equities and infrastructure as at 31 March 2018 was £110.0m (31 March 2017: £84.9m).

### **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.

## **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 Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:



	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	<p>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.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> <li>- a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £294m</li> <li>- a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £43m, and</li> <li>- a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.</li> </ul>
<b>Private equity and infrastructure</b>	<p>Private equity and infrastructure investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investments in the financial statements (including infrastructure) are £110m. 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 +/- £2.2m.</p>

## Note 6: Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

There were no adjusting or non-adjusting events. No assets have been transferred to the pool at time of signing.

## Note 7: Contributions receivable

By category

2016/2017		2017/2018
£ m		£ m
16.6	Employees' contributions	16.7
	<b>Employer's contributions:</b>	
43.8	Normal contributions	44.7
11.4	Deficit Recovery contributions	4.4
<b>55.2</b>	<b>Total employer's contributions</b>	<b>49.1</b>
<b>71.8</b>		<b>65.8</b>

By authority

2016/2017		2017/2018
£ m		£ m
37.1	Administering authority	35.9
33.4	Scheduled bodies	22.9
1.2	Admitted bodies	6.9
0.1	Bodies no longer contributing	0.1
<b>71.8</b>		<b>65.8</b>

## Note 8: Transfers in from other pension funds

2016/2017		2017/2018
£ m		£ m
0.7	Group transfers	0.7
6.7	Individual transfers	10.7
<b>7.4</b>		<b>11.4</b>

## Note 9: Benefits payable

By category

2016/2017		2017/2018
£ m		£ m
57.1	Pensions	59.4
13.7	Commutation and lump sum retirement benefits	11.7
1.4	Lump sum death benefits	1.9
<b>72.2</b>		<b>72.9</b>

By authority

2016/2017		2017/2018
£ m		£ m
40.1	Administering authority	38.9
28.1	Scheduled bodies	30.2
3.2	Admitted bodies	3.2
0.8	Bodies no longer contributing	0.7
<b>72.2</b>		<b>72.9</b>

## Note 10: Payments to and on account of leavers

2016/2017		2017/2018
£ m		£ m
0.3	Refunds	0.2
0.0	Group transfers	0.0
4.8	Individual transfers	8.0
<b>5.1</b>		<b>8.3</b>

## Note 11: Management expenses

2016/2017		2017/2018
£ m		£ m
1.4	Administration costs	1.5
7.4	Investment management expenses	8.7
0.3	Oversight and governance costs	0.3
<b>9.1</b>		<b>10.5</b>

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

2016/2017		2017/2018
£'000		£'000
6,600.9	Management fees	7623.0
310.2	Performance related fees	647.0
90.8	Custody fees	76.1
397.7	Transaction costs	386.8
<b>7,399.6</b>		<b>8,732.9</b>

## Note 13: Investment income

2016/2017		2017/2018
£ 000		£ 000
16,642.7	Equity dividends	17473.0
9,418.5	Managed funds:	9,259.6
3,726.63	Property	4823.19
1,205.88	Infrastructure	557.17
903.66	Hedge Funds	712.71
2,790.62	Alternative	1713.68
791.67	Private Equity	1452.85
720.7	Interest on cash deposits	616.3
47.0	Stock lending	40.5
<b>26,828.9</b>		<b>27,389.4</b>

## Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2017/18 was £25,220 excluding VAT The fee for 2016/17, including fee variation, was £25,220 excluding VAT.

## Note 15: Investments

2016/2017		2017/2018
£ m		£ m
	<b>Investment Assets</b>	
683.0	Equities	638.3
1,307.2	Managed funds:	1,314.1
66.2	Private Equity	78.1
192.5	Pooled Property	207.8
945.6	Pooled Investments, Unit Trusts & Other Managed Funds	996.3
18.7	Infrastructure	31.9
84.3	Hedge Funds	0.0
30.8	Cash deposits	73.7
2.6	Investment current assets	11.2
<b>2,023.6</b>	<b>Total Investment Assets</b>	<b>2037.3</b>
	<b>Investment Liabilities</b>	
(44.8)	Investment current liabilities	0.0
	<b>Total Investment Liabilities</b>	
<b>1,978.8</b>	<b>Net Investment Assets</b>	<b>2037.3</b>

A recent change in investment strategy brings exposure to a new asset class for year 18/19 – Private Debt. This asset class provides credit facilities to companies who would normally have approached financial institutions for credit.

