

Pensions Committee

22 June 2016

Report title	Draft Annual Report and Accounts 2015/16 (Including Operating Budgets Outturn 2015/16)	
Originating service	Pension Services	
Accountable employee(s)	David Kane Tel Email	Head of Finance 01902 554423 david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to approve:

1. The draft annual report and accounts for the year ending 31 March 2016;

The Committee is recommended to note:

2. The outturn against operating budgets, which is an under spend of £3.8 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 Officers as required by regulations;
4. That the draft annual report and accounts 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.

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 2016, 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 2015/16' (CIPFA) ('the Code');
 - for the annual report, 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds' (CIPFA).
- 2.3 As well as being published in the Fund's own annual report, its accounts must be included in the statement of accounts of the administering authority (in this case, the City of Wolverhampton Council or West Midlands Combined Authority). It is important to note that the transactions and balances of the funds are completely separate and not combined with those of the authorities.
- 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 20th May 2016, and by the Combined Authority's Head of Finance and Business Planning (Deputy Section 151 Officer) on 27th May 2016.
- 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 18th March 2015 as part of the Service Plan 2015-2020, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite challenging deadlines and a number of conflicting pressures, the Fund has succeeded in preparing its draft annual report and accounts earlier than in previous years. This is due to careful planning, resource management and close monitoring.
- 3.2 For the first time, a combined annual report has been prepared which contains the reports and accounts for both West Midlands Pension Fund and the ITA Pension Fund in the same document.
- 3.3 With effect from 2017/18, the accounts closure timetable will be brought forward significantly, with certification of draft accounts required by the end of May, and the audited accounts to be published by the end of July. The Fund is well-positioned to make the transition to these timescales.

4.0 Draft Annual Report 2015/16

- 4.1 The draft Annual Report is attached at Appendix 1. For the first time, the Fund has prepared a single Annual Report that includes both the main Fund and the ITA fund. The contents of the annual report are as follows:
 - Introduction
 - Management and Financial Performance
 - Investment Policy and Performance
 - Scheme Administration Report
 - Actuarial Report
 - Governance Arrangements
 - Statement of Accounts
 - Pensions Administration Strategy
 - Funding Strategy Statement
 - 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 £18.70 to £17.72;
 - Achieving a return on investments (main fund) of 2.4%, compared to a benchmark of 0.7%;
 - Streamlining portfolio management arrangements, resulting in savings on investment management fees;
 - Working with the Fund's investment pooling partners to develop LGPS Central;

- Playing a key role, both through the Local Authority Pension Fund Forum, and the United Nations Principles for Responsible Investment, in advancing the responsible investment agenda;
- Achieving awards for our work in responsible investment and trustee development, as well as the CIPFA Governance Mark of Excellence.
- Continuing to develop the Fund's electronic business model, including a rise in the number of members registered with its web portal to over 42,000.

5.0 Draft Statement of Accounts 2015/16

- 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 2015/16, the main Fund grew in value by £196.7 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net contributions receivable/pensions payable	4.8
Investment income receivable	168.6
Net gains in the value of investment assets	122.7
Sub Total Net Increases	296.1
Net transfer of members out of the Fund	(24.5)
Management expenses charged to the Fund	(74.9)
Sub Total Net Decreases	(99.4)
Total Increase in the Fund	196.7

- 5.3 It is worth noting that the balance of contributions and benefits continued to be positive in 2015/16 – the £4.8 million shown in the table above – although this margin equates to less than 1% of total benefits. The figure for contributions receivable also includes £28.4 of early retirement contributions from employers, reflecting the staffing changes being made by them. It is likely that this margin will decrease and reverse in future years as the number of pensioners continues to rise more quickly than the number of active members.
- 5.4 Net assets of the main Fund at 31st March 2016 stood at £11.7 billion, up from £11.5 billion at 31st March 2015. This comprised investment assets of £11.6 billion, and working balances of £27.2 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 £16.8 billion at 31st March 2016. This is a decrease on the 31st March 2015 figure of £17.6 billion, primarily due to an increase in the discount rate used in calculating the liabilities.

