



Pensions Committee

25 June 2014

Report Title	Draft Final Accounts & Outturn 2013/14	
Originating service	Pension Services	
Accountable officer(s)	Geik Drever	Director of Pensions
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Report to be/has been considered by

Recommendations for action or decision:

The Committee is recommended to:

1. Approve the contents of the Statement of Accounts (to be tabled) and for the accounts to be submitted to the external auditors for audit.

Recommendations for noting:

The Committee is recommended to:

1. Note the financial outturn for 2013/14 alongside the Fund's key performance indicators and achievements in the Service Plan

1.0 Purpose

- 1.1 To present to Members the draft 2013/14 Statement of Accounts operating outturn and service planning for West Midlands Pension Fund and provide an update to the Fund's financial and business plan monitoring.

2.0 Background

- 2.1 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 which is based upon International Financial Reporting standards (IFRS) as amended for the UK public sector. The accounts are subject to disclosure requirements as outlined in the CIPFA Example Accounts and Disclosure Checklist issued in 2012/2013.
- 3.2 The accounts will be approved by the Authority's Section 151 Officer on 30 June 2014, submitted to Audit Committee on the 14 July 2014 and to the Fund's external auditors, PwC, for audit in July 2014.
- 3.3 Findings from the annual audit will be presented to the Committee along with the Annual Report at a later date.

3.0 Draft Statement of Accounts

- 3.1 The net assets of the Fund increased from £9.9 billion to £10.1 billion in 2013/2014.
- 3.2 The impact of the IAS 26 disclosure on the Fund's assets, liabilities and funding position as at 31 March 14 is not yet available from the Actuary and will be disclosed separately to the Committee prior to the meeting on 25 June.
- 3.3 Active membership of the Fund increased by 2,441 during 2013/2014, with pensioner and deferred membership increasing by 3,066 and 3,499 respectively. These movements are reflected in the income and expenditure of the Fund's accounts.
- 3.4 As the draft accounts are not available at the date of writing they will be tabled at Committee.

4.0 Operating outturn 2013/2014

4.1 The summary operating budget and outturn for Pension Services (at the time of writing) for 2013/14 are shown below:

	2013/14 Budget	2013/14 Projection	2013/14 Over/(Under)
Employees	4,955,005	4,338,754	(616,251)
Premises-related	319,770	266,908	(52,862)
Transport-related	110,300	55,152	(55,148)
Supplies and services			
- Communications and IT	941,550	783,910	(157,640)
- Investment management & advice	10,327,066	8,407,174	(1,919,892)
- Other (including actuarial fees)	1,617,780	2,065,121	447,341
Support services	681,500	570,321	(111,179)
Service development	490,000	25,786	(464,215)
Total expenditure	<u>19,442,971</u>	<u>16,513,125</u>	<u>(2,929,846)</u>
Miscellaneous income	(276,460)	(530,467)	(254,007)
Net expenditure	<u>19,166,511</u>	<u>15,982,658</u>	<u>(3,183,853)</u>

4.2 The budgeted unit costs for 2013/2014 for administration and investments were £24.64 and £49.33 respectively, based on a total membership figure of 259,116. The projected final outturn unit costs are £19.21 for administration and £39.92 for investments based on the membership of the Fund at 31 March 2014 of 270,330. These figures reflect a reduction in costs and an increase in membership.

4.3 A projected underspend of £3.18 million is expected. The key variance relates to investment management and advice of £1.9 million where performance fees have not been incurred. This figure varies with market movements and the performance of managers as a number of arrangements have an element of performance related fees. Recently contracts have been renegotiated to remove the performance element where feasible to reduce the volatility of this cost and new contracts have also been put in place.

4.4 Other significant variances relate to an underspend of £620,000 on employees where a number of vacancies were being held and an underspend within service development of £460,000 where expenditure on implementing LGPS 2014 has not fully transpired within this financial year due to delays in receiving the regulations from DCLG.

4.4 Other variances include property where there was a £22,000 underspend on repairs and maintenance and a £29,000 underspend on service charges. Transport variances are attributed to a £22,000 reduction in public transport costs and no expenditure for foreign travel was incurred where a budget of £25,000 had been allocated. (The latter budget has been removed in 14/15).

