Warwickshire Pension Fund

Statement of Accounts

2016/17

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

- Phone: 01926 582035
- E-mail: chrisnorton@warwickshire.gov.uk

You can also leave your comments on our website at www.warwickshire.gov.uk

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Contents

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARWICKSHIRE COUNTY COUNCIL

We have audited the pension fund financial statements of Warwickshire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Warwickshire Pension Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities for the statement of accounts, the Head of Finance is responsible for the preparation of the Authority's 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts 2016/17to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities;and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters
In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements is prepared is consistent with the audited pension fund financial statements.

Grant Patterson

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

ColmorePlaza
20 ColmoreCircus
Birmingham
B4 6AT

25 September 2017

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
- Taken steps to prevent and detect fraud, including preparing an audit risk management strategy.

John Betts
Head of Finance **Date: 21 September 2017**

I confirm that the accounts were considered and approved at a meeting of the Council on 21 September 2017.

Councillor Clive Rickhards
Chair of the Council **Date: 21 September 2017**

Warwickshire Pension Fund Account

2015/2016			2016/2017
£ m		Notes	£ m
	Dealings with members, employers and others directly involved in the fund		
(68.9)	Contributions	7	(71.8)
(6.7)	Transfers in from other schemes	8	(7.4)
(75.6)			(79.2)
67.9	Benefits payable	9	72.2
5.3	Payments to and on account of leavers	10	5.1
73.2			77.3
(2.4)	**Net (additions)/withdrawals from dealing with members**		**(1.9)**
8.2	Management expenses	11	9.1
5.8	**Net (additions)/withdrawals inc fund management expenses**		**7.2**
	Returns on investments		
(22.1)	Investment income	13	(26.8)
0.9	Taxes on income		0.1
(167.0)	Profit and losses on disposal of investments	23	(34.2)
155.4	Changes in the market value of investments	23	(265.0)
(32.8)	Net return on investments		**(325.9)**
(27.0)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(318.7)**
(1,638.1)	**Opening net assets of the scheme**		**(1,665.1)**
(1,665.1)	**Closing net assets of the scheme**		**(1,983.8)**

Net Assets Statement

2015/2016			2016/2017
£ m		Notes	£ m
1,645.2	Investment assets	15/16/17	1,948.0
13.5	Cash deposits	15/16/17	30.8
1,658.7	Total net investments		1,978.8
10.0	Current assets	29	8.7
-3.6	Current liabilities	30	-3.7
1,665.1	**Net assets of the fund available to fund benefits at the period end**		**1,983.8**

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2017

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 2016/17 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 2009 (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 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 160 employer organisations within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	160	160
Number of employees in scheme		
County Council	9,023	9,106
Other employers	7,479	7,619
Total	**16,502**	**16,725**
Number of pensioners		
County Council	6,747	6,195
Other employers	5,143	4,707
Total	**11,890**	**10,902**
Deferred pensioners		
County Council	10,106	10,441
Other employers	6,278	6,570
Total	**16,384**	**17,011**
Total	**44,776**	**44,638**

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 2017. 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
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 1/49th. 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 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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 as at 31 March 2017 was £84.9m (31 March 2016: £68.3m). This includes investments in infrastructure.

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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £288m - a 0. 5% increase in assumed earnings inflation would increase the value of liabilities by approximately £63m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
Private equity	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements (including infrastructure) are £84.9m. 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 hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m.
Hedge fund of funds	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund of funds value in the financial statements is £84.3m. 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 hedge fund of funds valuation is based. This equates to a tolerance of +/- £1.7m.

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.

