WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

Financial Report

For the year ended 31 March 2017

Pension Scheme Registry (Pensions Regulator) 10175688

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Explanatory foreword

The following statements comprise the Financial Report for the West Midlands Integrated Transport Authority ('ITA') Pension Fund ('the Fund'). The accounts cover the financial year from 1 April 2016 to 31 March 2017.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 published by the Chartered Institute of Public Finance and Accountancy.

The report is set out in the following order:

- **The Treasurer's Report** which provides general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.

- **Statement of Responsibilities for the Fund Accounts** which sets out the respective responsibilities of the Authority and the Treasurer for the Fund Accounts.

- **The Investment Report** which provides details of the investment managers, investment principles and custodial arrangements plus a review of investment performance at the year end.

- **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between contributions and benefits, and returns on investments.

- **Net Assets Statement** which discloses the size and disposition of the net assets of the scheme at the end of the year.

- **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the financial statements.

- **The Compliance Statement** which gives the tax status of the scheme and pension increases during the year.

- **Statement by the Consulting Actuary –** This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme.

The Treasurer's Report

1. Description of the Fund

The West Midlands Passenger Transport Authority Pension Fund was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English Passenger Transport Authorities to Integrated Transport Authorities. This was effective from the 9 February 2009 under Statutory Instrument 2009 No. 107 (C.08), and the West Midlands Passenger Transport Authority Pension Fund was changed to the West Midlands Integrated Transport Pension Fund ('the Fund').

The West Midlands Integrated Transport Authority (ITA) was responsible for the administration of the Fund until 16 June 2016 when the responsibility passed to the West Midlands Combined Authority (WMCA) when it was established on 17 June 2016 under Statutory Instrument 2016 No 653 in exercise of the Local Democracy, Economic Development and Construction Act 2009. The effect of the order was that the WMCA was substituted for the ITA as administrator of the Fund. City of Wolverhampton Council was appointed by the then ITA as agent to administer the Fund on its behalf. The name of the Fund remain unchanged. The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request.

Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during 2005/2006 in return for a cash lump-sum payment. The 4 active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

2. Management of the Fund

The West Midlands Pension Fund (WMPF) Pensions Committee is responsible for the strategic management of the assets of the Fund. The role of the Committee is to:

- Discharge functions of the administering authority (WMCA);
- Put in place and monitor administration of contributions and payment of benefits; and
- Determine and review the provision of resources to discharge the function of the administering authority.

3. Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Committee to receive appropriate and timely advice. The day-to-day oversight of the Fund is delegated to senior pension officers from the WMPF at the City of Wolverhampton Council.

Against this background its principal advisors are as follows:

HSBC Bank plc	Performance measurement and unitisation
Barnett Waddingham LLP	Actuarial matters
Hymans Robertson LLP	Policy and investment matters relative to liabilities
City of Wolverhampton Council Officers	Investment implementation and administration, oversight of cash flows and pensions administration.
Grant Thornton UK LLP	Scheme auditors

4. Membership

Membership of the Fund at the year end was as follows:

31 March 2016 No		31 March 2017 No
470	Active members	402
3,845	Pensioner members	3,891
814	Deferred members	779
5,129	**Total members**	**5,072**

5. Funding Strategy Statement (FSS)

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2017 depending on the level of pay.

Employee contributions are matched by employers' contributions. The Fund is required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. The latest actuarial valuation was carried out in March 2016 with the Funding Strategy review playing an integral role in it. The current version of the Funding Strategy Statement was approved by the Pensions Committee in March 2017 and can be found on the Fund's website (*http://www.wmpfonline.com/wmita).*

6. Benefits

With effect from 1 April 2008, new rules were introduced replacing the 1997 scheme. The principal changes were the replacement of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump-sum of three times this amount by one based on 1/60th of pensionable pay for each year of pensionable service with no automatic lump-sum. Part of the

annual pension can be commutated for a one-off tax-free lump-sum at a rate of £12 cash for each £1 per annum of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer price index. Pension entitlements accrued prior to this date continue to be based on final salary.

7. Bulk annuity insurance arrangement

As an integral part of its risk management and reduction strategy the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18 April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for current pensioners whilst they or their dependants are entitled to a pension. The initial arrangements do not cover the Preston Bus Company liabilities or future West Midlands Travel Limited pension payments arising from new pensioners or inflation uplifts or pre-October 1986 service.

The financial effect of the buy-in is explained in note 14 to the accounts.