- 4.5 Within supplies and services, communications and computing cost variances arose from a £140,000 underspend on IT following the delayed implementation of software and hardware upgrades due to the major development of the Agresso system being given priority.
- 4.6 The overspend of £450,000 within 'other' expenditure within supplies and services arose due to an overspend of £170,000 for actuarial fees mainly arising from the conversion of schools to academies, additional legal fees of £130,000 arising from investment due diligence related advice as well as other legal fees on pensions administration and additional stock expenses of £120,000 from holding a larger quantity of equities with our custodian. There was also a £70,000 overspend on licences and an underspend of £50,000 on consultants' fees as expenditure on professional advice was not required to the level anticipated and greater support was available from internal resources.
- 4.7 There was also a reduction in support service costs due to the charging mechanism amounting to over £110,000.
- 4.8 The overspend in 4.6 was recovered through additional recharge income from academies and accrued interest on temporary loans.

5.0 Medium term plan

- 5.1 The nine key priorities in the Service Plan are detailed in Appendix 1, which represents a summarised update of activities.
- 5.2 Pensions Committee received a detailed report on the individual priorities in the 'Assurance Framework and Annual Governance Statement' in March 2014. The future service planning reports will reflect the updated priorities.
- 5.3 Activities against the plan continue in line with objectives; the key points to note being the 2014 new scheme, implementation of the trustee training policy, the 2013 actuarial valuation results and the comprehensive review of the Fund's investment strategy.
- 5.4 The Fund's investment performance is reported separately in this Committee's agenda. For the year to 31 March 2014, the Fund returned 3.51% versus its benchmark of 3.05%, outperforming by 0.46% for the year.
- 5.5 The Fund's key achievements during 2013/14 include the following:
- Completed Actuarial Valuation 2013 and setting contribution rates for the next three years
 - Awards – nominations for several industry awards and achieved Investors in People (Silver) and retained accreditation for Customer Service Excellence
 - Successfully launched self-service platform for employers
 - Completed several consultation responses to the changing LGPS landscape and implemented the LGPS 2014 scheme
 - Investment structure and portfolios were reviewed and changes implemented
 - Improvements were made to Trustee Training which resulted in increased training hours

- On the operations and staff side, backlogs were reduced to manageable levels and an updated staff appraisal framework put in place
- Cost efficiencies continue to be made as reflected in 4.2

6.0 Financial implications

6.1 The projected financial outturn is as detailed in paragraph 4 above.

7.0 Legal implications

7.1 This report contains no direct legal implications.

8.0 Equalities implications

8.1 This report has no direct equal opportunities implications.

9.0 Environmental implications

9.1 This report has no direct environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 This report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 There were no preceding background papers except those listed in the report.

Appendix 1

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
1. Maintain quality procedures and practices:	
<ul style="list-style-type: none"> - Maintain quality accreditations - Invest in leading technologies - Respond to best practice shown by others - Respond to legislative changes 	<ul style="list-style-type: none"> - The Fund has undertaken re-evaluation for the Customer Service Excellence accreditation and successfully retained the award. The Fund was awarded a Silver level Investors in People accreditation. - Systems and technologies are monitored and maintained by a professional and appropriately resourced staff. - The Fund actively participates in networking and information sharing with peers and industry practitioners, both learning from others and sharing its own practices. - Technical specialists within the Fund monitor and interpret legislative changes and communicate requirements to the wider organisation. A specialist team from existing resources is tasked with implementing the 2014 Scheme and external advice will be utilised, where appropriate, to support the Fund.
2. Demonstrate 'value for money' in the Fund's operations:	
<ul style="list-style-type: none"> - Demonstrate quality of service delivery - Benchmark performance costs and service quality 	<ul style="list-style-type: none"> - The Fund has developed and implemented a number of key performance indicators (KPIs) to ensure targets for service delivery, both internally and externally, are reviewed, measured and reported on a timely basis. Performance targets are a combination of internally determined and external benchmarks and are reviewed quarterly. A revised KPI framework in respect of Administration was presented to Pensions Committee in January 2014.
3. Develop, implement and maintain customer engagement strategies:	
<ul style="list-style-type: none"> - Develop technical support for maintaining communication strategy for employing bodies - Develop communications with stakeholders and monitoring of 	<ul style="list-style-type: none"> - The Employer Mid-Year Review took place in July 2013, where Fund officers updated employers on the 2013 actuarial valuation process and developments in respect of the 2014 scheme changes. The meeting included presentations and round table discussions and drew positive feedback from attendees. The 2014 Mid-Year Review is scheduled 9 July

