

Pensions Committee

21 June 2017

Report title	Annual Report and Accounts 2016/17	
Originating service	Pension Services	
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Recommendation for action or decision:

The Committee is recommended to approve:

1. The draft annual report and accounts for the year ending 31 March 2017.

Recommendations for noting:

The Committee is recommended to note:

1. The outturn against operating budgets, which is an under spend of £10.4 million, and performance for the year against the Fund's key performance indicators.
2. The draft accounts have been certified by the Section 151 Officers as required by regulations.
3. The draft annual report and accounts for West Midlands Pension Fund will now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion, to be reported to the Committee in September.
4. The audit of the accounts for the West Midlands ITA Pension Fund is nearing completion, and the auditors anticipate issuing an unqualified opinion.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the draft annual report for the year ending 31 March 2017, and to inform Committee of the outturn against operating budgets and performance against key performance indicators (KPIs) for the year.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual report and statement of accounts. These must be subject to external audit, and published no later than 30 September (accounts) and 1 December (annual report).
- 2.2 In preparing their annual report and accounts, funds must have regard to proper practice, and to any guidance which has the effective standing of 'statutory guidance'. These are:
- for the statement of accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' (CIPFA) ('the Code');
 - for the annual report, 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds' (CIPFA).
- 2.3 As well as being published in the Fund's own annual report, its accounts must be included in the statement of accounts of the Administering Authority (in this case, the City of Wolverhampton Council or West Midlands Combined Authority). It is important to note that the transactions and balances of the funds are completely separate and not combined with those of the Administering Authority.
- 2.4 The draft accounts are required to be certified by the Section 151 Officer on or before 30 June following the year-end. This certification was given by the City of Wolverhampton Council's Chief Accountant on 26 May 2017, and by the Combined Authority's Interim Finance Director on 26 May 2017.
- 2.5 The Committee will receive a further report in September, which will present the final version of the annual report and accounts for publication, and the findings of the external auditor's work, including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited statement of accounts rests with its Audit Committee; this does not apply to the other parts of the annual report, which will be presented to Pensions Committee for approval.
- 2.6 The KPIs and operating budgets for the year to 31 March 2017 were approved by the Committee on 16th March 2016 as part of the Service Plan 2016-2021, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite challenging deadlines and a number of conflicting pressures, the Fund has succeeded in preparing its draft annual report and accounts well ahead of the statutory deadline. This is due to careful planning, resource management and close monitoring.

- 3.2 A combined annual report has been prepared which contains the reports and accounts for both West Midlands Pension Fund and the ITA Pension Fund in the same document.
- 3.3 With effect from 2017/18, the accounts closure timetable will be brought forward significantly, with certification of draft accounts required by the end of May, and the audited accounts to be published by the end of July. The Fund is well-positioned to make the transition to these timescales, having achieved the end of May deadline for the last three years.

4.0 Draft Annual Report 2016/17

- 4.1 The draft Annual Report can be found on the Fund's website, www.wmpfonline.com, and a copy will be made available at the Committee meeting. The Fund has prepared a single Annual Report that includes both the main Fund and the ITA fund. The contents of the annual report are as follows:

- Introduction
- Management and Financial Performance
- Investment Policy and Performance
- Scheme Administration Report
- Actuarial Report
- Governance Arrangements
- Statement of Accounts
- Pensions Administration Strategy
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Further Information

- 4.2 The annual report provides a thorough review of the Fund's activities during the year, and notes some particular successes, including:
- Reducing the cost of administration, oversight and governance per member from £17.72 to £17.64;
 - Achieving a return on investments (main fund) of 22.6%, compared to a benchmark of 21.8%;
 - Streamlining portfolio management arrangements, resulting in savings on investment management fees;
 - Working with the Fund's investment pooling partners to develop LGPS Central;
 - Playing a key role, both through the Local Authority Pension Fund Forum (LAPFF), and the United Nations Principles for Responsible Investment (PRI), in advancing the responsible investment agenda;
 - Achieving awards for our work in investments and governance.
 - Continuing to develop the Fund's electronic business model, including a rise in the number of members registered with the web portal to over 46,000.