8. Investment strategy

As a result of the buy-in impacting the liabilities of only one of the underlying employers, each employer has their own investment strategy. In 2015, the assets attributable to the Fund's two employers were unitised to improve reporting and monitoring of the different investment strategies as well as to enable performance information for both employers to be reported separately. Concurrently, HSBC was commissioned to provide the fund accounting platform for these funds.

From July 2015, the Fund elected to receive notional dividend income payment (NDIP) from Legal & General in respect of their UK investments. This decision was made to help maintain a positive cash flow position.

In accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, a new investment strategy for the Fund was issued in March 2017 and is available on the Fund's website (*http://www.wmpfonline.com/wmita)*.

On behalf of the Combined Authority Board

Mark Taylor
Director of Finance

Date:

The West Midlands Combined Authority's responsibilities

The West Midlands Combined Authority is required:

(i) To make arrangements for the proper administration of the financial affairs of the ITA Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer.

(ii) To manage the affairs of the ITA Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets.

The Treasurer's responsibilities

The Treasurer to the Authority is responsible for the preparation of the ITA Pension Fund Statement of Accounts which is required to present fairly the financial position of the ITA Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2017.

In preparing this Statement of Accounts, the Treasurer has confirmed that:

- suitable accounting policies have been adopted and then applied consistently;
- judgements and accounting estimates have been made which were reasonable and prudent;
- they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code);
- proper accounting records have been kept and are up to date;
- reasonable steps were taken for the prevention and detection of fraud and other irregularities.

Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of the West Midlands Integrated Transport Authority Pension Fund at 31 March 2017 and the financial transactions for the year ended 31 March 2017.

Mark Taylor
Director of Finance
Date:

Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the West Midlands Combined Authority Board Committee on 21 July 2017.

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

We have audited the pension fund financial statements of West Midlands Integrated Transport Authority Pension Fund (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Grant B Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

1. Investment managers

At 31 March 2017, the market value of the ITA Pension Fund was £502.9m. The largest component of this was an insurance policy valued at £255.0m, and a further £247.2m was invested with three fund managers. £152.6m was invested with Legal & General Investment Management, £47.3m with Baillie Gifford and £47.3m with Newton. The balance of the Fund was held in liquid investments. Legal & General managed equities, gilts and corporate bonds whilst Baillie Gifford and Newton managed diversified growth funds.

As at the year end the values of the funds under management were as follows:

Total market value 31 March 2016			Total market value 31 March 2017	
£'m	%		£'m	%
128.4	62%	Legal & General Investment Management	152.6	62%
38.8	19%	Baillie Gifford	47.3	19%
40.5	19%	Newton	47.3	19%
207.7	100%		**247.2**	100%

2. Investment Strategy Statement (ISS)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, in force from 1 November 2016, require Administering Authorities to publish their first Investment Strategy Statement (ISS) by 1 April 2017. The ISS replaces the current Statement of Investment Principles (SIP) and under the new Regulations must be prepared in accordance with the statutory guidance issued by DCLG in September 2016. The current version was approved by Pensions Committee in March 2017.

A copy of the previous Statement of Investment Principles and a copy of the current Investment Strategy Statement can be found on the Fund's website *(http://www.wmpfonline.com/wmita).*

3. Review of investment performance

With the exception of corporate bonds, Legal & General manages their investments on a passive basis with the expectation of making market returns. Corporate bonds are managed on an active basis with the expectation of producing returns above the market using the manager's skills to outperform. In respect of Newton and Baillie Gifford, unlike traditional portfolios, diversified growth funds do not measure their performance against market indices. Instead they aim to earn a consistent return above cash.

Over the last five years the Fund's returns, relative to the bespoke benchmark*, are as follows:

	Year ending 31 March				
	2013	**2014**	**2015**	**2016**	**2017**
Fund	+12.6%	+3.0%	+12.7%	-0.7%	+18.2%
Benchmark	+12.3%	+3.8%	+11.5%	+0.9%	+17.2%
Relative	+0.3%	-0.8%	+1.2%	-1.6%	+1.0%

* The bespoke benchmark is a pro-rated combination of the different indices used by the above mentioned managers.

