Appendix B

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

Financial Report

For the year ended 31 March 2019

Pension Scheme Registry (Pensions Regulator) 10175688

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The following statements comprise the Financial Report for the West Midlands Integrated Transport Authority ('ITA') Pension Fund ('the Fund'). The accounts cover the financial year from 1 April 2018 to 31 March 2019.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 published by the Chartered Institute of Public Finance and Accountancy.

The report is set out in the following order:

- **Introduction** which provides general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.
- **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between contributions and benefits, and returns on investments.
- **Net Assets Statement** which discloses the size and disposition of the net assets of the scheme at the end of the year.
- **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the financial statements.

Introduction

1. History of the Fund

The West Midlands Passenger Transport Authority Pension Fund was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English Passenger Transport Authorities to Integrated Transport Authorities. This was effective from the 9 February 2009 under Statutory Instrument 2009 No. 107 (C.08), and the West Midlands Passenger Transport Authority Pension Fund was changed to the West Midlands Integrated Transport Pension Fund ('the Fund').

The West Midlands Integrated Transport Authority (ITA) was responsible for the administration of the Fund until 16 June 2016 when the responsibility passed to the West Midlands Combined Authority (WMCA) when it was established on 17 June 2016 under Statutory Instrument 2016 No 653 in exercise of the Local Democracy, Economic Development and Construction Act 2009. The effect of the order was that the WMCA was substituted for the ITA as the administering authority of the Fund. The City of Wolverhampton Council was appointed by the then ITA as agent to administer the Fund on its behalf. The name of the Fund remains unchanged. The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request.

Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during 2005/2006 in return for a cash lump-sum payment. The 4 active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

2. Management of the Fund

The West Midlands Pension Fund (WMPF) Pensions Committee is responsible for the strategic management of the assets of the Fund. The role of the Committee is to:

- Discharge functions of the administering authority for the application of the Local Government Pension Scheme Regulations for the West Midlands ITA Pension Fund;
- Put in place and monitor administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits;
- Determine and review the provision of resources made available for discharge of the function of administrating authority.

3. Membership

Membership of the Fund at the year end was as follows:

31 March 2018 No		31 March 2019 No
352	Active members	313
3,923	Pensioner members	3,975
722	Deferred members	654
4,997	**Total members**	**4,942**

4. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019 depending on the level of pay.

In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The last such valuation was as 31 March 2016 which set contribution rates for the period 1 April 2017 to 31 March 2020. The next valuation will be at 31 March 2019, which will set contributions for the three years to 31 March 2023.

5. Benefits

With effect from 1 April 2008, new rules were introduced replacing the 1997 scheme. The principal changes were the replacement of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump-sum of three times this amount by one based on 1/60th of pensionable pay for each year of pensionable service with no automatic lump-sum. Part of the annual pension can be commutated for a one-off tax-free lump-sum at a rate of £12 cash for each £1 per annum of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer price index. Pension entitlements accrued prior to this date continue to be based on final salary.

6. Bulk annuity insurance arrangement

As an integral part of its risk management and reduction strategy the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18 April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for current pensioners whilst they or their dependants are entitled to a pension. The initial arrangements do not cover the Preston Bus Company liabilities or future West Midlands Travel Limited pension payments arising from new pensioners or inflation uplifts or pre-October 1986 service.

The financial effect of the buy-in is explained in note 14 to the accounts.

7. Annual Report

A separate annual report is produced for the Fund which provides more details about the Fund's management, financial and investment performance and also sets out the Fund's funding and investment strategy.

This report is included within the West Midlands Pension Fund annual report which is available on http://www.wmpfonline.com/annualreport.