The large cash balance held is from the redemption of our Hedge fund allocation which will be used to fund commitments due on Private Equity, Infrastructure and Private Debt parts of portfolio. The amounts 'called' by these funds are variable over a 5-6 year time horizon from the date of the first commitment.

Outstanding capital commitments at 31 March 2018 totalled £226.3m. This includes £100m destined for Private Debt.

## Note 16: Reconciliation of movements in investments

	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018
	£ m	£ m	£ m	£ m	£ m
<b>Investment Assets</b>					
Equities	683.0	99.2	-133.4	-10.5	638.3
Managed funds:	1307.2	216.4	-256.2	46.7	1314.1
Private Equity	66.2	16.4	-12.4	7.9	78.1
Pooled Property	192.5	10.8	-12.8	17.3	207.8
Pooled Investments, Unit Trusts & Other Managed Funds	945.6	176.2	-142.9	17.4	996.3
Infrastructure	18.7	12.9	-0.8	1.1	31.9
Hedge Funds	84.3	0.0	-87.3	3.0	0.0
<b>Other Investment Balances</b>					
Cash deposits	30.8	162.0	-118.8	-0.4	73.7
Net investment current assets	-42.2	53.7	-0.1	-0.3	11.2
<b>Net Investment Assets</b>	<b>1,978.8</b>	<b>531.4</b>	<b>-508.5</b>	<b>35.6</b>	<b>2,037.3</b>

	Market value 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2017
	£ m	£ m	£ m	£ m	£ m
<b>Investment Assets</b>					
Index linked bonds	84.3	0.0	-79.8	-4.4	0.0
Equities	544.8	99.0	-86.2	125.4	683.0
Managed funds:	1,013.2	92.4	-55.2	256.7	1307.2
Private Equity	48.2	12.9	-7.2	12.2	66.2
Pooled Property	186.3	12.5	-9.9	3.5	192.5
Pooled Investments, Unit Trusts & Other Managed Funds	679.8	51.7	-19.6	233.7	945.6
Infrastructure	19.9	15.2	-18.5	2.0	18.7
Hedge Funds	79.0	0.0	0.0	5.3	84.3
<b>Other Investment Balances</b>					
Cash deposits	13.5	107.9	-91.2	0.6	30.8
Net investment current assets	2.9	0.4	-45.7	0.2	-42.2
<b>Net Investment Assets</b>	<b>1,658.7</b>	<b>299.8</b>	<b>-358.1</b>	<b>378.5</b>	<b>1,978.8</b>

## Note 17: Analysis of investments

31 March 2017		31 March 2018
£ m		£ m
	<b>Equities</b>	
309.7	UK	301.1
373.3	Overseas	337.2
<b>683.0</b>		<b>638.3</b>
	<b>Managed funds</b>	
1,146.5	UK:	1,219.6
191.4	Pooled Property	207.3
945.6	Pooled Investments, Unit Trusts & Other Managed Funds	996.3
9.6	Infrastructure	15.9
160.7	Overseas:	94.5
84.3	Hedge Funds	0.0
66.2	Private Equity	78.1
1.1	Pooled Property	0.5
9.1	Infrastructure	15.9
<b>1,307.2</b>		<b>1,314.1</b>
	<b>Cash deposits</b>	
25.6	UK Sterling	69.5
5.2	Foreign currency	4.2
<b>30.8</b>		<b>73.7</b>
<b>-42.2</b>	<b>Net investment current assets/(liabilities)</b>	<b>11.2</b>
<b>1,978.8</b>	<b>Net Investment Assets</b>	<b>2,037.3</b>

## Note 18: Investments analysed by fund manager

Market value 31 March 2017			Market value 31 March 2018	
£ m	%		£ m	%
306.8	15.5%	Columbia Threadneedle Investments (UK Equities)	309.0	15.2%
388.1	19.6%	MFS Investment Management (Global Equities)	345.1	16.9%
496.4	25.1%	Legal and General Investment Management (Index Tracker - Global Equities)	512.6	25.2%
325.9	16.5%	Legal and General Investment Management (Index Tracker - Fixed Income)	319.6	15.7%
104.3	5.3%	Columbia Threadneedle Investments (Property)	115.7	5.7%
90.6	4.6%	Schroder Investment Management (Property)	100.5	4.9%
84.3	4.3%	Blackstone Group International (Hedge Funds)	0.0	0.0%
66.2	3.3%	HarbourVest (Private Equity)	78.1	3.8%
75.9	3.8%	JP Morgan (Strategic Bond)	158.4	7.8%
9.6	0.5%	Standard Life Capital (Infrastructure)	15.9	0.8%
9.1	0.5%	Partners Group (Infrastructure)	15.9	0.8%
21.6	1.1%	BNY Mellon (Global Custodian)	66.3	3.3%
<b>1,978.8</b>	<b>100.0%</b>		<b>2,037.3</b>	<b>100.0%</b>

Note: Residual cash under Blackstone has been allocated to custodian balance.

