

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 26 July 2018.

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Subject:

West Yorkshire Pension Fund unaudited Report and Accounts for 31 March 2018.

Summary statement:

This is the audited report on West Yorkshire Pension Fund financial activities and financial performance for the year 2017/18 (attached as Appendix 1). The value of the Fund as at 31 March 2018 is £13,566.6m, a net decrease of £65.7m, 0.5%, compared to the asset value at 31 March 2017 of £13,632.3m. The reduction in value is mainly due to a large scale bulk transfer in October 2017 of assets estimated at £450m to Greater Manchester Pension Fund (GMPF) for FirstGroup West Yorkshire. There is a corresponding transfer of liabilities (which do not appear on the balance sheet) estimated at £482m, the net impact is an improved funding position for WYPF.

The actuarial valuation at 31 March 2016 determined that the funding level was 94% one of the highest funding levels within LGPS in the last valuation. Following the large transfer of assets and liabilities to GMPF, an updated funding report at 31 March 2018 was requested from Aon, which indicates that the fund is now 107% funded. This improvement is principally due to the strong financial markets since the 2016 valuation. As this is merely an updated funding level, it will not provide any cashflow benefit to employers. If the markets remains steady to 31 March 2019 this should result in employers' contributions continuing at current levels, however investment markets may go up or down.

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Portfolio:

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Overview & Scrutiny Area:

1 SUMMARY

- 1.1 In order to comply with statutory accounting requirements for Local Government and Local Government Pension Schemes, WYPF must prepare an annual audited Report and Accounts. The 2017/18 Reports and Accounts has been brought to the Joint Advisory Group to consider and note, before being presented for approval by Bradford Council Governance and Audit Committee on 30 July 2018.
- 1.2 The Reports and Accounts provide a summary of West Yorkshire Pension Fund's financial position for the year ended 31 March 2018. The audited accounts have been prepared in accordance with:
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
 - CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
 - Pensions Statement of Recommended Practice 2007
 - International Financial Reporting Standards (IFRS), as amended for the UK public sector

Key events in 2017/18

- 1.3 Mid 2017/18 we received notice from First West Yorkshire Group requesting transfer of their members' pension to GMPF. WYPF agreed to this transfer due to the large deficit on First West Yorkshire pension account. Secretary of State Direction was provided in September 2017, stipulating effective transfer date of 1 October 2017 and asset transfers to be completed by 31 March 2019. The net deficit for First West Yorkshire Group at the last valuation was £43.0m, resulting in a funding level of 89.49%.
- 1.4 Our estimate is that the funding position has improved by 2017/18 to 93.32%. This is due to the positive financial markets in 2016/17. We used this estimated funding position to draft a transfer plan for First West Yorkshire Group.

	<u>Triennial Valuation</u> 31/03/2016 £m	<u>Estimates</u> 31/03/2017 £m
Assets	366.18	450.00
Liabilities	409.20	482.20
Deficit	-43.03	-32.17
Funded %	89.49%	93.32%

External Auditor work 2017/18

- 1.5 Bradford Council auditors, Mazars will be present at the meeting of the Joint Advisory Group on 26 July 2018.

2 BACKGROUND

Initial value of assets

- 2.1 The value of the Fund as at 31 March 2017 is £13,632.33m, a net increase of £2,421.35m, 21.59%, from 31 March 2016. The table below gives assets values for the last eight years including 2017/18:

<u>Year to 31 March</u>	<u>Net Asset</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
	<u>£m</u>	<u>£m</u>	
2018	13,566.63	(£65.70)	-0.48%
2017	13,632.33	£2,421.35	21.59%
2016	11,210.98	(£108.22)	-0.96%
2015	11,319.20	£950.40	9.17%
2014	10,368.80	£428.50	4.31%
2013	9,940.30	£1,155.89	13.16%
2012	8,784.41	£134.11	1.55%
2011	8,650.30	£710.80	8.95%

Decrease in net assets during the year

- 2.2 The decrease in net assets of £65.7m between 31 March 2017 and 31 March 2018 is mainly due to the bulk transfer of assets of £450m to GMPF and net payments of £78.5m from dealing with members (pension payments of £485.8 less contributions received of £407.3m). This impact was reduced to £65.7m by a moderate net return of £462.1m on our investments.

Investment income

- 2.3 Total return on investment of £462.1m is made up of £74.5m (2016/17 £2,180.6m) increase in market value and net investment income of £392.1m (2016/17 £338.46m) from dividends, interest, and stock lending commission, less taxes on income.