On behalf of the Combined Authority Board

Linda Horne
Director of Finance (Interim)

Date: 20.5.2019

FUND ACCOUNT

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the fund		
(11,434)	Contributions	5	(11,135)
-	Transfers in from other pension funds	6	-
(2,756)	Other employer contributions	7	(2,831)
(14,190)			(13,966)
29,093	Benefits	8	30,079
882	Payments to and on account of leavers	9	-
3	Other payments	10	8
29,978			30,087
15,788	**Net withdrawals from dealing with members**		**16,121**
951	Management expenses	11	1,059
16,739	**Net withdrawals including fund management expenses**		**17,180**
	Returns on investments		
(17,843)	Investment income	12	(17,267)
(4,740)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	(13,372)
16,689	(Increase)/decrease in value of bulk annuity insurance buy-in	14	13,785
(5,894)	**Net return on investments**		**(16,854)**
10,845	**Net (increase)/decrease in the net assets available for benefits during the year**		**326**
502,884	Net assets of the fund brought forward		492,039
492,039	**Net assets of the fund carried forward**		**491,713**

NET ASSETS STATEMENT

2018 £'000		Notes	2019 £'000
250,593	Investment assets	13	263,529
238,333	Bulk annuity insurance buy-in	14	224,548
3,453	Current assets	15	4,441
(340)	Current liabilities	16	(805)
492,039	**Net assets of the fund available to fund benefits at the period end**		**491,713**

These financial statements replaced the unaudited financial statements certified by Linda Horne on 20 May 2019. They were approved for issue by the Audit, Risk & Assurance Committee on xx June 2019. Events after the Balance Sheet have been considered up to the date of approval.

N Hodgetts
20.5.2019.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed in note 22 of these accounts.

2. Summary of significant accounting policies

Fund account – revenue recognition

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 payroll period to which they relate.

Employers' augmentation contributions and pensions 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. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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. Individual transfers in/out are accounted for when received/paid.

c) Investment income

(i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective rate of the financial instrument as at the date of acquisition or origination.

(ii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

(iii) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(iv) Benefits underwritten
The annuity purchased (see note 14) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the Fund as investment income on an accruals basis.

(v) Dividend income
Dividend income is recognised on the date of the cancellation of units at the mid-price in the pooled UK investments held with investment fund managers.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

(i) Value Added Tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

(ii) Income Tax
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.

f) Administration expenses

All administration expenses are accounted for on an accruals basis.

The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment management expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The fund participates in LGPS Central Limited following the establishment of an investment pool company in conjunction with West Midlands Pension Fund and seven other Partner Funds. The company became operational on 1 April 2019, since which time all participating administering authorities in LGPS Central Limited became subject to a proportion of the costs on an assets under management basis for the investment company. These costs are included within external management fees.

The costs of the in-house fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and professional fees relating to the unitisation exercise.

Net assets statement

i) Financial assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable it is written off to the Fund Account in the period in which it is recognised.

Investment assets are recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 18). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

j) Financial liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Fund Account in the period in which it is recognised.

k) Foreign currency transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) 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 IAS 19 and relevant actuarial standards. As permitted under IAS 26, 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 22).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers 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 the 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 17).

3. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the future and other major sources of estimation and uncertainty

The financial statements contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement and the notes for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Bulk annuity insurance buy-in

The bulk annuity insurance buy-in is included in the Net Assets Statement as an asset and is valued by the Fund's actuaries. The assumptions used can be found in note 18.

Pension fund liability

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. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects on the net pension liability and funding level of changes in individual assumptions have been measured by the Fund's actuaries. The assumptions used are as follows:

31 March 2018	Assumptions used	31 March 2019
2.50%	Discount rate	2.35%
2.35%	Salary increases	2.45%
2.35%	Pensions increases	2.45%

31 March 2018	Life expectancy from age 65 (years)	31 March 2019
	Retiring today:	
21.9	Males	20.9
24.0	Females	22.8
	Retiring in 20 years:	
24.0	Males	22.6
26.3	Females	24.7

