

Pensions Board

5 July 2017

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| Report title | Annual Report and Accounts 2016/17 | |
| Originating service | Pension Services | |
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Recommendations noting:

The Board is recommended to note:

1. The draft accounts have been prepared and certified by the Section 151 Officers as required by regulations;
2. The draft annual report and accounts for West Midlands Pension Fund were approved by Pensions Committee on 21 June 2017, and 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 Integrated Transport Authority (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 update the Board on the preparation, approval and audit of the draft annual report for the year ending 31 March 2017.

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 2016/17' (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 Administering 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 Chief Accountant on 26 May 2017, and by the Combined Authority's Interim Finance Director on 26 May 2017.
- 2.5 The Pensions 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.

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 well ahead of the statutory deadline. This is due to careful planning, resource management and close monitoring.
- 3.2 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, having achieved the end of May deadline for the last three years.

4.0 Draft Annual Report 2016/17

4.1 The draft Annual Report will shortly be made available on the Fund's website, www.wmpfonline.com. 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
- Investment Strategy Statement
- 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 £17.72 to £17.64;
- Achieving a return on investments (main fund) of 22.6%, compared to a benchmark of 21.8%;
- 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 (LAPFF), and the United Nations Principles for Responsible Investment (PRI), in advancing the responsible investment agenda;
- Achieving awards for our work in investments and governance.
- Continuing to develop the Fund's electronic business model, including a rise in the number of members registered with the web portal to over 46,000 at 31 March 2017.

5.0 Draft Statement of Accounts 2016/17

- 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 2016/17, the main Fund grew in value by £2.6 billion. The reasons for this were:

| | Increase/ (Decrease) in Fund £m |
|---|---------------------------------------|
| Net contributions receivable/pensions payable | 13.2 |
| Investment income receivable | 205.8 |
| Net gains in the value of investment assets | 2,496.8 |
| Sub Total Net Increases | 2,715.8 |
| | |
| Net transfer of members out of the Fund | (11.1) |
| Management expenses charged to the Fund | (71.0) |
| Sub Total Net Decreases | (82.1) |
| | |
| Total Increase in the Fund | 2,633.7 |

- 5.3 It is worth noting that the balance of contributions and benefits continued to be positive in 2016/17 – the £13.2 million shown in the table above – although this margin equates to only 2.5% of total benefits. The figure for contributions receivable also includes £31.9 million of early retirement contributions from employers, reflecting the additional contributions received as a result of employer staffing decisions during the year. 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 2017 stood at £14.3 billion, up from £11.7 billion at 31st March 2016. This comprised investment assets of £14.3 billion, and working balances of £41.7 million.
- 5.5 The Fund has taken the option under the CIPFA 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 £22.2 billion at 31st March 2017. This is an increase on the 31st March 2016 figure of £16.8 billion, primarily due to a decrease in the discount rate used in calculating the liabilities (driven by falling corporate bond yields during the year), along with other changes in actuarial assumptions.

5.6 The ITA Fund increased in value by £42.0 million. The reasons for this were:

| | Increase/ (Decrease) in Fund £m |
|---|---------------------------------------|
| Investment Income | 18.3 |
| Net gains in the value of investment assets | 41.3 |
| Sub Total Net Increases | 59.6 |
| | |
| Net transfer of members out of the Fund | (0.1) |
| Net contributions receivable/pensions payable | (16.6) |
| Management expenses charged to the Fund | (0.9) |
| Sub Total Net Decreases | (17.6) |
| | |
| Total Increase in the Fund | 42.0 |

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 2017 stood at £502.8 million, up from £460.9 million at 31st March 2016. This comprised investment assets of £502.2 million, and working balances of £0.6 million.

6.0 Financial implications

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

7.0 Legal implications

7.1 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.

8.0 Equalities implications

8.1 This report has no equalities implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 The report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.