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

Security	Market value 31 March 2018	% of total fund as at 31.03.18
	£ m	
L&G Investment Grade Corporate Bond	210.1	10.31%
JPM Strategic Bond Fund	158.4	7.77%
L&G UK Equity Index	130.5	6.41%
L&G Europe (Exc UK) Equity Index	133.5	6.55%
L&G Fundamental Indexation	109.2	5.36%
Columbia ThreadneedleTPN Property A	115.7	5.68%
L&G Index linked Bonds	144.4	7.09%



Security	Market value 31 March 2017	% of total fund as at 31.03.17
	£ m	
L&G Investment Grade Corporate Bond	183.1	9.23%
L&G UK Equity Index	169.2	8.53%
L&G Europe (Exc UK) Equity Index	141.6	7.14%
L&G Fundamental Indexation	104.5	5.27%
Columbia ThreadneedleTPN Property A	104.3	5.26%
L&G Index linked Bonds	100.5	5.07%

### **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 £35.2m (31 March 2017: £18.2m). The 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 collateral (via the custodian) at fair value of £37.2m (31 March 2017: £19.3m). Collateral is obtained at 102% for sterling denominated equities and 105% 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	Loans and receivables	Financial liabilities		Fair value through profit and loss	Loans and receivables	Financial liabilities
31 March 2017				31 March 2018		
£ m	£ m	£ m		£ m	£ m	£ m
			<b>Investment Assets</b>			
0.0			Index linked bonds	0.0		
683.0			Equities	638.3		
1,307.2			Managed funds:	1,314.1		
66.2			Private Equity	78.1		
192.5			Pooled Property	207.8		
			Pooled Investments, Unit Trusts & Other Managed Funds	996.3		
945.6			Infrastructure	31.9		
18.7			Hedge Funds	0.0		
84.3	30.8		Cash deposits		73.7	
	2.6		Investment current assets		11.2	
	7.9		Debtors		10.2	
	0.9		Cash balances		2.3	
<b>1,990.2</b>	<b>42.1</b>	<b>0.0</b>		<b>1,952.4</b>	<b>97.5</b>	<b>0.0</b>
			<b>Liabilities</b>			
		-44.8	Investment current liabilities			0.0
		-3.7	Creditors			-17.6
<b>0.0</b>	<b>0.0</b>	<b>-48.5</b>		<b>0.0</b>	<b>0.0</b>	<b>-17.6</b>
<b>1,990.2</b>	<b>42.1</b>	<b>-48.5</b>		<b>1,952.4</b>	<b>97.5</b>	<b>-17.6</b>

## Note 23: Net gains and losses on financial instruments

31 March 2017		31 March 2018
£ m		£ m
	<b>Financial Assets</b>	
299.2	Fair value through profit and loss	100.0
0.0	Loans and receivables	0.0
	<b>Financial liabilities</b>	
0.0	Fair value through profit and loss	-64.3
0.0	Loans and receivables	0.0
<b>299.2</b>	<b>Total</b>	<b>35.7</b>

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## Note 24: Valuation of financial instruments carried at fair value

The 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 investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity 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.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b> Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Pooled investments – overseas unit trusts &amp; property funds</b> Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
<b>Private equity and infrastructure</b> Level 3	Private equity and Infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension funds own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
<b>Hedge Funds</b> Level 3	Closing bid price where bid and offer process are published. Closing single price where single price is published.		