The effect on the pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2019	Increase/(decrease) in pension liability	
Adjustment to discount rate	+0.5%	-0.5%
Present value of total obligation	(£40.8m)	£44.0m
Adjustment to long term salary increase	+0.5%	-0.5%
Present value of total obligation	£2.5m	(£2.4m)
Adjustment to pension increases and deferred revaluation	+0.5%	-0.5%
Present value of total obligation	£41.3m	(£38.6m)
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Present value of total obligation	£25.2m	(£24.2m)

5. Contributions receivable

2017/18 £'000		2018/19 £'000
	Employers	
2,813	Normal contributions	2,598
7,625	Deficit funding	7,793
248	Early retirement costs	52
10,686		10,443
	Members	
748	Normal contributions	692
-	Additional contributions	-
748		692
11,434	**Total by category**	**11,135**
	Analysed by member body:	
11,434	Admitted bodies	11,135
11,434	**Total by authority**	**11,135**

Employers' contribution rates following the 31 March 2016 valuation for the period 1 April 2017 to 31 March 2020 are detailed in note 21.

6. Transfers in from other pension funds

There were no transfers in from other pension funds during the year (2018: none).

7. Other employer contributions

Pre-October 1986 pension increase liabilities are the responsibility of the West Midlands Combined Authority. The West Midlands Combined Authority makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.831m (2018: £2.756m) were made.

8. Benefits payable

2017/18 £'000		2018/19 £'000
	Pensions	
23,350	Retirement pensions	23,869
2,141	Widows' pensions	2,381
10	Children's pensions	17
17	Widowers' pensions	19
25,518		26,286
3,538	Commutation and lump-sum retirement benefits	3,415
37	Lump-sum death benefits	378
29,093	**Total by category**	**30,079**
	Analysed by member body:	
29,093	Admitted bodies	30,079
29,093	**Total by authority**	**30,079**

9. Payments to and on account of leavers

2017/18 £'000		2018/19 £'000
	Transfers out	
882	Individual transfers out to other schemes and personal pensions	-
882	**Total**	**-**

During the year, no members transferred their pensions into other schemes and personal pensions (2018: eight).

10. Other payments

2017/18 £'000		2018/19 £'000
3	Interest on late payments	8
3	**Total**	**8**

11. Management expenses

2017/18 £'000		2018/19 £'000
	Administration expenses	
120	Administration - City of Wolverhampton Council	120
120		120
	Investment management expenses	
668	Management fees - external	800
30	Management fees - internal	30
698		830
	Oversight and governance costs	
22	Administration and accountancy - WMCA	22
8	Subscriptions	9
31	Actuarial fees	19
21	Audit fees - external auditor	16
(5)	Audit fees - PSAA refund	-
22	Performance monitoring service	20
9	Legal fees	8
23	Professional advisors' fees	13
2	Bank charges and interest	2
133		109
951	**Total**	**1,059**

12. Investment income

2017/18 £'000		2018/19 £'000
6	Interest on cash deposits	29
16,337	Benefits underwritten	16,064
1,500	Dividend income	1,174
17,843	**Total**	**17,267**

Benefits underwritten relates to income received from the insurance contract with Prudential meeting the liabilities relating to West Midlands Travel Limited pensioners.

Dividend income relates to the notional dividend income payment (NDIP) which enables a policyholder to draw a regular income from the investment funds. The NDIP is based on the underlying yields from UK investments held by the relevant investment funds and is made available through cancellation of units of the investment funds at the mid-price.

13. Investment assets

Reconciliation of movements in investments:

Movements during 2018/19	Market value 1 April 2018 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2019 £'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	63,302	-	(15,118)	-	1,639	49,823
Overseas - unitised insurance policies	91,203	-	(32,382)	-	7,097	65,918
Unquoted:						
Diversified growth funds	96,088	-	(4,450)	(302)	3,874	95,210
Diversified multi-asset credit funds	-	51,950	-	(134)	762	52,578
Total investments	**250,593**	**51,950**	**(51,950)**	**(436)**	**13,372**	**263,529**

Following a review of investment strategy with advisers, the decision was made to reduce the level of risk in the portfolio, consequently part of the investments in Legal and General, Baillie Gifford and Newton were sold and the proceeds re-invested in CQS Credit Multi Asset Fund.