Note 7: Contributions receivable

By category

2015/2016		2016/2017
£ m		**£ m**
16.4	Employees' contributions	16.6
	Employer's contributions:	
42.0	Normal contributions	43.8
10.5	Deficit Recovery contributions	11.4
52.5	**Total employer's contributions**	**55.2**
68.9		**71.8**

By authority

2015/2016		2016/2017
£ m		**£ m**
34.0	Administering authority	37.1
30.8	Scheduled bodies	33.4
4.0	Admitted bodies	1.2
0.1	Bodies no longer contributing	0.1
68.9		**71.8**

Note 8: Transfers in from other pension funds

2015/2016		2016/2017
£ m		**£ m**
0.7	Group transfers	0.7
6.0	Individual transfers	6.7
6.7		**7.4**

Note 9: Benefits payable

By category

2015/2016		2016/2017
£ m		**£ m**
55.5	Pensions	57.1
10.6	Commutation and lump sum retirement benefits	13.7
1.8	Lump sum death benefits	1.4
67.9		**72.2**

By authority

2015/2016		2016/2017
£ m		**£ m**
37.7	Administering authority	40.1
26.5	Scheduled bodies	28.1
2.9	Admitted bodies	3.2
0.8	Bodies no longer contributing	0.8
67.9		**72.2**

Note 10: Payments to and on account of leavers

2015/2016		2016/2017
£ m		**£ m**
0.1	Refunds	0.3
1.0	Group transfers	0.0
4.2	Individual transfers	4.8
5.3		**5.1**

Note 11: Management expenses

2015/2016 (Restated)		2016/2017
£ m		**£ m**
1.2	Administration costs	1.4
6.7	Investment management expenses	7.4
0.3	Oversight and governance costs	0.3
8.2		**9.1**

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

2015/2016		2016/2017
£'000		**£'000**
6,028.3	Management fees	6,600.9
196.3	Performance related fees	310.2
92.0	Custody fees	90.8
345.4	Transaction costs	397.7
6,661.9		**7,399.6**

Note 13: Investment income

2015/2016 (Restated)		2016/2017
£ 000		**£ 000**
26.6	Index linked bonds	0.0
14,770.0	Equity dividends	16,642.7
7,224.7	Managed funds:	9,418.5
3,234.8	Property	3,726.63
175.8	Infrastructure	1,205.88
881.1	Hedge Funds	903.66
2,374.0	Alternative	2,790.62
559.1	Private Equity	791.67
54.9	Interest on cash deposits	720.7
23.0	Stock lending	47.0
22,099.2		**26,828.9**

The value of the restatement is £26,600 and has been included to assist clarity and adherence to the Code.

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2016/17 was £24,000. The fee for 2015/16, including fee variation, was £25,000.

Note 15: Investments

2015/2016		2016/2017
£ m		£ m
	Investment Assets	
84.3	Index linked bonds	0.0
544.8	Equities	683.0
1,013.2	Managed funds:	1,307.2
48.2	Private Equity	66.2
186.3	Pooled Property	192.5
679.8	Pooled Investments, Unit Trusts & Other Managed Funds	945.6
19.9	Infrastructure	18.7
79.0	Hedge Funds	84.3
13.5	Cash deposits	30.8
15.5	Investment current assets	2.6
1,671.3	**Total Investment Assets**	**2,023.6**
	Investment Liabilities	
(12.6)	Investment current liabilities	(44.8)
	Total Investment Liabilities	
1,658.7	**Net Investment Assets**	**1,978.8**

The investment current liability is due to cash in transit between two of the fund's investment managers which took place over the year end date. This transaction was part of a re-balancing exercise to maintain target asset allocation.

Note 16: Reconciliation of movements in investments

	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**
Investment Assets					
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
Other Investment Balances					
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
Net Investment Assets	**1,658.7**	**299.8**	**-358.1**	**378.5**	**1,978.8**

	Market value 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Increase in debtors or (creditors)	Market value 31 March 2016
	£ m	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Investment Assets						
Index linked bonds	7.7	114.2	(40.4)	2.8	0.0	84.3
Equities	530.5	84.8	(69.5)	(1.1)	0.0	544.8
Managed funds:	1,066.7	494.8	(557.9)	9.6	0.0	1, 013.2
Private Equity	31.1	14.8	(6.2)	8.5	0.0	48.2
Pooled Property	165.0	11.7	(7.7)	17.4	0.0	186.3
Pooled Investments, Unit Trusts & Other Managed Funds	790.9	447.5	(542.9)	(15.8)	0.0	679.8
Infrastructure	0.0	20.8	(1.1)	0.3	0.0	19.9
Hedge Funds	79.7	0.0	0.0	(0.8)	0.0	79.0
Other Investment Balances						
Cash deposits	24.1	77.8	(86.5)	0.1	(2.0)	13.5
Net investment current assets	2.3	0.3	(1.7)	0.0	2.0	2.9
Net Investment Assets	**1,631.3**	**771.8**	**(756.0)**	**21.2**	**0.0**	**1,658.7**

