

Pensions Committee

19 June 2019

Report title	Statement of Accounts 2018/19	
Originating service	Pension Services	
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Recommendation for decision:

The Committee is recommended to approve:

1. The draft Statements of Accounts for the year ending 31 March 2019.

Recommendations for information:

The Committee is asked to note:

- 1 The draft accounts have been certified by the Section 151 Officers as required by regulations.
2. 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.
3. 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 Statement of Accounts for the year ending 31 March 2019.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce a statement of accounts by 31 May each year. These must be subject to external audit and published no later than 31 July.
- 2.2 In preparing their 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 2018/19' (CIPFA) ('the Code').
- 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 31 May following the year-end. This certification was given by the City of Wolverhampton Council's Director of Finance on 31 May 2019 and by the Combined Authority's Interim Finance Director on 20 May 2019.
- 2.5 The Committee will receive a further report in September which will present the final version of the Statement of Accounts for publication with the Annual Report 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.

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 statement of accounts within the statutory deadline. This is due to careful planning, resource management and close monitoring.
- 3.2 A combined annual report is being prepared which contains the reports and accounts for both West Midlands Pension Fund and the Integrated Transport Authority (ITA) Pension Fund in the same document. This will be available for the September meeting of the Pensions Committee.

- 3.3 With effect from 2017/18, the accounts closure timetable was 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 meet these timescales having achieved the end of May deadline already. In line with the approval by this Committee at its meeting on 27 March, authority has been delegated to the Chair of Pensions Committee to approve the final publication of the 2018/19 Annual Report and Accounts following audit in July and approval of the draft by Committee in June.
- 3.4 The Fund's external auditors have been undertaking some interim work with the Fund, testing the investment and contributions data reconciliations prior to finalisation of the accounts. Grant Thornton will be in attendance at the Committee meeting to provide an update on the interim work and early testing post closure of the accounts on 31 May 2019 and to address any queries in relation to their work for the 2018/19 audit.

4.0 Draft Statement of Accounts 2018/19

- 4.1 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.
- 4.2 During 2018/19, the main Fund grew in value by £294 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net gains in the value of investment assets	445
Investment income receivable	237
Bulk transfer into the Fund	14
Sub total Net Increases	696
Net contributions receivable/benefits payable	(307)
Management expenses charged to the Fund	(87)
Net transfer of members out of the Fund	(8)
Sub total Net Decreases	(402)
Total Increase in the Fund	294

- 4.3 It is worth noting that the balance of contributions and benefits is negative in 2018/19 – the £307 million shown in the table above – this is because most of the Council bodies had already paid three years Future Service and Past Service Deficit contributions in advance last year and these were reported in the 2017/18 accounts. The balance between the two is likely to be negative again in 2019/20. The figure for contributions receivable also includes £24.2 million paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.

- 4.4 Net assets of the main Fund at 31 March 2019 stood at £15.7 billion, up from £15.4 billion at 31 March 2018. This comprised investment assets of £15.6 billion, and working balances of £139 million.
- 4.5 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 £22.4 billion at 31 March 2019. This is a slight increase on the 31 March 2018 figure of £22.1 billion due to adjustments to the actuarial assumptions.
- 4.6 The draft Statement of Accounts for the West Midlands Pension Fund are attached at Appendix A and have now been passed across to the external auditors.
- 4.7 The ITA Fund decreased in value by £0.3 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Investment Income	17.2
Sub Total Net Increases	17.2
Net contributions receivable/pensions payable	(16.1)
Management expenses charged to the Fund	(1.0)
Net decrease in the value of investment assets	(0.4)
Sub Total Net Decreases	(17.5)
Total decrease in the Fund	(0.3)

- 4.8 Benefits payable exceeded contributions receivable by a significant margin reflecting the maturity of the ITA Fund and the fact that it is a closed fund.
- 4.9 Net assets of the ITA Fund at 31 March 2019 stood at £491.7 million, down slightly from £492 million at 31 March 2018. This comprised investment assets (including annuity buy-in contract) of £488 million and working balances of £3.7 million.
- 4.10 The WMITA Statement of Accounts was provided to the auditors on 20 May with the audit being mostly completed by 4 June and a final Statement of Accounts to be issued shortly. The draft unaudited statements are included at Appendix B.

5.0 Investment Management Costs 2018/19

- 5.1 CIPFA guidance, introduced in 2014, requires the disclosure of all investment management costs including fees which are deducted at source by external investment managers. External investment management costs deducted at source saw a significant increase on the prior year at £62.2 million up from £44.7 million, whilst some of this reflects growth in assets under management and performance fees, additional

transparency on ‘hidden costs’ has meant the Fund has been able to capture greater detail on costs. The Fund has been working closely with the PLSA, the Investment Association and Scheme Advisory Board on the new cost transparency initiative and was part of the trial group working on the cost templates launched to encourage and enable greater transparency of investment costs across the pensions industry. Whilst the Fund has historically taken a transparent approach with investment management costs as far as possible, the new cost capture templates that have been developed have enabled even higher levels of cost transparency from the investment managers, most notably in the recording of transaction costs associated with turnover within individual portfolios. The following table analyses the total investment management costs reported above:

	Actual 2017/18 £m	Actual 2018/19 £m
External Investment Management Costs – Invoiced	11.4	13.3
External Investment Management Costs – Deducted at Source	44.7	62.2
External Investment Management Costs – LGPS Central	-	3.8
Total External Investment Management Costs	56.1	79.3
Internal Investment Management Costs	2.8	0.6
Total Investment Management Costs	58.8	79.9

5.2 LGPS Central Ltd costs can be split between investment management costs, advisory and execution service costs and company governance and oversight costs as set out in the table below:

Advisory & Execution £m	Governance & Operator £m	ACS sub- funds £m	LGPS Ltd Total Costs £m
0.8	2.1	0.9	3.8

5.3 For WMITA, Investment Management expenses increased on prior year due to a change in the investment strategy for the Fund which saw assets transitioned from passive equity to multi-asset credit to reduce the overall risk in the portfolio. This resulted in higher investment management costs provided in the table below:

	Actual 2017/18 £m	Actual 2018/19 £m
Total External Investment Management Costs	0.668	0.800
Internal Investment Management Costs	0.030	0.030
Total Investment Management Costs	0.698	0.830

6.0 LGPS Central Set-Up Costs

6.1 In January 2019, the Fund settled further costs related to the set-up of LGPS Central Limited amounting to £355,393. These costs are being shared, on an equal-eighths basis with the other seven partner funds. The final total of set up costs was declared at £4.014m and West Midlands Pension Fund was reimbursed its share of £501,759 by LGPS Central Limited in February 2019.

7.0 Financial implications

7.1 The financial implications are discussed in the body of the report.

8.0 Legal implications

8.1 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.

9.0 Equalities implications

9.1 This report has no equalities implications.

10.0 Environmental implications

10.1 This report has no environmental implications.

11.0 Human resources implications

11.1 The report has no human resources implications.

12.0 Corporate landlord implications

12.1 This report has no corporate landlord implications.

13.0 Schedule of background papers

13.1 Budget 2019/20 and Financial Plan to 2023/2024, Report to Pensions Committee, 27 March 2019
<http://wolverhampton.moderngov.co.uk/documents/s104043/Budget%2020192020%20and%20Financial%20Plan%20to%2020232024.pdf>

14.0 Schedule of Appendices

14.1 Appendix A – Draft Statement of Accounts 2018/19 WMPF

14.2 Appendix B – Draft Statement of Accounts 2018/19 WMITA