The annualised performances of the Fund over 1, 3, 5 and 10 years are detailed below:

	1 Year	3 Years	5 Years	10 Years
Fund	+18.2%	+9.8%	+9.0%	+7.3%
Benchmark	+17.2%	+9.6%	+9.0%	+7.3%
Relative	+1.0%	+0.2%	+0.0%	+0.0%

During the year to 31 March 2017, the Fund outperformed the benchmark by 1.0%. Most of this outperformance was attributable to the diversified growth funds which returned 6.6% against a target of 4.1% for the 12-month period. The equity portfolio matched its benchmark returning 32.4%. The fixed income sector produced a positive return of 14.5% also matching the benchmark.

The performance of the Fund is reviewed by an independent measurer, HSBC Securities Services. Investment returns are based on bid-point valuations.

4. Custodial and accounting arrangements

The ITA Pension Fund is composed of two employers that have different member profiles and funding levels, each has its own tailored investment strategy. A unitisation approach is taken to facilitate the requirements of both employers. HSBC provide the fund accounting services.

As the membership profile of the Fund advances towards maturity, its cashflow profile has changed due to falling receipts of pension contributions and rising pension payments. To mitigate this reduction in cash, three of the Legal & General funds (UK equities, index-linked gilts and corporate bonds) are distributing funds from which income is received on a monthly basis.

The ITA Pension Fund currently holds all of its investments in pooled investment vehicles managed by FCA regulated fund managers with administrative and custody arrangements in place to support them. The Fund owns units in investment vehicles (rather than the underlying assets) and obtains and reviews reporting accountants' reports on internal controls from the relevant investment managers to ensure control arrangements are suitable and risks are effectively managed.

Where direct investments are held by the ITA Pension Fund these will be held by our Custodian, HSBC.

Custodian: HSBC Bank plc
HSBC Securities Services, 8 Canada Square, London, E14 5HQ

Assets will be held in the name of: HSBC Global Custody Nominee (UK) Ltd.

The Custodian is authorised and regulated by the Financial Conduct Authority (FCA) and the Custodian shall take all reasonable steps to ensure the protection of the Client's assets in accordance with the FCA rules.

FUND ACCOUNT

2015/16 £'000		Notes	2016/17 £'000
	Dealings with members, employers and others directly involved in the fund		
(10,482)	Contributions	5	(9,504)
(65)	Transfers in from other pension funds	6	(59)
(2,766)	Other employer contributions	7	(2,654)
(13,313)			(12,217)
28,829	Benefits	8	28,769
457	Payments to and on account of leavers	9	147
6	Other payments	10	8
29,292			28,924
15,979	**Net withdrawals from dealing with members**		**16,707**
917	Management expenses	11	866
16,896	**Net withdrawals including fund management expenses**		**17,573**
	Returns on investments		
(18,161)	Investment income	12	(18,326)
2,440	(Profits) and losses on disposal of investments and changes in the market value of investments	13	(37,118)
12,846	(Increase)/decrease in value of bulk annuity insurance buy-in	14	(4,148)
(2,875)	**Net return on investments**		**(59,592)**
14,021	**Net (increase)/decrease in the net assets available for benefits during the year**		**(42,019)**
474,886	Net assets of the fund brought forward		460,865
460,865	**Net assets of the fund carried forward**		**502,884**

NET ASSETS STATEMENT

2016 £'000		Notes	2017 £'000
207,731	Investment assets	13	247,173
250,874	Bulk annuity insurance buy-in	14	255,022
2,746	Current assets	15	1,190
(486)	Current liabilities	16	(501)
460,865	**Net assets of the fund available to fund benefits at the period end**		**502,884**

These financial statements replaced the unaudited financial statements certified by Mark Taylor on 30 May 2017. They were approved for issue by the West Midlands Combined Authority Board Committee on 21 July 2017. Events after the Balance Sheet have been considered up to the date of approval.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed in note 22 of these accounts.

2. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment income

(i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective rate of the financial instrument as at the date of acquisition or origination.

(ii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

(iii) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(iv) Benefits underwritten
The annuity purchased (see note 14) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the fund as investment income on an accruals basis.

(v) Dividend income
Dividend income is recognised on the date of the cancellation of units at the mid-price in the pooled UK investments held with investment fund managers.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

(i) Value Added Tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

(ii) Income Tax
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted.

f) Administration expenses

All administration expenses are accounted for on an accruals basis.

The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment management expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The costs of the in-house fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and professional fees relating to the unitisation exercise.

Net assets statement

i) Financial assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable it is written off to the fund account in the period in which it is recognised.