Note 17: Analysis of investments

31 March 2016		31 March 2017
£ m		**£ m**
	Index linked bonds	
84.3	UK	0.0
0.0	Overseas	0.0
84.3		**0.0**
	Equities	
261.0	UK (Quoted)	309.7
283.8	Overseas (Quoted)	373.3
544.8		**683.0**
	Managed funds	
883.9	UK:	1,146.5
184.8	Pooled Property	191.4
679.8	Pooled Investments, Unit Trusts & Other Managed Funds	945.6
19.3	Infrastructure	9.6
129.3	Overseas:	160.7
79.0	Hedge Funds	84.3
48.2	Private Equity	66.2
1.5	Pooled Property	1.1
0.7	Infrastructure	9.1
1,013.2		**1,307.2**
	Cash deposits	
10.2	UK Sterling	25.6
3.3	Foreign currency	5.2
13.5		**30.8**
2.9	**Net investment current assets**	**(42.2)**
1,658.7	**Net Investment Assets**	**1,978.8**

Note 18: Investments analysed by fund manager

Market value 31 March 2016			Market value 31 March 2017	
£ m	%		£ m	%
264.6	16.0%	Columbia Threadneedle Investments (UK Equities)	306.8	15.5%
294.9	17.8%	MFS Investment Management (Global Equities)	388.1	19.6%
404.5	24.4%	Legal and General Investment Management (Index Tracker - Global Equities)	496.4	25.1%
283.2	17.1%	Legal and General Investment Management (Index Tracker - Fixed Income)	325.9	16.5%
100.1	6.0%	Columbia Threadneedle Investments (Property)	104.3	5.3%
88.1	5.3%	Schroder Investment Management (Property)	90.6	4.6%
79.0	4.8%	Blackstone Group International (Hedge Funds)	84.3	4.3%
48.3	2.9%	HarbourVest (Private Equity)	66.2	3.3%
74.0	4.5%	JP Morgan (Strategic Bond)	75.9	3.8%
19.3	1.2%	Standard Life Capital (Infrastructure)	9.6	0.5%
0.7	0.0%	Partners Group (Infrastructure)	9.1	0.5%
2.0	0.1%	BNY Mellon (Global Custodian)	21.6	1.1%
1,658.7	**100.0%**		**1,978.8**	**100.0%**

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

Security	Market value 31 March 2017	% of total fund as at 31 March 2017
	£ 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%

Security	Market value 31 March 2016	% of total fund as at 31 March 2016
	£ m	
L&G Grade Corporate Bond All Stocks Index	171.2	10.3%
L&G UK Equity Index	132.4	8.0%
Columbia ThreadneedleTPN Property A	100.1	6.0%
L&G Europe (Exc UK) Equity Index Fund	100.1	6.0%
L&G All Stocks Index Linked Gilts	84.3	5.1%

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 £18.2m (31 March 2016: £13.1m). 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 £19.3m (31 March 2016: £13.9m). 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 2016				31 March 2017
£ m	£ m	£ m		£ m	£ m	£ m
			Investment Assets			
84.3			Index linked bonds	0.0		
544.8			Equities	683.0		
1,013.2			Managed funds:	1,307.2		
48.2			Private Equity	66.2		
186.3			Pooled Property	192.5		
679.8			Pooled Investments, Unit Trusts & Other Managed Funds	945.6		
19.9			Infrastructure	18.7		
79.0			Hedge Funds	84.3		
	13.5		Cash deposits		30.8	
	15.5		Investment current assets		2.6	
	9.0		Debtors		7.9	
	1.0		Cash balances		0.9	
1,642.3	**39.0**	**0.0**		**1,990.2**	**42.1**	**0.0**
			Liabilities			
		(12.6)	Investment current liabilities			(44.8)
		(3.6)	Creditors			(3.7)
0.0	**0.0**	**(16.2)**		**0.0**	**0.0**	**(48.5)**
1,642.3	**39.0**	**(16.2)**		**1,990.2**	**42.1**	**(48.5)**