5.0 Draft Statement of Accounts 2016/17

5.1 The purpose of the statement of accounts is to report the Fund's financial performance for the year, and its balances and reserves at the year-end. There are two primary statements: the Fund Account, which is concerned with transactions during the year, and the Net Assets Statement, which reports balances at the year-end. These are supplemented by a series of notes to the accounts, which expand on items in the primary statements, or provide further information about the Fund.

5.2 During 2016/17, the main Fund grew in value by £2.6 billion. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net contributions receivable/pensions payable	13.2
Investment income receivable	205.8
Net gains in the value of investment assets	2,496.8
Sub Total Net Increases	2,715.8
Net transfer of members out of the Fund	(11.1)
Management expenses charged to the Fund	(71.0)
Sub Total Net Decreases	(82.1)
Total Increase in the Fund	2,633.7

5.3 It is worth noting that the balance of contributions and benefits continued to be positive in 2016/17 – the £13.2 million shown in the table above – although this margin equates to only 2.5% of total benefits. The figure for contributions receivable also includes £31.9 million of early retirement contributions from employers, reflecting the additional contributions received as a result of employer staffing decisions during the year. It is likely that this margin will decrease and reverse in future years as the number of pensioners continues to rise more quickly than the number of active members.

5.4 Net assets of the main Fund at 31st March 2017 stood at £14.3 billion, up from £11.7 billion at 31st March 2016. This comprised investment assets of £14.3 billion, and working balances of £41.7 million.

5.5 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £22.2 billion at 31st March 2017. This is an increase on the 31st March 2016 figure of £16.8 billion, primarily due to a decrease in the discount rate used in calculating the liabilities (driven by falling corporate bond yields during the year), along with other changes in actuarial assumptions.

5.6 The ITA Fund increased in value by £42.0 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Investment Income	18.3
Net gains in the value of investment assets	41.3
Sub Total Net Increases	59.6
Net transfer of members out of the Fund	(0.1)
Net contributions receivable/pensions payable	(16.6)
Management expenses charged to the Fund	(0.9)
Sub Total Net Decreases	(17.6)
Total Increase in the Fund	42.0

5.7 Benefits payable exceeded contributions receivable by a significant margin, reflecting the greater maturity of the ITA Fund, and the fact that it is a closed fund.

5.8 Net assets of the ITA Fund at 31st March 2017 stood at £502.8 million, up from £460.9 million at 31st March 2016. This comprised investment assets of £502.2 million, and working balances of £0.6 million.

6.0 Outturn against Operating Budget 2016/17

6.1 The following table sets out the outturn for the year, compared with the Fund's operating budget. The overall position was a saving of £10.4 million against budget.

	2016/17 Budget £000	2016/17 Actual £000	2016/17 Variance £000
Employees	5,405	4,759	(646)
Premises	294	283	(11)
Transport	48	45	(3)
Communications and Computing	610	478	(132)
Professional Fees	1,823	1,437	(386)
Other Supplies and Services	591	447	(144)
Support Services	515	523	8
Miscellaneous Income	(5)	(426)	(421)
Sub Total	9,281	7,546	(1,735)
External Investment Management Fees	72,800	64,146	(8,654)
Total	82,081	71,692	(10,389)
Funded by:			
West Midlands Pension Fund	81,331	70,896	(10,435)
West Midlands ITA Pension Fund	750	796	46
Net Budget	82,081	71,692	(10,389)

- 6.2 The main reason for the variance is a saving of £8.7 million on external investment management fees, reflecting some of the portfolio restructuring that has taken place during the year. In addition, there were savings of £1.7 million across other operating budgets, of which £512,000 arose on staffing budgets due to vacancies during the year. The following table sets out in full the reasons for the variance from budget.

