

## Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 31 January 2019.

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### Subject:

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

### Summary statement:

This is the final report on West Yorkshire Pension Fund financial activities and financial performance for the year 2017/18 (available on our website [https://www.wypf.org.uk/Member/Publications/ReportAndAccounts/year/2018/West\\_Yorkshire\\_Pension\\_Fund\\_2017\\_18\\_ReportAndAccounts.pdf](https://www.wypf.org.uk/Member/Publications/ReportAndAccounts/year/2018/West_Yorkshire_Pension_Fund_2017_18_ReportAndAccounts.pdf) ).

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.

### RECOMMENDATION

- That the audited reports and accounts for 2017/18 be noted.

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Rodney Barton  
Director WYPF

**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 are presented to the Committee for approval.

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 (approval) 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 to 93.32% at the beginning of 2017/18. This is due to the positive investment markets in 2016/17. We used this estimated funding position to draft a transfer plan for First West Yorkshire Group.

	<u>Triennial Valuation</u>	<u>Estimates</u>
	31/03/2016	31/03/2017
	<u>£m</u>	<u>£m</u>
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, were present at the meeting of CBMDC Governance and Audit Committee on 30 July 2018, to report on the account and present the audit completion report for 2017/18. Mazars were also present at the JAG meeting of 26 July 2018.

## 2 BACKGROUND

### Value of assets

- 2.1 The value of the Fund as at 31 March 2017 is £13,566.63m, a net decrease of £65.70m 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 of £450m to GMPF 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
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

### 2017/18 Pension administration cost per member

- 2.9 The latest published data (2017/18) for all LGPS funds administration costs shows that WYPF pensions administration cost per member is £14.05 (£14.35 for 2016/17), the 7th lowest cost amongst 89 LGPS funds and well below the national average of £20.85. The lowest cost per member for a UK pension administration in 2017/18 is £8.83 (£8.96 for 2016/17) and the highest in 2017/18 is £60.98 (£86.43 for 2016/17).

### 2017/18 Investment management cost per member

- 2.10 For investments we have the lowest cost per member at £20.48 (£20.58 for 2016/17), while the highest is £577.00 (£476.36 for 2016/17). Our 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.

### 2017/18 Oversight and governance cost per member

- 2.11 On oversight and governance we have the 7th lowest cost £1.92 (£3.10 for 2016/17). The lowest is £0 (this is impossible) and the highest is £96.00 (£78.62 for 2016/17).

### 2017/18 Total cost per member

- 2.12 We have the lowest total cost per members (administration, investment and oversight & governance) at £36.45 (£38.03 for 2016/17), the national average for LGPS is in 2016/17 is £205.24 (£214.87 for 2016/17) and the highest is £726 (£531.84 for 2016/17).
- 2.13 Extract from the account is produced below showing the latest information available during the 2017/18 final audit. The 2017/18 were published in December 2018.

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

### Accounting policy change

- 2.14 In order to address technical accounting issues presented by the First West Yorkshire Group bulk transfer asset payments being made over two accounting periods, 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, also supports our operations and financial activities.

#### Old accounting policy

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

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.

- 2.15 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.

<b><u>First West Yorkshire Group</u></b>		<b><u>£m</u></b>	<b><u>£m</u></b>
Estimated Assets			450
Payments made			
	Dec 17	75	
	Mar 18	<u>75</u>	
Paid			150
<b><u>Outstanding and accrued</u></b>			<b><u>300</u></b>

- 2.16 The latest position for the asset transfer to GMPF is shown in the table below:

Financial Year	Month paid	Scheduled	Paid	Outstanding
		£m	£m	£m
2017/18	Dec-17	75	75	0
2017/18	Mar-18	75	75	0
2018/19	Jun-18	75	75	0
2018/19	Sep-18	75	75	0
2018/19	Dec-18	75	75	0
2018/19	Mar-19	75.032	0	75.032
<b>Total</b>	<b>Notional transfer value</b>	<b>450.032</b>	<b>375</b>	<b>75.032</b>

### 3 OTHER CONSIDERATIONS

- 3.1 The financial accounts for the Council together with WYPF accounts were approved by the CBMDC Governance and Audit Committee on 30 July 2018, with no audit qualification. Both CBMDC and WYPF were commended by our auditors Mazars.

### 4 FINANCIAL & RESOURCE APPRAISAL

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 30 July 2018. In addition WYPF must

publish a separate audited report and accounts by 1 December 2018, this report must be prepared in accordance with accounting standards and comply with statutory requirements. Both statutory deadlines were met.

## **5 RISK MANAGEMENT AND GOVERNANCE ISSUES**

The WYPF report 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**

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

## **7 OTHER IMPLICATIONS**

None

## **8 NOT FOR PUBLICATION DOCUMENTS**

The Council accounts are published on the Councils website and WYPF report and accounts are published on the WYPF website.

## **9 OPTIONS**

- 9.1 The Group must consider, note the report and may make recommendations to management on any part of the reports.

## **10 RECOMMENDATION**

- That the audited reports and accounts for 2017/18 be noted.

## **11 APPENDICES**

Available on our website

[https://www.wypf.org.uk/Member/Publications/ReportAndAccounts/year/2018/West Yorkshire Pension Fund 2017 18 ReportAndAccounts.pdf](https://www.wypf.org.uk/Member/Publications/ReportAndAccounts/year/2018/West%20Yorkshire%20Pension%20Fund%202017%2018%20ReportAndAccounts.pdf)