Note 23: Net gains and losses on financial instruments

31 March 2016		31 March 2017
£ m		**£ m**
	Financial Assets	
167.0	Fair value through profit and loss	299.2
0.0	Loans and receivables	0.0
	Financial liabilities	
(155.4)	Fair value through profit and loss	0.0
0.0	Loans and receivables	0.0
11.6	**Total**	**299.2**

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
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments – overseas unit trusts & property funds Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Hedge funds Level 3	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	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 audtied and unaudited accounts.

Private equity Level 3	Private equity 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 fund's own reporting date, by changes to expected cashflows, and by any differences between audtied and unaudited accounts.
Infrastructure Level 3	Private equity 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 fund's own reporting date, by changes to expected cashflows, and by any differences between audtied and unaudited accounts.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Financial assets Financial assets at fair value through profit and loss	620.4	874.7	147.2	1,642.3
Financial liabilities Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	620.4	874.7	147.2	1,642.3

Note 25 Reconciliation of fair value measurements within Level 3

	Market value 1 April 2016	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 2017
	£ m	**£ m**	**£ m**	**£ m**	**£ m**	**£ m**
Fund of Hedge Funds	78.9	0.0	0.0	5.4	0.0	84.3
Private Equity	48.3	12.9	-7.2	9.3	2.9	66.2
Infrastructure	20.0	15.2	-18.5	1.3	0.7	18.7
	147.2	**28.1**	**-25.7**	**16.0**	**3.6**	**169.2**

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

Risk and risk management

The fund's primary long-term risk in 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 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 2016/17 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	**2016/17 Potential market movement**
	%
UK Equities	13%
Overseas Equities	12%
Total Bonds, Index Linked & Pooled Managed Funds	8%
Cash	0%
Alternatives	10%
Property	5%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	**Value as at 31 March 2017**	**Potential market movement**	**Value on increase**	**Value on decrease**
	£ m	**£ m**	**£ m**	**£ m**
UK Equities	881.9	114.6	996.5	767.2
Overseas Equities	347.8	41.7	389.5	306.1
Total Bonds, Index Linked & Pooled Managed Funds	325.5	26.0	351.6	299.5
Cash	-14.0	0.0	-14.0	-14.0
Alternatives	245.1	24.5	269.6	220.6
Property	192.5	9.6	202.1	182.8
Total	**1,978.8**	**216.6**	**2,195.4**	**1,762.3**

Asset Type	Value as at 31 March 2016	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	679.1	124.9	804.0	554.1
Overseas Equities	262.6	38.3	300.9	224.2
Total Bonds, Index Linked & Pooled Managed Funds	295.2	23.6	318.8	271.5
Cash	14.3	0.0	14.3	14.3
Alternatives	221.2	22.1	243.3	199.1
Property	186.3	10.8	197.2	175.5
Total	**1,658.7**	**219.8**	**1,878.5**	**1,438.8**

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	2016/17 Potential market movement
	%
Czech Republic Koruna	11%
Danish Krone	11%
Euro	11%
Japanese Yen	18%
Mexican Peso	18%
Swedish Krona	11%
Swiss Franc	12%
Thai Baht	13%
US Dollar	13%
Hong Kong Dollar	13%

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 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
Total	**429.4**	**53.4**	**482.8**	**375.9**