Investment assets are recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 18). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

j) Financial liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the fund account in the period in which it is recognised.

k) Foreign currency transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 22).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 17).

3. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the future and other major sources of estimation and uncertainty

The financial statements contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pension fund liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects on the net pension liability and funding level of changes in individual assumptions have been measured by the Fund's actuaries. The assumptions used are as follows:

31 March 2016	Assumptions used	31 March 2017
3.1%	Discount rate	2.4%
2.0%	Salary increases	2.5%
2.0%	Pensions increases	2.5%

31 March 2016	Life expectancy from age 65 (years)	31 March 2017
	Retiring today:	
21.5	Males	21.8
24.4	Females	23.8
	Retiring in 20 years:	
23.4	Males	23.9
26.4	Females	26.1

The effect on the pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2017	Increase/(decrease) in pension liability	
Adjustment to discount rate Present value of total obligation	+0.5% (£44.2m)	-0.5% £47.7m
Adjustment to long term salary increase Present value of total obligation	+0.5% £3.7m	-0.5% (£3.5m)
Adjustment to pension increases and deferred revaluation Present value of total obligation	+0.5% £43.8m	-0.5% (£40.9m)
Adjustment to life expectancy assumptions Present value of total obligation	+1 Year £27.0m	-1 Year (£25.9m)

5. Contributions receivable

2015/16 £'000		**2016/17 £'000**
	Employers	
3,057	Normal contributions	2,767
5,850	Deficit funding	5,850
624	Early retirement costs	26
9,531		8,643
	Members	
947	Normal contributions	859
4	Additional contributions	2
951		861
10,482	**Total by category**	**9,504**
	Analysed by member body:	
10,482	Admitted bodies	9,504
10,482	**Total by authority**	**9,504**

Employers' contribution rates following the 31 March 2016 valuation for the period 1 April 2017 to 31 March 2020 are detailed in note 21.

6. Transfer in from other pension funds

2015/16 £'000		**2016/17 £'000**
	Transfers in	
65	Individual transfers	59
65	**Total**	**59**

7. Other employer contributions

Pre-October 1986 pension increase liabilities are the responsibility of the West Midlands Combined Authority. The West Midlands Combined Authority makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.654m (2016: £2.766m) were made.

8. Benefits payable

2015/16 £'000		2016/17 £'000
	Pensions	
22,833	Retirement pensions	22,946
1,865	Widows' pensions	2,005
13	Children's pensions	12
18	Widowers' pensions	22
24,729		24,985
3,922	Commutation and lump-sum retirement benefits	3,167
213	Lump-sum death benefits	617
(35)	Benefits recharged	-
28,829	**Total by category**	**28,769**
	Analysed by member body:	
28,829	Admitted bodies	28,769
28,829	**Total by authority**	**28,769**

9. Payments to and on account of leavers

2015/16 £'000		2016/17 £'000
	Transfers out	
457	Individual transfers out to other schemes and personal pensions	147
457	**Total**	**147**

10. Other payments

2015/16 £'000		2016/17 £'000
6	Interest on late payments	8
6	**Total**	**8**

11. Management expenses

2015/16 £'000		2016/17 £'000
	Administration expenses	
120	Administration - City of Wolverhampton Council	120
120		120
	Investment management expenses	
615	Management fees - external	615
30	Management fees - internal	30
645		645
	Oversight and governance costs	
41	Administration and accountancy - ITA	22
9	Subscriptions	8
1	Actuarial fees	3
21	Audit fees	21
15	Performance monitoring service	25
12	Legal fees	-
51	Professional advisors' fees	20
2	Bank charges and interest	2
152		101
917	**Total**	**866**

12. Investment income

2015/16 £'000		2016/17 £'000
4	Interest on cash deposits	7
17,076	Benefits underwritten	16,865
1,081	Dividend income	1,454
18,161	**Total**	**18,326**

Benefits underwritten relates to income received from the insurance contract with Prudential meeting the liabilities relating to West Midlands Travel Limited pensioners.

Dividend income relates to the notional dividend income payment (NDIP) which enables a policyholder to draw a regular income from the investment funds. The NDIP is based on the underlying yields from UK investments held by the relevant investment funds and is made available through cancellation of units of the investment funds at the mid-price.