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 2018	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
<b>Financial assets</b> Financial assets at fair value through profit and loss	864.4	978.0	110.0	1,952.4
<b>Financial liabilities</b> Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
<b>Net financial assets</b>	864.4	978.0	110.0	1,952.4

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2017	Level 1	Level 2	Level 3	Total
	£ m	£ m	£ m	£ m
<b>Financial assets</b> Financial assets at fair value through profit and loss	786.1	1,034.9	169.2	1,990.2
<b>Financial liabilities</b> Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
<b>Net financial assets</b>	786.1	1,034.9	169.2	1,990.2

## Note 25 Reconciliation of fair value measurements within Level 3

	Market value 31 March 2017	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 2018
	£ m	£ m	£ m	£ m	£ m	£ m
Fund of Hedge Funds	84.3	0.0	-87.3	-10.5	13.5	0.0
Private Equity	66.2	16.4	-12.4	2.3	5.6	78.1
Infrastructure	18.7	12.9	-0.8	0.9	0.2	31.9
	<b>169.2</b>	<b>29.3</b>	<b>-100.5</b>	<b>-7.4</b>	<b>19.3</b>	<b>110.0</b>

## Note 26: Nature and extent of risks arising from financial instruments

### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie 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
- 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 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 2017/18 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type		201718 Potential market movement
		%
UK Equities		17%
Overseas Equities		18%
Total Bonds, Index Linked & Pooled Managed Funds		10%
Cash		1%
Alternatives		10%
Property		14%

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):

<b>Asset Type</b>	<b>Value as at 31 March 2018</b>	<b>Potential market movement</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
UK Equities	512.6	87.1	599.8	425.5
Overseas Equities	654.1	117.7	771.8	536.4
Total Bonds, Index Linked & Pooled Managed Funds	319.6	32.0	351.6	287.7
Cash	62	0.6	62.6	61.4
Alternatives	272.2	27.3	300.0	245.4
Property	216.2	30.3	246.5	186.0
<b>Total</b>	<b>2,037.3</b>	<b>295.0</b>	<b>2,332.3</b>	<b>1,742.3</b>

<b>Asset Type</b>	<b>Value as at 31 March 2017</b>	<b>Potential market movement</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
UK Equities	881.9	149.9	1031.8	732.0
Overseas Equities	347.8	62.6	410.4	285.2
Total Bonds, Index Linked & Pooled Managed Funds	325.5	32.6	358.1	293.0
Cash	-14.0	-0.1	-14.1	-13.8
Alternatives	245.1	24.5	269.6	220.6
Property	192.5	26.9	219.4	165.5
<b>Total</b>	<b>1,978.8</b>	<b>296.4</b>	<b>2,275.2</b>	<b>1,682.4</b>

### **Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.



## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency	2017/18 Potential market movement
	<b>%</b>
Czech Republic Koruna	10%
Danish Krone	9%
Euro	9%
Japanese Yen	13%
Mexican Peso	13%
Swedish Krona	10%
Swiss Franc	11%
Thai Baht	10%
US Dollar	10%
Hong Kong Dollar	10%

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:

Currency	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.4	0.2	2.6	2.2
Euro	112.5	10.1	122.6	102.4
Japanese Yen	5.0	0.7	5.7	4.4
Mexican Peso	1.1	0.1	1.2	0.9
Swedish Krona	7.0	0.7	7.7	6.3
Swiss Franc	27.5	3.1	30.5	24.4
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	255.5	25.0	280.5	230.4
Hong Kong Dollar	0.7	0.1	0.8	0.7
<b>Total</b>	<b>412.5</b>	<b>40.1</b>	<b>452.6</b>	<b>372.5</b>

Currency	Value as at 31 March 2017	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.6	0.1	0.7	0.5
Danish Krone	3.1	0.3	3.4	2.8
Euro	104.0	11.4	115.5	92.6
Japanese Yen	4.5	0.8	5.4	3.7
Mexican Peso	1.3	0.2	1.5	1.1
Swedish Krona	8.1	0.9	9.0	7.2
Swiss Franc	34.6	4.1	38.7	30.4
Thai Baht	0.9	0.1	1.0	0.7
US Dollar	271.5	35.3	306.8	236.2
Hong Kong Dollar	0.8	0.1	0.9	0.7
<b>Total</b>	<b>429.4</b>	<b>53.4</b>	<b>482.8</b>	<b>375.9</b>

## Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

## **Liquidity risk**

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also 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 2018 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 2016 and set contribution rates for the three years commencing 1 April 2017.

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
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The 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 2016 actuarial valuation, the fund was assessed as 82% funded. This corresponded to a deficit of £358m.

Contribution increases were phased in over the three year period ending 31 March 2020. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

<b>Valuation Date</b>	<b>31-Mar-16</b>
<b>Total contribution rate</b>	
Primary Rate (% of pay)	20%
2017/18 Secondary Rate £000	39.19
2018/19 Secondary Rate £000	61.25
2019/20 Secondary Rate £000	84.4

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

### Financial assumptions

<b>Financial assumptions</b>	<b>Nominal</b>	<b>Real</b>
	<b>%</b>	<b>%</b>
Post Retirement Discount Rate	3.8%	1.7%
Pre Retirement Discount Rate	3.8%	1.7%
Salary Increases	2.8%	0.7%
Price Inflation/Pension Increases	2.1%	-

### Demographic assumptions

Assumed life expectancy from age 65 is as follows.