Currency	Value as at 31 March 2016	Potential market movement	Value on increase	Value on decrease
	£ m	**£ m**	**£ m**	**£ m**
Czech Republic Koruna	0.6	0.1	0.7	0.6
Danish Krone	2.7	0.2	2.9	2.5
Euro	73.7	5.7	79.4	68.0
Japanese Yen	2.4	0.2	2.6	2.1
Mexican Peso	1.1	0.1	1.2	1.0
Swedish Krona	5.0	0.5	5.5	4.5
Swiss Franc	24.5	2.9	27.5	21.6
Thai Baht	0.7	0.1	0.7	0.6
US Dollar	205.0	15.3	220.3	189.7
Hong Kong Dollar	0.6	0.0	0.7	0.6
Total	**316.4**	**25.1**	**341.5**	**291.3**

Credit risk

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

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

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

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and currently enjoys 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 2017 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 valuation that set contribution rates for the 2016/17 financial year took place as at 31 March 2013.

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 2013 actuarial valuation, the fund was assessed as 77% funded (82% at the March 2016 valuation). This corresponded to a deficit of £419m (2016 valuation: £358m).

Contribution increases were phased in over the three year period ending 31 March 2017. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

Valuation Date	31 March 2013
Total contribution rate	**% of Pay**
Future service rate (inc expenses)	19.5%
Past service adjustment (19 year spread)	9.6%
Total employer contribution rate	**29.2%**

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 2013 actuarial valuation report and the funding strategy statement on the fund's website.

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

Financial assumptions

Financial assumptions	Nominal	Real
	%	**%**
Post Retirement Discount Rate	4.6%	2.1%
Pre Retirement Discount Rate	4.6%	2.1%
Salary Increases	4.3%	1.8%
Price Inflation/Pension Increases	2.5%	-

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

Demographic assumptions	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2013 Valuation – baseline	20.0	22.6	20.1	22.3
2013 Valuation - improvements	24.3	26.6	22.4	24.4

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

It is assumed that 10% of active members (uniformly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

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 2016/17 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

31 March 2016		31 March 2017
£m		**£m**
1,236	Active members	1,205
384	Deferred pensioners	602
762	Pensioners	984
2,382	**Present value of promised retirement benefits**	**2,791**

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). 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 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £393m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £33m.

Financial assumptions

Year ended (% p.a.)	31 March 17	31 March 16
	%	%
Pensions Increase rate	2.4%	2.2%
Salary Increase Rate	3.0%	4.2%
Discount Rate	2.6%	3.5%

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 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 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	220
0.5% p.a. increase in the Salary Increase Rate	2%	63
0.5% p.a. decrease in the Real Discount Rate	10%	288

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 2017 for accounting purposes’. The covering report 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:-

Richard Warden FFA
4 May 2017
For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2016		31 March 2017
£m		**£m**
	Debtors:	
1.2	Contributions due: Employees	1.3
3.1	Contributions due: Employers	3.2
4.0	Invoiced debtors	2.7
0.7	Sundry debtors	0.6
1.0	Cash balances	0.9
10.0	**Total**	**8.7**

Note 30: Current liabilities

31 March 2016		31 March 2017
£m		**£m**
	Liabilities:	
1.3	Owed to administering authority	0.9
1.6	Sundry Creditors	2.0
0.7	Benefits Payable	0.8
3.6	**Total**	**3.7**

Note 31: Additional Voluntary Contributions

31 March 2016		31 March 2017
£m		**£m**
2.7	Standard Life	2.6
0.3	Equitable Life	0.3
3.0	**Total**	**2.9**

AVC contributions of £0.3m were paid directly to Standard Life and £3000 was paid directly to Equitable Life during the year (2015/16: £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 £766,000 (2015/16: £777,000) 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 £37.1m in 2016/17 (2015/16: £34.0 m).

Governance

There is one 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 four members of the local pension board who are active members of the Warwickshire Pension Fund and one member who is eligible for a refund.

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.

	2016/17	2015/16
	£	£
Head of Finance	705,730	645,558
Strategic Finance Manager	354,720	316,240
Pensions Manager	0	422,402
Treasury and Pension Fund Manager	173,926	153,395
Principal Accountant	42,342	34,261

Note 33: Authorisation for issue

These accounts have taken into account all known events up to 21 September 2017. On that date the accounts were authorised for issue by the Head of Finance.

John Betts

Head of Finance

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

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*.