5.6 The ITA Fund reduced in value by £14.0 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net returns on investment	2.9
Sub Total Net Increases	2.9
Net transfer of members out of the Fund	(0.4)
Net contributions receivable/pensions payable	(15.6)
Management expenses charged to the Fund	(0.9)
Sub Total Net Decreases	(16.9)
Total Decrease in the Fund	(14.0)

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

5.8 Net assets of the ITA Fund at 31st March 2016 stood at £460.9 million, down from £474.9 million at 31st March 2015. This comprised investment assets of £458.6 million, and working balances of £2.3 million.

6.0 Outturn against Operating Budget 2015/16

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 £3.8 million against budget.

	2015/16 Budget £000	2015/16 Actual £000	2015/16 Variance £000
Employees	4,797	4,226	(571)
Premises	328	290	(38)
Transport	60	63	3
Communications and Computing	604	524	(80)
Professional Fees	1,530	1,523	(7)
Other Supplies and Services	837	523	(314)
Support Services	458	448	(10)
Miscellaneous Income	(5)	(650)	(645)
Sub Total	8,609	6,947	(1,662)
External Investment Management Fees *	9,559	7,383	(2,176)
Total	18,168	14,330	(3,838)
Funded by:			
West Midlands Pension Fund	18,018	14,180	(3,838)
West Midlands ITA Pension Fund	150	150	-
Net Budget	18,168	14,332	(3,838)

*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 £1.6 million across other operating budgets, of which £447,000 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	2015/16 Variance £000
Staffing Vacancies	(447)
Income from Fees and Charges	(367)
Professional Fees	(362)
Service Development Budget	(350)
Training Budget	(123)
Reduced Expenditure on Computer Equipment and Licences	(66)
Other Variances Across Premises, Supplies and Services Budgets	53
Sub Total Before Investment Management Fees	(1,662)
Investment Management Fees	(2,176)
Total	(3,838)

- 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).

	2014/15 Actual	2015/16 Budget	2015/16 Outturn
Total Administration Costs (£000)	3,059	3,621	3,310
Administration Cost per Member (£)	11.02	12.83	11.50
Total Oversight and Governance Costs (£000)	2,132	2,422	1,792
Oversight and Governance Cost per Member (£)	7.68	8.58	6.22
Total Administration, Oversight and Governance Cost per Member (£)	18.70	21.41	17.72
Total Investment Management Costs (£000)	81,108	78,816*	69,814
Investment Management Cost as Percentage of Investment Assets	0.71%	0.68%*	0.60%

* Note: the figures quoted for the 2015/16 investment management costs budget include an adjustment for non-invoiced fees, to put the figures on a comparable basis with the actuals for 2014/15 and 2015/16 – see paragraph 6.4 for full details.

6.4 CIPFA guidance, introduced in 2014, requires the disclosure of all investment management costs, including fees which are deducted at source by external investment managers. Prior to this, the Fund only included in its accounts and its budgets those fees that were invoiced directly. The 2015/16 budget was prepared on the old basis – invoiced fees only – however its outturn figures have been prepared on the new basis: all costs. In order for the outturn to be comparable to the budget, an indicative figure for 2015/16 fees, based on information from 2014/15, has been included in the table at paragraph 6.3. The following table analyses the total investment management costs reported above:

	Budget 2015/16 £000	Outturn 2015/16 £000
External Investment Management Costs – Invoiced	9,559	7,383
External Investment Management Costs – Deducted at Source	66,841	60,587
Total External Investment Management Costs	76,400	67,970
Internal Investment Management Costs	2,416	1,844
Total Investment Management Costs	78,816	69,814

6.5 Appendix 2 sets out the Fund’s performance against its KPIs for 2015/16. 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 from April 2016.

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 2015-20, Report to Pensions Committee, 18th March 2015

14.0 Schedule of Appendices

14.1 Appendix 1 – West Midlands Pension Fund Annual Report 2016 (Draft)

14.2 Appendix 2 – KPI Monitoring