This report is an EXEMPT DECISION ITEM

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<p>pension provisions to individuals</p> <ul style="list-style-type: none"> - Develop, consult upon and implement the Pensions Administration Strategy - Hold Employer AGM - Develop and implement customer engagement strategies 	<p>2014.</p> <ul style="list-style-type: none"> - The Fund held its second Employer AGM in December 2013 which was attended by representatives from 45 employers. Presentations were made by Fund staff and the Fund's Actuary, Mercer and the event focussed largely on the 2013 Actuarial Valuation. - The Fund maintains a comprehensive website, providing documentation and information for members, employers and other interested parties. The website provides important information for stakeholders, such as proposed legislative or scheme changes and its layout and content are under review by the Fund's website working group with the new look website due to launch shortly. - The web portal is used by all 7 Councils, along with a further 251 employer accounts across 74 employers, for retirement estimates and other employer data. Scheme members can access their individual records to update data and to date some 10,152 (approximately 3.8% of membership) have requested registration to the service with 6,023 having activated their accounts. - The bi-annual civic Roadshows are currently being held at the seven district sites across the West Midlands. - Seminars and 1-2-1 clinics continue to be held; tailored to employer requirements. - Three, week-long retirement planning events have been held throughout the year at venues across the West Midlands in partnership with Prudential. Presentations focused on updating members on the proposed 2014 Scheme changes. - Customer surveys are analysed and resulting improvements are implemented as part of the changes to processing. - Engagement with employers in respect of the Pensions Administration Strategy and performance reporting is on-going.

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4. Management of risk strategies:	
<ul style="list-style-type: none"> - Regular risk management reviews - Review of major changes and new activities - Develop and maintain risk management approach in order to give annual assurance statement - Develop and implement Business Continuity Planning 	<ul style="list-style-type: none"> - An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit. Trustee and Forum members training in respect of risk management & compliance was undertaken in October 2013. - The Fund's updated risk register was approved by Pensions Committee in March 2014 - Quarterly compliance testing has produced no reportable issues. The investments and operations compliance functions have been integrated to provide a Fund-wide function and a risk based programme is under development. - The 2014 annual assurance statement was presented to the March 2014 Pensions Committee. - The business continuity plan was reviewed and updated in April 2013, with staff having been trained on its content and the appropriate procedures.
5. Deliver the agreed investment strategy:	
<ul style="list-style-type: none"> - Review, implement and monitor investment strategy - Communicate and consult on progress - Develop appropriate changes for approval - Monitor and highlight opportunities with due regard to risk - Explore, evaluate and consult on options to Sub-Committee and interested parties 	<ul style="list-style-type: none"> - Hymans Robertson are the Fund's strategic investment advisor and a full review of the investment strategy and asset allocation is underway. - The Fund's SIP will be updated and presented to the June 2014 Pensions Committee. - Hymans' next SIAB review to be presented to Pensions Committee in September 2014 - Property OJEU tender under way. We plan to appoint new manager in July 2014. - Work on changes in fixed interest, alternatives and quoted equities portfolios under way or to commence shortly. - Selective new commitments made to private equity funds. - The Fund's response to potential investment opportunities will be further developed in conjunction with advice from Hymans, following the Asset Liability Management (ALM) review carried out after the 2013 valuation.

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6. Active management of Environmental, Social and Corporate Governance (ESG) issues:	
<ul style="list-style-type: none"> - Voting and engagement through partnerships - Reviewing investment processes to encourage ESG 	<ul style="list-style-type: none"> - The Fund votes at company meetings for the majority of its global equities holdings, and employs PIRC to advise on corporate governance issues. As an active member of the Local Authority Pension Fund Forum (LAPFF), the Fund also works in conjunction with other public sector pension funds to engage with investee companies on a variety of issues, with the aim of encouraging best practice and enhancing investment returns. - The Fund is a UNPRI signatory and a member of the Institutional Investors Group on Climate Change (IIGCC). - The Fund joined the Carbon Disclosure Project (CDP) in January 2014. - In January 2104, the Fund was voted 9th out of 24 UK pension funds in a survey on responsible investment performance by ShareAction. - Regular reports on responsible investment and voting/corporate engagement activity are submitted to Committee.
7. Triennial Actuarial Valuation:	
<ul style="list-style-type: none"> - Engage with employing bodies and discuss issues - Collect data for valuation - On-going review of investment strategy in order to maintain SIP and FSS - Regular monitoring of funding levels 	<ul style="list-style-type: none"> - The Fund maintains a comprehensive website, providing documentation and information for employers on a variety of matters, including the actuarial valuation. - The Fund sent confirmation of final results to all participating employers confirmation by the end of February 2014 - The formal 31 March 2013 valuation report was signed off by the Fund actuary on 31 March 2014, and has been placed on the Fund's website. - The FSS and associated Termination Policy have been reviewed and updated to reflect the outcomes of the 2013 valuation. - A comprehensive review of the investment strategy and asset allocation is currently being undertaken. The SIP will be further updated to reflect any changes resulting from this review, based upon the 2013 actuarial valuation. - The Fund will undertake regular monitoring of funding levels, primarily on an annual basis, as part of the employer covenant review. - The Fund's investment strategy will be considered in the context of the next steps following the valuation with a view to segregation enabling

