

Pensions Committee

20 June 2018

Report title	Statement of Accounts 2017/18	
Originating service	Pension Services	
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Recommendation for decision:

The Committee is recommended to approve:

1. The draft statement of accounts for the year ending 31 March 2018.

Recommendation for noting:

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 2018.

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 2016/17' (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 25 May 2018, and by the Combined Authority's Finance Director on 25 May 2018.
- 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 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 In line with previous years, 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 21 March delegation has been given to the Chair of Pensions Committee the authority to approve the final publication of the 2017/18 Annual Report and Accounts following audit in July, and approval of the draft by Committee in June.

4.0 Draft Statement of Accounts 2017/18

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 2017/18, the main Fund grew in value by just under £1 billion. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net contributions receivable/pensions payable	498
Investment income receivable	241
Net gains in the value of investment assets	303
Sub Total Net Increases	1,052
Net transfer of members out of the Fund	(15)
Management expenses charged to the Fund	(67)
Sub Total Net Decreases	(82)
Total Increase in the Fund	960

4.3 It is worth noting that the balance of contributions and benefits continued to be positive in 2017/18 – the £498 million shown in the table above – although this margin is enhanced by prepayment of past service deficit contributions and some advanced annual contributions. The balance between the two is likely to be negative in 2018/19 and 2019/20 partly due to the timing of contributions but also as the fund becoming increasingly cashflow negative (before allowance for investment income) in future years as the number of pensioners and pensions in payment continues to rise more quickly than the number of active members and contributions. The figure for contributions receivable includes £34.6 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 2018 stood at £15.3 billion, up from £14.3 billion at 31 March 2017. This comprised investment assets of £15.3 billion, and working balances of £-31.6 million, compared to £41.7 million in 2016/17. The reason for the negative working balance is over £260 million of future service contributions due for 2017-2020 have been paid in advance.
- 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 £22.1 billion at 31 March 2018. This is a slight decrease on the 31 March 2017 figure of £22.2 billion, due to minor adjustments to the actuarial assumptions.
- 4.6 The draft statement of accounts for the WMPF Main Fund are attached at appendix A and have now been passed across to the auditors.
- 4.7 The ITA Fund decreased in value by £10.9million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Investment Income	17.8
Net gains in the value of investment assets	(11.9)
Sub Total Net Increases	5.8
Net transfer of members out of the Fund	(0.9)
Net contributions receivable/pensions payable	(14.8)
Management expenses charged to the Fund	(1.0)
Sub Total Net Decreases	(16.8)
Total Increase in the Fund	(10.9)

- 4.8 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 with declining active membership.
- 4.9 Net assets of the ITA Fund at 31 March 2018 stood at £492 million, up from £461 million at 31 March 2017. This comprised investment assets of £489 million, and working balances of £3 million.
- 4.10 The WMITA statement of accounts was provided to the auditors on 21 May with the audit being completed by the 5 June with only minor disclosure adjustments required and a final statement of accounts to be issued shortly. The draft unaudited statements are included at appendix B.

5.0 Investment Management Costs 2017/18

- 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. The following table analyses the total investment management costs reported above for the main WMPF accounts:

	Actual 2016/17 £'m	Actual 2017/18 £'m
External Investment Management Costs – Invoiced	6.1	11.4
External Investment Management Costs – Deducted at Source	57.4	44.7
Total External Investment Management Costs	63.5	56.1
Internal Investment Management Costs	2.2	2.8
Total Investment Management Costs	65.7	58.9

- 5.2 For WMITA, Investment Management expenses are provided in the table below:

	Actual 2016/17 £'m	Actual 2017/18 £'000
Total External Investment Management Costs	0.615	0.668
Internal Investment Management Costs	0.030	0.030
Total Investment Management Costs	0.645	0.698

6.0 LGPS Central Set-Up Costs

- 6.1 During the year, the Fund incurred costs on the set-up of LGPS Central Limited. These costs are being shared, on an equal-eighths basis, with the other seven partner funds. Costs were incurred in 2017/18 and in April and May 2018. A final position will be available in July 2018, but provisional year-end costs shows expenditure in line with the set up budget of £4m or £500,000 per Partner Fund. No set-up costs are chargeable to the ITA Fund, as it will not be a share-holder.
- 6.3 Strong budget management arrangements have been in place during the set-up phase, including three-weekly reporting to the LGPS Central Programme Board. With the company now having been established and fully operational from 1 April 2018, the Budget for LGPS Central Ltd has now become the responsibility of the Company Board and will be presented to shareholders on an annual basis. The first approval for the company's operating budget was given at the shareholder's meeting on 20 February 2018.

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

11.1 This report has no environmental implications.

12.0 Human resources implications

12.1 The report has no human resources implications.

13.0 Corporate landlord implications

13.1 This report has no corporate landlord implications.

14.0 Schedule of background papers

14.1 Operational Budget 2018/19, Report to Pensions Committee, 21 March 2018

15.0 Schedule of Appendices

15.1 Appendix A – Draft Statement of Accounts 2017/18 WMPF

15.2 Appendix B – Draft Statement of Accounts 2017/18 WMITA