Prior year comparatives:

Movements during 2017/18	Market value 1 April 2017 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2018 £'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	65,028	-	(999)	-	(727)	63,302
Overseas - unitised insurance policies	87,586	-	(13)	-	3,630	91,203
Unquoted:						
Diversified growth funds	94,559	-	-	(308)	1,837	96,088
Total investments	**247,173**	**-**	**(1,012)**	**(308)**	**4,740**	**250,593**

Purchases include transfers in of investments, corporate actions, increases in cash deposits and increases in net settlements due. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits and reductions in net settlements due. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year.

Investments analysed by fund manager:

31 March 2018			31 March 2019	
Market value £'000	% of total fund		Market value £'000	% of total fund
154,505	62%	Legal & General Investment Management	115,741	44%
49,832	20%	Baillie Gifford	47,956	18%
46,256	18%	Newton	47,254	18%
-	-	CQS Investment Management	52,578	20%
250,593	100%		**263,529**	100%

Investments analysed by security:

31 March 2018			31 March 2019	
Market value £'000	% of total fund		Market value £'000	% of total fund
		UK equities		
9,488	4%	UK Equity Index	6,441	2%
9,488	4%		6,441	2%
		Overseas equities		
25,601	10%	Europe (ex UK) Equity Index	17,834	7%
29,381	12%	North America Equity Index	23,987	9%
10,035	4%	Japan Equity Index	6,645	2%
16,173	6%	World Emerging Markets Equity Index	10,617	4%
10,013	4%	Asia Pacific (ex Japan) Dev Equity Index	6,835	3%
91,203	36%		65,918	25%
		Gilts and bonds		
27,122	11%	All Stocks Index-Linked Gilts	28,461	11%
26,692	11%	Active Corporate Bond - All Stocks	14,921	6%
53,814	22%		43,382	17%
		Diversified growth funds*		
49,832	20%	Baillie Gifford	47,956	18%
46,256	18%	Newton	47,254	18%
96,088	38%		95,210	36%
		Diversified multi-asset credit funds*		
-	0%	CQS	52,578	20%
-	0%		52,578	20%
250,593	**100%**	**Total market value**	**263,529**	**100%**

*Diversified funds are multi-asset portfolios that are designed to provide equity type returns but with less volatility than an equity fund. All tactical asset allocation decisions are undertaken by the manager to suit the prevailing market conditions.

As part of its risk management arrangements, the Fund uses pooled investment vehicles and has no direct shareholding in companies.

14. Bulk annuity insurance buy-in

As an integral part of the Fund's risk management and reduction strategy, a bulk annuity insurance buy-in was put in place during 2012/13. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midland Travel Limited pensioners on the pension payroll at 11 August 2011 in return for the payment of a one-off premium.

Benefits recharged to Prudential during the year have been credited to the Fund account and the value of the buy-in recalculated at each year end by the consulting actuary (see note 18 for methodology) and recognised in the Net Assets Statement as follows:

31 March 2018 £'000		31 March 2019 £'000
255,022	Opening market value	238,333
	Movements in the year:	
3,572	Interest on buy-in	3,685
(16,337)	Level pensions paid	(16,080)
-	Change in demographic assumptions	(8,991)
(3,924)	Change in actuarial assumptions	7,601
(16,689)		(13,785)
238,333	**Closing market value**	**224,548**

The change in demographic assumptions is as a result of updating to the Continuous Mortality Investigation's model, CMI 2018 which was released in March 2019. The change in actuarial assumptions arises from the reduction in the discount rate from 1.6% at 31 March 2018 to 1.3% at 31 March 2019.

