

Pensions Board

25 September 2018

Report title	Annual Report and Accounts 2017/18	
Originating service	Pension Services	
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Recommendation for action or decision:

The Board is recommended to note:

1. The Statement of Accounts for West Midlands Pension Fund (WMPF) for the year ending 31 March 2018 was audited and completed by 31 July 2018.
2. The draft Annual Report & Accounts for WMPF were considered by Pensions Committee on 5 September and are now subject to audit by the Fund's external auditors, Grant Thornton.
3. The accounts for the West Midlands Integrated Transport Authority (ITA) for the year ending 31 March 2018 were audited and completed on 20 July 2018.

1.0 Purpose

- 1.1 The purpose of this report is to update the Board on the preparation, approval and audit of the Statement of Accounts and the Annual Report for the year ending 31 March 2018 and the latter's publication on the Fund's website.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce a Statement of Accounts and an Annual Report. These must be subject to external audit and published no later than 31 July (accounts) and 1 December (annual report) respectively.
- 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 2017/18' (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 31 May following the year end. The certification was given by the City of Wolverhampton Council's Chief Accountant on 31 May 2018 and by the Combined Authority's Finance Director on 18 May 2018.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 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. These deadlines were achieved in a challenging period for WMPF with a complete change in the Finance team, implementation of new processes and systems and the transition of employees and assets to LGPS Central Limited during closedown.
- 3.2 A combined Annual Report has been prepared which contains the report and accounts for both West Midlands Pension Fund and the ITA in the same document.

4.0 Draft Annual Report 2017/18

4.1 The draft Annual Report will shortly be made available on the Fund's website, <http://www.wmpfonline.com/annualreports>. The Fund has prepared a single Annual Report that includes both the WMPF 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:

- Maintaining the cost of administration, oversight and governance per member within budget (£21.07 versus £23.20).
- Achieving a return on investments (WMPF) of 8.9% p.a. over the three years to 31 March 2018 compared to a benchmark return of 8.4% p.a.
- Further streamlining portfolio management arrangements resulting in savings in investment management fees.
- Working with the Fund's investment pooling partners to launch LGPS Central Limited in line with the Government's Investment Pooling Guidance of 1 April 2018.
- Playing a key role through both the Local Authority Pension Fund Forum and the United Nations Principles for Responsible Investment (PRI) in advancing the responsible investment agenda.
- Continuing to develop the Fund's electronic business model including a rise in the number of members registered with the web portal to over 62,500 at 31 March 2018.

5.0 Statement of Accounts 2017/18

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 as 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 statements 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 2017/18, the WMPF grew in value by £1.1 billion. The reasons for this were:

	Increase/(Decrease) in Fund £m
Net contributions receivable/benefits payable	663.8
Investment income receivable	241.0
Net gains in the value of investment assets	302.8
Sub-total net increases	1,207.6
Net transfers by members out of the Fund	(15.4)
Management expenses charged to the Fund	(66.8)
Sub-total net decreases	(82.2)
Total increase in the Fund value	1,125.4

- 5.3 It is worth noting the sizeable balance of contributions receivable over benefits payable in 2017/18 – the £663.8 million shown in the table above. This follows on from the actuarial valuation as at 31 March 2016 and some of the local authorities choosing to pay their entire 3-year future service and past service deficit employer contributions as lump sums in April 2017, hence the significant increase in net contributions over the year. It is expected that this margin will decrease for the next two years as employer contribution receipts will be lower and the number of pensioners continues to rise more quickly than the number of active members. The £663.8 million also includes £34.6 million of early retirement contributions from employers as a consequence of their staffing decisions during the year.
- 5.4 Net assets of WMPF at 31 March 2018 stood at £15.4 billion up from £14.3 billion at 31 March 2017. This comprised investment assets of £15.3 billion and working balances of £134.3 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 IAS19 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 primarily due to changes in actuarial assumptions mitigated by annual interest on the liabilities to pay benefits and new benefits accrued over 17/18.

5.6 The ITA Fund decreased in value by £10.8 million. The reasons for this were:

	Increase/(Decrease) in Fund £m
Investment income	17.8
Net decrease in the value of investments	(11.9)
Sub-total net returns on investments	5.9
Net transfers by members out of the Fund	(0.8)
Net contributions receivable/benefits payable	(14.9)
Management expenses charged to the Fund	(1)
Sub-total net withdrawals & expenses	(16.7)
Total decrease in the Fund value	(10.8)

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 31 March 2018 stood at £492.0 million down from £502.8 million at 31 March 2017. This comprised investment assets of £488.9 million and working balances of £3.1 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.

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.