13. Investment assets

Reconciliation of movements in investments:

Movements during 2016/17	Market value 1 April 2016 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2017 £'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	54,410	3,900	(400)	-	7,118	65,028
Overseas - unitised insurance policies	74,033	-	(10,800)	-	24,353	87,586
Unquoted:						
Diversified growth funds	79,288	9,900	-	(276)	5,647	94,559
Total investments	**207,731**	**13,800**	**(11,200)**	**(276)**	**37,118**	**247,173**

Prior year comparatives:

Movements during 2015/16	Market value 1 April 2015 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2016 £'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	56,244	-	(990)	-	(844)	54,410
Overseas - unitised insurance policies	75,789	-	-	-	(1,756)	74,033
Unquoted:						
Diversified growth funds	79,385	38,216	(38,216)	(257)	160	79,288
Total investments	**211,418**	**38,216**	**(39,206)**	**(257)**	**(2,440)**	**207,731**

Purchases include transfers in of investments, corporate actions, increases in cash deposits and increases in net settlements due. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits and reductions in net settlements due. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year.

Investments analysed by fund manager:

31 March 2016			31 March 2017	
Market value £'000	% of total fund		Market value £'000	% of total fund
128,442	62%	Legal & General Investment Management	152,614	62%
38,838	19%	Baillie Gifford	47,281	19%
40,451	19%	Newton	47,278	19%
207,731	100%		**247,173**	100%

Investments analysed by security:

31 March 2016			31 March 2017	
Market value £'000	% of total fund		Market value £'000	% of total fund
		UK equities		
7,635	4%	UK Equity Index	9,697	4%
7,635	4%		9,697	4%
		Overseas equities		
20,257	10%	Europe (ex UK) Equity Index	24,584	10%
26,326	13%	North America Equity Index	29,002	12%
8,825	4%	Japan Equity Index	9,323	4%
10,943	5%	World Emerging Markets Equity Index	14,870	6%
7,682	4%	Asia Pacific (ex Japan) Dev Equity Index	9,807	4%
74,033	36%		87,586	36%
		Gilts and bonds		
23,663	11%	All Stocks Index-Linked Gilts	28,122	11%
23,111	11%	Active Corporate Bond - All Stocks	27,209	11%
46,774	22%		55,331	22%
		Diversified growth funds*		
38,838	19%	Baillie Gifford	47,281	19%
40,451	19%	Newton	47,278	19%
79,289	38%		94,559	38%
207,731	**100%**	**Total market value**	**247,173**	**100%**

*Diversified growth funds are multi-asset portfolios that are designed to provide equity type returns but with less volatility than an equity fund. All tactical asset allocation decisions are undertaken by the manager to suit the prevailing market conditions.

As part of its risk management arrangements, the Fund uses pooled investment vehicles and has no direct shareholding in companies.

14. Bulk annuity insurance buy-in

As an integral part of the Fund's risk management and reduction strategy, a bulk annuity insurance buy-in was put in place during 2012/13. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midland Travel Limited pensioners on the pension payroll at 11 August 2011 in return for the payment of a one-off premium.

Benefits recharged to Prudential during the year have been credited to the Fund account and the value of the buy-in recalculated at each year end by the consulting actuary (see note 18 for methodology) and recognised in the Net Assets Statement as follows:

31 March 2016 £'000		31 March 2017 £'000
263,720	**Opening market value**	**250,874**
	Movements in the year:	
4,977	Interest on buy-in	4,801
(17,093)	Level pensions paid	(16,854)
-	Experience - actuarial loss	(2,064)
(730)	Change in actuarial assumptions	18,265
(12,846)		**4,148**
250,874	**Closing market value**	**255,022**

The main contributing factor to the increase is due to the 2016 triennial valuation where actuarial assumptions have changed (see note 21) resulting in a gain of £18.3m offset by an actuarial loss of £2.1m.

15. Current assets

31 March 2016 £'000		31 March 2017 £'000
	Debtors	
232	Contributions due - employers	247
73	Contributions due - members	65
93	Sundry debtors	2
398		314
2,348	Cash balances	876
2,746	**Total**	**1,190**
	Analysis of debtors:	
63	Other local authorities and pension funds	29
335	Other entities and individuals	285
398	**Total**	**314**

Included within cash balances is £0.815m placed in West Midlands Pension Fund's STIC Global STG Portfolio (2016: £2.07m RBS Corporate Cash Manager account).