15. Current assets

31 March 2018 £'000		31 March 2019 £'000
	Debtors	
240	Contributions due - employers	145
57	Contributions due - members	9
138	Other debtors	14
435		168
3,018	Cash balances	4,273
3,453	**Total**	**4,441**
	Analysis of debtors:	
164	Other local authorities and pension funds	9
271	Other entities and individuals	159
435	**Total**	**168**

Included within cash balances is £3.893m (2018: £2.960m) placed in the West Midlands Pension Fund's STIC Global STG Portfolio.

16. Current liabilities

31 March 2018 £'000		31 March 2019 £'000
-	Benefits payable	462
340	Sundry creditors	343
340	**Total**	**805**
	Analysis of creditors:	
232	Central government bodies	241
-	Other local authorities and pension funds	7
108	Other entities and individuals	557
340	**Total**	**805**

17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions and the investments are not included within the Fund accounts, in line with regulation 4 (1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016. The table below shows the activity for each AVC provider in the year.

2017/18			2018/19	
Equitable Life £'000	Prudential £'000		Equitable Life £'000	Prudential £'000
172	719	**Opening value of the fund**	76	702
1	119	Income	-	112
(100)	(157)	Expenditure	(1)	(342)
3	21	Change in market value	3	141
76	**702**	**Closing value of the fund**	**78**	**613**

18. Fair value – basis of valuation

The basis of the valuation of each class of investment is set out below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset Type	Valuation level	Basis of valuation	Observable and Unobservable inputs	Key sensitivities
Pooled investment vehicles - quoted unitised insurance policies	1	Closing bid price if both bid and offer prices are published.	Not required	Not required
Pooled investment vehicles - diversified growth and diversified credit funds	2	Diversified growth funds and diversified credit funds invest in a variety of liquid assets. Values are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.	NAV based pricing set on a forward pricing basis.	Not required
Bulk annuity insurance buy-in	3	Provided by the Fund's actuary based on a roll-forward of the value placed on the buy-in as part of the 2016 triennial actuarial valuation, allowing for estimated level pensions paid and the change in the discount rate used to value the buy-in.	Key underlying inputs for the valuation are the discount rate and life expectancy. Discount rate has been set at 1.3% with reference to the 13-year point of the Bank of England nominal gilt yield curve, consistent with the 2016 valuation of the Fund.	Adjustments to discount rate and life expectancy

Sensitivity of assets valued at level 3

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes as calculated by the Fund's actuary is shown below:

Change in assumptions - year ended 31 March 2019	Increase/(decrease) in value of buy-in	
Adjustment to discount rate	+0.5%	-0.5%
Value of buy-in	(£11.4m)	£12.0m
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Value of buy-in	£10.3m	(£9.9m)

Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities 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.

Level 2
Assets and liabilities 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.

Level 3
Assets and liabilities 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.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There have been no transfers between levels during the year.

Values at 31 March 2019	**Quoted market price** Level 1 **£'000**	**Using observable inputs** Level 2 **£'000**	**With significant unobservable inputs** Level 3 **£'000**	**Total** **£'000**
Financial assets at fair value through profit and loss	115,741	147,788	224,548	488,077
Net investment assets	**115,741**	**147,788**	**224,548**	**488,077**

A reconciliation of fair value measurements within level 3 is shown in note 14.

Values at 31 March 2018	**Quoted market price** Level 1 **£'000**	**Using observable inputs** Level 2 **£'000**	**With significant unobservable inputs** Level 3 **£'000**	**Total** **£'000**
Financial assets at fair value through profit and loss	154,505	96,088	238,333	488,926
Net investment assets	**154,505**	**96,088**	**238,333**	**488,926**

19. Financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2018				31 March 2019		
Fair value through profit and loss £'000	Financial assets at amortised ables £'000	Financial liabilities at amortised cost £'000		Fair value through profit and loss £'000	Financial assets at amortised ables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
250,593	-	-	Investment assets	263,529	-	-
238,333	-	-	Bulk annuity insurance buy-in	224,548	-	-
-	3,018	-	Cash balances	-	4,273	-
-	435	-	Debtors	-	168	-
488,926	**3,453**	**-**		**488,077**	**4,441**	**-**
			Financial liabilities			
-	-	(108)	Creditors	-	-	(557)
488,926	**3,453**	**(108)**		**488,077**	**4,441**	**(557)**