<b>Demographic assumptions</b>	<b>31 March 2016</b>	
<b>Assumed life expectancy at age 65</b>	<b>Male</b>	<b>Female</b>
Pensioners	22.5	24.7
Non-pensioners	24.3	26.7

## **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**

2.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

### **Note 28: Actuarial present value of promised retirement benefits**

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

#### **Introduction**

CIPFA's Code of Practice on Local Authority Accounting 2017/18 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.

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£m</b>		<b>£m</b>
1,205	Active members	1,307
602	Deferred pensioners	597
984	Pensioners	945
<b>2,791</b>	<b>Present value of promised retirement benefits</b>	<b>2,849</b>

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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 above 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 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £56m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

### **Financial assumptions**

<b>Year ended (% p.a.)</b>	<b>31 March 18</b>	<b>31 March 17</b>
	<b>%</b>	<b>%</b>
Inflation/pensions increase rate	2.4%	2.4%
Salary increase rate	3.0%	3.0%
Discount rate	2.7%	2.6%

### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to 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	22.5 years	24.7 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.3 years	26.7 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 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	234
0.5% p.a. increase in the Salary Increase Rate	2%	43
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 2018 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:-

Richard Warden FFA

26 April 2018

For and on behalf of Hymans Robertson LLP

### Note 29: Current assets

31 March 2017		31 March 2018
£m		£m
	Debtors:	
1.3	Contributions due: Employees	1.1
3.2	Contributions due: Employers	7.0
2.7	Invoiced debtors	1.7
0.6	Sundry debtors	0.3
0.9	Cash balances	2.3
<b>8.7</b>	<b>Total</b>	<b>12.6</b>

### Note 30: Current liabilities

31 March 2017		31 March 2018
£m		£m
	Liabilities:	
0.9	Owed to administering authority	15.1
2.0	Sundry Creditors	1.8
0.8	Benefits Payable	0.8
<b>3.7</b>	<b>Total</b>	<b>17.6</b>

### Note 31: Additional Voluntary Contributions

31 March 2017		31 March 2018
£m		£m
2.7	Standard Life	2.5
0.3	Equitable Life	0.2
<b>3.0</b>	<b>Total</b>	<b>2.9</b>



AVC contributions of £0.3 m were paid directly to Standard Life and £2000 was paid directly to Equitable Life during the year (2016/17: £0.3m to Standard Life and £3000 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 £835,715 (2016/17: £766,000) 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 £35.9m in 2017/18 (2016/17: £37.1 m).

### **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 and the concentration of expertise, improved ability to manage down investment costs, and the benefits of investing on a larger scale. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool are expected to occur in 2018/19. All 12 partners own an equal 1/12th share of the company.

### **Governance**

There are two member of the pension fund investment sub-committee who is 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. These employees and their financial

relationship with the fund (expressed as cash-equivalent transfer values, as an appropriate approximation for an IAS19 exercise) are set out below.

	2017/18	2016/17
	£	£
Head of Finance	749,900	705,730
Strategic Finance Manager	384,576	354,720
Pensions Manager	0	0
Treasury and Pension Fund Manager	187,205	173,926
Principal Accountant	43,346	42,342

### **Note 33: Accounting standards issued but not yet adopted**

The following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments introduces new classifications for financial assets, and requires a different model to be applied for estimating and disclosing impairment allowances in relation to financial assets. The fund does not expect there to be any impact in the measurement of our financial assets neither anticipate any adjustments for impairments.
- IFRS 15 Revenue from Contracts establishes principles for the recognition of revenue and cashflows arising from a contract with a customer. The Fund does not have any revenue streams within the scope of the new standard.

## 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 exists 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**

An accounting standard which requires organisation's to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

## 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

### **Statement of Investment Principles (SIP)**

Trustees of pension funds are required under the Pensions Act 1995 to prepare and keep up to date this written statement of how their scheme's assets are invested. Essentially, it provides evidence that the trustees have thought through the suitability of their scheme's investment policy and how that policy is implemented.

### **Stocklending**

The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

## T

### **Transaction costs**

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