



Pensions Committee

24 June 2015

Report title	Draft Annual Report and Accounts 2014/15 (Including Operating Budgets Outturn 2014/15)	
Originating service	Pension Services	
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Recommendation(s) for action or decision:

The Committee is recommended to approve:

1. The draft annual report for the year ending 31 March 2015;

The Committee is recommended to note:

2. The outturn against operating budgets, which is an under spend of £3.7 million, and performance for the year against the Fund's key performance indicators;
3. That the draft accounts have been certified by the Section 151 Officer as required by regulations;
4. That the draft annual report and accounts will now be subject to audit by the Fund's external auditors, PricewaterhouseCoopers, with the final version, including their audit opinion, to be reported to the Committee in September.

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 2015, 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 2014/15' (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). It is important to note that the transactions and balances of the Fund are completely separate and not combined with those of the 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 Director of Finance on 2 June 2015.
- 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 were approved by the Committee on 26 March 2014 as part of the Service Plan 2014-2019, 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 This has been a year of significant change with regard to the Fund's annual report and accounts, including:

- The publication of new CIPFA guidance on the annual report, which introduced a number of new detailed requirements in order to promote consistency between funds and thereby support the compilation of a national, scheme-wide annual report;
- The publication of new CIPFA guidance on the reporting of management costs, which set out a new, three-heading classification for management costs, and clarified that investment management fees should be accounted for on a 'gross cost' basis where not separately invoiced;
- The implementation of a new general ledger system (Agresso);
- The transfer of responsibility for all Fund accounting, including preparing the statement of accounts, from the City of Wolverhampton Council's Strategic Finance team to the Fund's own Finance team.

3.2 Notwithstanding these significant changes and potential obstacles, the Fund has succeeded in preparing its draft annual report and accounts earlier than ever. This is due to careful planning, resource management and close monitoring.

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.

4.0 Draft Annual Report 2014/15

4.1 The draft annual report (Appendix 1) has been reformatted from the 2013/14 report, to follow the requirements specified by the new CIPFA guidance. The contents of the annual report are:

- 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
- Statement of Investment Principles
- 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 £19.16 to £18.70;
- Achieving a return on investments of 15.2%, compared to a benchmark of 11.6%;
- Streamlining portfolio management arrangements, resulting in savings on investment management fees;
- Appointing a Responsible Investment Officer, and playing a key role, both through the Local Authority Pension Fund Forum, and the United Nations Principles for Responsible Investment, in advancing the responsible investment agenda;
- Successfully managing the on-going implementation of the LGPS 2014 regulations;
- Being a national forerunner in establishing and recruiting a local Pensions Board;
- Winning the Local Government Chronicle Investment Award for Skills and Knowledge, for its trustee training programme;
- Continuing to develop the Fund's electronic business model, including a rise in the number of members registered with its web portal to over 23,000.

5.0 Draft Statement of Accounts 2014/15

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 2014/15, the Fund grew in value by £1.3 billion. The main reasons for this were:

- Net contributions receivable/pensions payable (£17.2 million);
- Investment income receivable (£160.5 million);
- Net gains in the value of investment assets (£1,501.2 million);

Net of:

- Net transfer of members out of the Fund (£252.0 million).
- Management expenses charged to the Fund (£107.3 million);

5.3 The net transfer out of the Fund is comprised almost entirely of one bulk transfer: £246.0 million to Greater Manchester Pension Fund in respect of the Staffordshire and West Midlands Probation Trust, for which responsibility transferred on 1 June 2014.

5.4 Net assets of the Fund at 31 March 2015 stood at £11.5 billion, up from £10.1 billion at 31 March 2014. This comprised investment assets of £11.4 billion, and working balances of £51.2 million.

5.5 The Fund has taken the option under the Code to disclose the present value of its pensions liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £17.3 billion at 31 March 2015. This is an increase on the 31 March 2014 figure of £14.7 billion, primarily due to the reduction in returns available on corporate bonds during the year.

6.0 Outturn against Operating Budget 2014/15

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 £3.7 million against budget.

Budget Heading	Approved Budget 2014/15 £000	Outturn 2014/15 £000	Variance £000
Employees	4,512	3,833	(679)
Premises	344	321	(23)
Transport	69	42	(27)
Communications and Computing	740	528	(212)
Investment Management and Advice*	11,173	9,020	(2,153)
Other	2,287	2,302	15
Support Services	523	487	(36)
Service Development	350	-	(350)
Total Expenditure	19,998	16,533	(3,465)
Miscellaneous Income	(380)	(583)	(203)
Net Expenditure	19,618	15,950	(3,668)

*Note: In line with the approved operating budget, this line includes invoiced external fees only.

6.2 The main reason for the variance is a saving of £2.2 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 £1.5 million across other operating budgets, of which £538,000 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	Variance 2014/15 £000
Staffing Vacancies	(538)
Service Development Budget	(350)
Reduced Expenditure on Computer Equipment and Licences	(251)
Training Budget	(142)
Re-negotiated Custodian Fees	(94)
Stationery, Postage and Printing	(73)
Savings against Conference and Travel Budgets	(62)
Various Net Savings across Premises Budgets	(31)
Professional Services	(26)
Estimated Cost of Support Services from City of W'ton Council	52
Sub Total Before Investment Management Fees	(1,515)
Investment Management Fees	(2,153)
Total	(3,668)

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 to the ITA Fund).

	2013/14 Actual	2014/15 Budget	2014/15 Outturn
Total Administration Costs (£000)	3,153	3,454	3,059
Administration Cost per Member (£)	11.66	12.46	11.02
Total Investment Management Costs (£000)	10,815	13,878	10,608
Investment Management Cost per Member (£)	40.01	50.05	38.22
Total Oversight and Governance Costs (£000)	2,026	2,136	2,132
Oversight and Governance Cost per Member (£)	7.50	7.70	7.68

- 6.4 Information about the outturn for 2014/15 has been reflected where appropriate in the updated forecasts for 2015/16 (see separate agenda item).
- 6.5 Appendix 2 sets out the Fund's performance against its KPIs for 2014/15. As this shows, generally targets have been achieved or exceeded. Performance against some pension administration objectives was below target due to the large increase in manual calculations required while LGPS 2014 system upgrades were being developed by the Fund's software provider. Nonetheless, performance against these objectives improved as the year progressed, and is anticipated to return to former levels once the upgrades have been completed.

7.0 Financial implications

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

8.0 Legal implications

- 8.1 This report contains no direct legal implications for the Authority.

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

- Service Plan 2014-19, Report to Pensions Committee, 26 March 2014

14.0 Schedule of Appendices

14.1 Appendix 1 – West Midlands Pension Fund Annual Report 2015 (Draft)

14.2 Appendix 2 - KPI Monitoring