Net (gains) and losses on financial instruments

31 March 2018 £'000		31 March 2019 £'000
	Financial assets	
	Designated at fair value through profit and loss:	
(4,740)	Investment assets	(13,372)
16,689	Bulk annuity insurance buy-in	13,785
11,949		413
(6)	Financial assets at amortised cost	(29)
11,943	**Total**	**384**

20. Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme which focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Responsibility for the Fund's risk management strategy rests with the West Midlands Pension Fund Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's activities. Policies are reviewed regularly to reflect changes in activity and in market conditions. Policies covering specific areas relating to the Fund are as follows:

Investment risk
In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation and an appropriate asset allocation.

During the year, excluding the bulk annuity buy-in, the Fund targeted a 60-70% exposure to equities as 'growth' assets and 30-40% to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years. Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are mitigated by diversification across asset classes, markets and sectors. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets may increase the costs of funding. 'Matching assets' backed by the UK Government are considered low risk, with corporate bonds carrying some additional issuer risk.

Counterparty risk
In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by fund officers in relation to suitability and performance, in addition to compliance with regulatory and fund-specific requirements.

Credit risk
The Fund's deposits with financial institutions as at 1 April 2018 or the 31 March 2019 are disclosed in note 15. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Liquidity risk
The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. When additional deposits are required to meet future pension payrolls, cash is provided by one of the investment managers (in accordance with the asset allocation) who will liquidate a small proportion of assets under management as instructed by the Fund. Due to the cash flow management procedures and the liquidity of the assets held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities.

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. Even though the Fund has no financial assets denominated in foreign currencies, it is exposed to currency risk on its overseas equity portfolio as the movement in value takes account of changes in exchange rates of the underlying investments.

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.

Price risk sensitivity analysis
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.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations. In consultation with the Fund's performance advisors, the Fund has determined that the following future movements in market price risk are reasonably possible based on 2018/19 closing values:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	6,441	16.6%	7,510	5,372
Overseas equities	65,918	16.9%	77,058	54,778
Total bonds	14,921	8.9%	16,249	13,593
Index linked	28,461	8.3%	30,823	26,099
Diversified growth funds	95,210	12.5%	107,111	83,309
Diversified multi-asset credit funds	52,578	7.7%	56,627	48,529
Cash	4,273	0.5%	4,294	4,252
Total assets	**267,802**		**299,672**	**235,932**

The potential price changes on the 2017/2018 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	9,488	16.8%	11,082	7,894
Overseas equities	91,203	17.9%	107,528	74,878
Total bonds	26,692	8.7%	29,014	24,370
Index linked	27,122	8.3%	29,373	24,871
Diversified growth funds	96,088	12.6%	108,195	83,981
Cash	3,018	0.5%	3,033	3,003
Total assets	**253,611**		**288,225**	**218,997**

Interest rate risk and sensitivity analysis
The Fund's 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 direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Carrying amount as at 31 March 2018 £'000	Change in year in the net assets available to pay benefits £'000	£'000	Asset type	Carrying amount as at 31 March 2019 £'000	Change in year in the net assets available to pay benefits £'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
3,018	30	(30)	Cash and cash equivalents	4,273	43	(43)
53,814	538	(538)	Fixed interest securities	43,382	434	(434)
56,832	**568**	**(568)**	**Total change in assets**	**47,655**	**477**	**(477)**

*BPS – basis points

Regulatory risk
These include any changes to pension regulations e.g. more favourable benefits packages and/or HMRC rules. In order to manage this risk, changes to regulations are continuously monitored.

21. 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. As a result, employers' contributions have been adjusted from 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 results of the valuation as at 31 March 2013 and 31 March 2016 and the actuarial assumptions used are shown below.