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	employers to satisfy differing risk appetites.
8. Trustee and Consultative Forum Training:	
<ul style="list-style-type: none"> - Maintain and expand the opportunities to build Trustee knowledge and understanding - Monitoring of approved training policy - Identification of training needs and development of training plan 	<ul style="list-style-type: none"> - Structured induction training provided to Trustees and Forum Members by the Director of Pensions is available to all Members as required. During 2013/14, all new and returning members participated in the induction training. A similar induction programme will be in place for any new or returning members this year. - Further structured training has taken place by way of presentations to IASC on a variety of investment linked topics. Fund officers have presented information on Scheme Changes and two Risk Workshops were held in October and November. - Individual training sessions have been facilitated covering “Understanding the Statement of Accounts” and “Asset Classes”. Further 1:1 sessions will be arranged on request. - Regular Trustee Training reports are submitted to Pensions Committee. - The revised CIPFA Knowledge and Skills Framework has been distributed to Members along with details of electronic resources and online toolkits. A further training needs analysis will take place in early summer.
9. Developing People:	
<ul style="list-style-type: none"> - Ensure a skilled and professional workforce - Identify and address training and development needs - Measure and improve competency levels 	<ul style="list-style-type: none"> - Structured induction training is provided in-house for all new employees. - A full training needs analysis and workforce survey is currently underway. The outcomes and training needs identified will be linked into individual appraisals and will be delivered in line with the needs of the business. - A revised staff appraisal system to realign with Council’s process is being implemented and staff are currently being trained.

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Appendix 2

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS MAY 2014

No	Description	Target	Lead Officer	Actual (Score and BAG)	Reporting Period	Reported to:	Previous Score	Date Last Reported	Improvement/Deterioration
1	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 70% (Taken from IAS26 Report)	>70%	GD	75.00%	31/03/2014	SMT	74.00%	31/04/2013	1.00%
2	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to be within 2% of the benchmark (3 Yr Rolling)	VARIANCE +/- 2%	GD/MC	BENCHMARK 5.54%	Mar-14	SMT	BENCHMARK 5.77%	Feb-14	0.01%
				ACTUAL 5.97%			ACTUAL 6.19%		
				RELATIVE 0.43%			RELATIVE 0.42%		
3	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	ST	87%	Sep-13	SMT	83%	Sep-12	-2.00%
	DBS issued to 85% of eligible deferred members by 30th October	85%		88%	Jul-13	SMT	83%	Jul-12	5.00%
4	CONTRIBUTIONS RECEIVED Main Fund 98% (total value) of contributions to be received by the due date.	98%	RD	99.07%	Mar-14	SMT	99.18%	Feb-14	-0.11%
	Travel Fund 98% (total value) of contributions to be received by the due date.	98%		100.00%	Jan-14	SMT	100.00%	Dec-13	0.00%
5	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the Main Funds external auditors	Clean Report	RD	Yes	Year to 31/03/2013	SMT	Yes	Year to 31/03/2012	0.00
	Annual audit returns no significant findings	0 significant findings		0			0		
	Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report		Yes	Year to 31/03/2013	SMT	Yes	Year to 31/03/2012	0.00
	Annual audit returns no significant findings	0 significant findings		0			0		
6	EXTERNAL ACCREDITATION The Fund to be shortlisted for all of the awards in which it is entered.	100%	GD	Applications 12	May-13	SMT	Applications 12	Dec-13	-20.83%
				No. Pending 0			No. Pending 4		
				No. Shortlisted 5			No. Shortlisted 5		
				Percentage Shortlisted 42%			Percentage Shortlisted 63%		
7	COST PER MEMBER Administration cost per member to be reduced from budgeted figure of £24	<£24	ALL	£19.21	Mar-14	SMT	£20.48	Mar-13	£1.27