Reason for Variance	2016/17 Variance £000
Staffing Vacancies	(512)
Income from Fees and Charges	(266)
Professional Fees	(542)
Training Budget	(134)
Expenditure on Computer Equipment and Licences	(144)
Other Net Variances Across Premises, Travel and Supplies and Services Budgets	(137)
Sub Total Before Investment Management Fees	(1,735)
Investment Management Fees	(8,654)
Total	(10,389)

- 6.3 Cost-per-member is a critical measure for the Fund of its cost-effectiveness, particularly for benchmarking with other funds. The table below sets out the implications of the above for cost-per-member figures, in the new three-category format required by CIPFA guidance (these are stated as for West Midlands Pension Fund, after taking account of the £150,000 recharge and external manager fees of £646,000 for the ITA Fund).

	2015/16 Actual	2016/17 Budget	2016/17 Outturn
Total Administration Costs (£000)	3,310	4,186	3,303
Administration Cost per Member (£)	11.50	14.58	10.93
Total Oversight and Governance Costs (£000)	1,792	2,580	2,027
Oversight and Governance Cost per Member (£)	6.22	8.98	6.71
Total Administration, Oversight and Governance Cost per Member (£)	17.72	23.56	17.64
Total Investment Management Costs (£000)	69,814	74,566	65,717
Investment Management Cost as Percentage of Investment Assets	0.60%	0.53%	0.46%

- 6.4 CIPFA guidance, introduced in 2014 and updated in 2016, requires the disclosure of all investment management costs, including fees which are deducted at source by external investment managers. The following table analyses the total investment management costs reported above:

	Budget 2016/17 £000	Outturn 2016/17 £000
External Investment Management Costs – Invoiced	7,500	6,142
External Investment Management Costs – Deducted at Source	64,700	57,358
Total External Investment Management Costs	72,200	63,500
Internal Investment Management Costs	2,366	2,217
Total Investment Management Costs	74,566	65,717

7.0 The Fund's Performance Against Key Performance Indicators 2016/17

- 7.1 Appendix 1 sets out the Fund's performance against its KPIs for 2016/17. Performance against targets for issuing retirement quotations to members was impacted in the first few months of the year by late notification of statutory increase factors and the guidance from DCLG on the implementation of these. This affected the calculation of benefits for members retiring having left service in the year to 31 March 2016.
- 7.2 In later months, performance against this measure improved significantly (80.8% for the period October to March), and this is expected to continue into 2017/18. Changes to other calculation factors and methodology did also, however, impact other areas (mainly transfer quotations). The pension administration system has been updated and work was undertaken to address outstanding cases. The impact on performance will continue to be monitored closely.
- 7.3 Transfer out quotations and notification of benefits payments on death were also impacted by the above issues during part of the year, but improvements in those were seen during the latter part of the year.

8.0 LGPS Central Set-Up Costs

- 8.1 During the year, the Fund incurred costs on the set-up of LGPS Central Limited. These costs are being shared, on an equal-eighths basis, with the other seven partner funds. The total implementation budget (to April 2018) is approximately £4 million, of which £757,000 has been incurred in the year ending 31st March 2017.
- 8.2 West Midlands' share of this spend to 31st March 2017 is £95,000, and its share of the total budget is £500,000. This expenditure has been capitalised as investment in the company, and therefore has not impacted on the operating budget. No costs are chargeable to the ITA Fund, as it will not be a share-holder. The following table shows total spend to date, and forecast to 31st March 2018.

- 8.3 Strong budget management arrangements are in place, including three-weekly reporting to the LGPS Central Programme Board. The forecast budget requirement is kept under continuous review, with any changes requiring the approval of the Board.

9.0 Financial implications

- 9.1 The financial implications are discussed in the body of the report.

10.0 Legal implications

- 10.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.

11.0 Equalities implications

- 11.1 This report has no equalities implications.

12.0 Environmental implications

- 12.1 This report has no environmental implications.

13.0 Human resources implications

- 13.1 The report has no human resources implications.

14.0 Corporate landlord implications

- 14.1 This report has no corporate landlord implications.

15.0 Schedule of background papers

- Service Plan 2016-21, Report to Pensions Committee, 16th March 2016

16.0 Schedule of Appendices

- 16.2 Appendix 1 – KPI Monitoring