Valuation results	31 March 2016 Valuation	31 March 2013 Valuation
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	25.1%	21.5%
Market value of the fund	£464m	£449m
Actuarial value of the fund	£569m	£563m
Funding level in relation to past service liabilities	82%	84%
Offset to allow for market changes after the valuation date*	n/a	(£28m)
Deficit in relation to past service	(£105m)	(£86m)

*allows for impact on assets and liabilities

Valuation assumptions	2016 valuation	2013 valuation
Discount rate - West Midlands Travel Limited		
Pre-retirement (non-retired members)	4.5% p.a.	5.5% p.a.
Post-retirement (non-retired members)	As above	3.5% p.a.
Post retirement (retired members - non buy-in)	As above	3.5% p.a.
Post retirement (retired members - buy-in)	1.9% p.a.	3.0% p.a.
Buy-in asset valuation	1.9% p.a.	2.5% p.a.
Discount rate - Preston Bus Limited		
Pre-retirement	2.8% p.a.	5.0% p.a.
Post-retirement	As above	3.0% p.a.
Salary increases	2.3% p.a.	2.6% p.a.
Pension increases in payment	2.3% p.a.	2.6% p.a.
Retired members' mortality - base tables	S2PA tables with a multiplier of 110% for current pensioners (both normal and ill-health) and future dependants	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2015 model methodology with 1.5%p.a. long-term trend	CMI 2013 model methodology with 1.25%p.a. long-term trend
Commutation assumption	Members will commute pension to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum for pre April 2008 service

Key:
CMI – The Continuous Mortality Investigation
S2PA – Post retirement mortability tables

Following the 31 March 2016 valuation, employers' contribution rates for the period from 1 April 2017 to 31 March 2020 have been set at 25.1% per annum plus £7,300,000 (2017/18), £7,467,900 (2018/19) and £7,639,700 (2019/20) for West Midlands Travel Limited. The contributions have taken into consideration the support of the Group guarantee which has been extended following discussions as part of the valuation process. The contributions certified are conditional on the guarantee remaining in place for the employer relating to its participation in the Fund.

A rate of 0% plus £325,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2016 valuation. This followed the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rate. The funding method adopted is known as the 'attained age method' which is consistent with the funding objective and appropriate as the Fund is closed to new members and has an ageing membership profile.

The Fund's assets at 31 March 2016 valuation was £464m, of this £256m was in respect of the buy-in asset value with the remaining representing the Fund's invested assets.

The next valuation will be at 31 March 2019, which will set contributions for the three years to 31 March 2023.

22. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 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.

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 21). The actuary has also used valued ill health and death benefits in line with IAS 19. Demographic assumptions are the same as those used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2019 was £600.0m (2018: £619.3m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2018	Assumptions used	31 March 2019
2.50%	Discount rate	2.35%
2.35%	Salary increases	2.45%
2.35%	Pensions increases	2.45%

23. Related party transactions

The West Midlands Combined Authority recharges administrative costs incurred to the Fund. The recharges for the year ended 31 March 2019 are £22,000 (2018: £22,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pensions Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

24. Events after the Reporting Date

Section 13 of the Public Services Pensions Act 2013 introduced an independent review of local LGPS actuarial valuations and employer contribution rates. The Government Actuary Department (GAD) was appointed to undertake the review and make recommendation to the responsible authority, the Ministry of Housing Communities and Local Government (MHCLG). The Section 13 report in relation to the 2016 actuarial valuation was finalised and published on 29 September 2018.

The report raised a concern that, in the absence of any participating statutory employers there was a risk to payment of member benefits in the event that neither participating employer was able to meet future contribution requirements. GAD recommended the administering authority (WMCA) put in place a plan to address this risk and in view of this WMCA has been in discussions with West Midlands Pension Fund with regards to a proposed merger of the Fund to address these concerns. It is anticipated that a formal consultation will take place on this in due course.

WMCA consider the risk raised in the GAD report has been mitigated by the proposed merger.