Net cashflow

- 2.4 The Fund continues to have a positive net cashflow of £309.1m (2017 was £240.8m), once the exceptional bulk transfer for First Group of £450m is added back.

Investment performance

- 2.5 In 2017/18 our investment activities delivered a return of 3.3%. Investment returns against benchmark are as follows:

<u>31 March 2018</u>	<u>Annualised Return</u>	<u>Fund Specific Benchmark</u>	<u>Over /(Under)</u>
	<u>%</u>	<u>%</u>	<u>%</u>
One Year	3.3	3.2	0.1
Three Years	7.8	7.5	0.3
Five Years	7.9	7.7	0.2
Ten Years	7.3	7.1	0.2

Membership numbers

- 2.6 During 2017/18 our active membership was virtually the same as last year 2016/17, with an increase of 136 active members, from 101,881 to 102,017. Total membership rose by 1,651 (0.6%) from 284,820 to 286,471.

Number of employers

- 2.7 During 2017/18 employer numbers paying contributions increased from 456 to 477, an increase of 21 (4.6%). At 31 March 2018 there were 443 (2017 422) active employers.

Key performance indicators

- 2.8 The table below shows our 2017/18 performance in 18 key work areas, this performance reflects the commitment of officers and managers in delivering services to all our clients.

Work type	Total cases	Target days	Target cases met	KPI target %	Actual KPI 2017/18 %	Actual KPI 2016/17 %
1. Payment of pensioners (WYPF LG pensioners and beneficiaries)	1,042,404	Due days	1,042,404	100.00	100.00	100.00
2. Transfer-in quote	563	35	559	85.00	99.29	96.44
3. Transfer-in payment received	353	35	331	85.00	93.77	88.17
4. Divorce quote	516	35	499	85.00	96.71	96.12
5. Refund quote	2,457	35	2,421	85.00	98.53	89.89
6. Refund payment	2,704	10	2,655	95.00	98.19	98.96
7. Transfer-out quote	1424	35	1339	85.00	94.03	92.13
8. Transfer out payment	245	35	232	85.00	94.69	91.62
9. Pension estimate	6,317	10	4,816	75.00	76.24	83.19

Work type	Total cases	Target days	Target cases met	KPI target	Actual KPI 2017/18	Actual KPI 2016/17
10. Retirement actual	2,863	3	2,625	90.00	91.69	94.26
11. Deferred benefits into payment actual	1,999	5	1,777	90.00	88.89	93.03
12. Death grant single payment	447	5	395	90.00	88.37	99.06
13. Change of address	4,529	5	4,381	85.00	96.73	97.64
14. Life certificate received	5,046	20	4,876	85.00	96.63	98.48
15. Payroll changes	1,941	5	1,866	90.00	96.14	97.77
16. Change to bank details	1,483	5	1,305	90.00	88.00	97.48
17. Death in retirement	2,384	5	2,177	85.00	91.32	92.91
18. Retirement quote	3,086	10	2,843	85.00	92.13	94.36

2016/17 Pension administration cost per member

2.9 The latest published data (2016/17) for all LGPS funds administration costs shows that pensions administration cost per member is £14.35, the 7th lowest cost amongst 89 LGPS funds and well below the national average of £27.81. The lowest cost per member for pension administration is £10.92 and the highest is £86.43.

2016/17 Investment management cost per member

2.10 For investments we have the lowest cost per member at £20.58, while the highest is £476.36. This low cost is mainly the result of our internal management of assets, and using the same back office to support both investment and pension administration.

2016/17 Oversight and governance cost per member

2.11 On oversight and governance we have the 9th lowest cost £3.10. The lowest is £0 (this is impossible) and the highest is £78.62.

2016/17 Total cost per member

2.12 We have the lowest total cost per members (administration, investment and oversight & governance) at £38.03, the national average for LGPS in 2016/17 is £214.87 and the highest is £531.84.

Cost per member 2016/17	Position	West Yorkshire Pension Fund	LGPS Lowest	LGPS Highest
Admin cost per member	7th	£14.35	£10.92	£86.43
Investment cost per member	1st	£20.58	£20.58	£476.36
Oversight & Governance	9th	£3.10	£0.00	£78.62
Total cost per member	1st	£38.03	£38.03	£531.84

2017/18 Cost per member

- 2.13 The 2017/18 annual cost of administering the West Yorkshire Pension Fund per member is £14.35, investment management cost per member is £21.11, oversight and governance cost per member £1.91 and the total management cost per member is £37.37. These figures compare favourably with the average cost for authorities in the DCLG –SF3 results for 2016/17 as shown in the table above.

Accounting policy change

- 2.14 In order to address the technical accounting issues presented by the First West Yorkshire Group bulk transfer, being completed over two financial years, we have had to review and change our accounting policy on bulk transfers. The policy change allowed for the estimated amount outstanding to be paid to GMPF in 2018/19 to be fully accrued in accounts for in 2017/18. This change of policy ensured our policies are consistent with accounting standards and financial reporting disclosure guidelines.

Old accounting policy on - Transfers in and out of the fund

- 2.15 Transfer values represent amounts received and paid during the period for individual and bulk transfers that came into, or out of the fund. These are calculated in accordance with the Local Government Pension Scheme Regulations 2013.

New accounting policy on - Transfers in and out of the Fund

- 2.16 Transfer values represent amounts received and paid during the period for individuals. Bulk (group) transfers are accounted for on an accruals basis, these are calculated in accordance with the Local Government Pension Scheme Regulations 2013.
- 2.17 The change in accounting policy allowed us to accrue for the balance of payment of £300m outstanding to GMPF for the First West Yorkshire Group transfer.

First West Yorkshire Group

	<u>£m</u>	<u>£m</u>
Estimated Assets		450
Payments made		
Dec 17	75	
Mar 18	<u>75</u>	
Paid		150
<u>Outstanding</u>		<u>300</u>

Custodial Contract – Northern Pool Common Custodian

- 2.18 In March 2018, after a complex competitive tender process, the Northern Pool Shadow Joint Committee approved the appointment of a common custodian bank, Northern Trust, to provide custodial services for all funds in the pool. The appointment of a common custodian is a key strategic milestone in setting up the Northern Pool
- 2.19 Northern Trust is contracted to provide:
- Global securities custody
 - Stock Lending
 - Private equity fund administration and custody
 - Performance monitoring
 - Pool reporting on:
 - Compliance
 - Carbon reporting
- 2.20 The tender process, as expected, focused on quality of service, asset safeguarding, and cost of services. Northern Trust will replace the current custodian bank JP Morgan for GMPF and HSBC for WYPF. MPF is currently with Northern Trust, therefore MPF will not need to change.
- 2.21 WYPF plan to transfer custodian services to Northern Trust in September 2018 and GMPF will be transferring between December 2018 and February 2019.

HSBC Banking and Global Securities Custody Contract

- 2.22 We currently have a single contract with HSBC for banking and global securities custody services. With the transfer of global securities to Northern Trust, we will be left with banking services with HSBC. In order to manage the complexity and service risks associated with financial assets our plan is to extend the current contract with HSBC for banking and global securities custody for two years. We will only pay for the services we receive, and the two year extension will allow us to focus on the services we are transferring to Northern Trust ensure these perform as expected, and to review banking services needed to support investment and pensions administration shared operations
- 2.23 Within the next 12 to 15 months, we plan to go out to tender for WYPF banking services after a full review of the type of banking services needed post pooling and how best to sustain the pension administration shared service.

3 OTHER CONSIDERATIONS

- 3.1 The financial accounts for the Council must be approved by the Governance and Audit

Committee by 31 July 2018.

4 FINANCIAL & RESOURCE APPRAISAL

- 4.1 The Council is required by law to produce an audited annual financial report for WYPF within the Council's financial statement. The audited account for the Council must be completed by the specified statutory deadline of 31 July 2018. In addition WYPF must publish a separate audited reports and accounts by 1 December 2018, this report must be prepared in accordance with accounting standards and comply with statutory requirements.

5 RISK MANAGEMENT AND GOVERNANCE ISSUES

- 5.1 WYPF reports and accounts is a statutory financial document. It is a key element of financial risk management and governance tool and provides evidence of risk management and governance processes in operation during the financial year.

6 LEGAL APPRAISAL

- 6.1 In order to meet statutory deadlines the reports and accounts have to be approved and signed by the Chair of Governance and Audit Committee on or before 31 July 2018. There are no other legal issues.

7 OTHER IMPLICATIONS

None

8 RECOMMENDATION

- That the unaudited reports and accounts for 2017/18 be considered and noted.
- That the Group note the planned transfer of custody to Northern Pool.
- That the Group note the planned extension and review of banking services for WYPF

9 APPENDICES

Appendix 1 – WYPF Unaudited Reports and Accounts 2017/18