16. Current liabilities

31 March 2016 £'000		31 March 2017 £'000
65	Benefits payable	91
421	Sundry creditors	410
486	**Total**	**501**
	Analysis of creditors:	
246	Central government bodies	242
64	Other local authorities and pension funds	-
176	Other entities and individuals	259
486	**Total**	**501**

17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions and the investments are not included within the Fund accounts, in line with regulation 4 (1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016. The table below shows the activity for each AVC provider in the year.

2015/16			2016/17	
Equitable Life £'000	Prudential £'000		Equitable Life £'000	Prudential £'000
165	719	**Opening value of the fund**	157	696
1	109	Income	1	119
(11)	(135)	Expenditure	-	(141)
2	3	Change in market value	14	45
157	**696**	**Closing value of the fund**	**172**	**719**

18. Fair value – basis of valuation

The basis of the valuation of each class of investment is set out below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset Type	Valuation level	Basis of valuation	Observable and Unobservable inputs	Key sensitivities
Pooled investment vehicles - quoted unitised insurance policies	1	Closing bid price if both bid and offer prices are published.	N/A	N/A
Pooled investment vehicles - diversified growth funds	2	Diversified growth funds invest in a variety of liquid assets. Values are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.	NAV based pricing set on a forward pricing basis.	N/A
Bulk annuity insurance buy-in	3	Provided by the Fund's actuary based on a roll-forward of the value placed on the buy-in as part of the 2016 triennial actuarial valuation, allowing for estimated level pensions paid and the change in the discount rate used to value the buy-in.	Key underlying inputs for the valuation are the discount rate and life expectancy. Discount rate has been set at 1.45% with reference to the 13-year point of the Bank of England nominal gilt yield curve, consistent with the 2016 valuation of the Fund.	Adjustments to discount rate and life expectancy

Sensitivity of assets valued at level 3

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes as calculated by the Fund's actuary is shown below:

Change in assumptions - year ended 31 March 2017	Increase/(decrease) in value of buy-in	
Adjustment to discount rate	+0.5%	-0.5%
Value of buy-in	(£12.9m)	£13.6m
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Value of buy-in	£11.7m	(£11.2m)

Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3
Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There have been no transfers between levels during the year.

Values at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	152,614	94,559	255,022	502,195
Net investment assets	**152,614**	**94,559**	**255,022**	**502,195**

Values at 31 March 2016	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss	128,442	79,289	250,874	458,605
Net investment assets	**128,442**	**79,289**	**250,874**	**458,605**

A reconciliation of fair value measurements within level 3 is shown in note 14.

19. Financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016				31 March 2017		
Fair value through profit and loss £'000	Loans and receiv-ables £'000	Financial liabilities at amortised cost £'000		Fair value through profit and loss £'000	Loans and receiv-ables £'000	Financial liabilities at amortised cost £'000
			Financial assets			
207,731			Investment assets	247,173		
250,874			Bulk annuity insurance buy-in	255,022		
	2,348		Cash balances		876	
	398		Debtors		314	
458,605	**2,746**	**-**		**502,195**	**1,190**	**-**
			Financial liabilities			
		(240)	Creditors			(259)
458,605	**2,746**	**(240)**		**502,195**	**1,190**	**(259)**

Net (gains) and losses on financial instruments

31 March 2016 £'000		31 March 2017 £'000
	Financial assets	
15,286	Designated at fair value through profit and loss	(41,266)
(4)	Loans and receivables	(7)
15,282		**(41,273)**
	Financial assets	
-	Financial liabilities at amortised cost	-
15,282	**Total**	**(41,273)**

20. Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme which focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Responsibility for the Fund's risk management strategy rests with the West Midlands Pension Fund Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's activities. Policies are reviewed regularly to reflect changes in activity and in market conditions. Policies covering specific areas relating to the Fund are as follows:

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation and an appropriate asset allocation.

During the year, excluding the bulk annuity buy-in, the Fund targeted a 73-79% exposure to equities as 'growth' assets and 21-27% to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years. Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are mitigated by diversification across asset classes, markets and sectors. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets may increase the costs of funding. 'Matching assets' backed by the UK Government are considered low risk, with corporate bonds carrying some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund-specific requirements.

Credit risk

The Fund's deposits with financial institutions as at 1 April 2016 or the 31 March 2017 are disclosed in note 15. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. When additional deposits are required to meet future pension payrolls, cash is provided by one of the investment managers (in accordance with the asset allocation) who will liquidate a small proportion of assets under management as instructed by the Fund. Due to the cash flow management procedures and the liquidity of the assets held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Even though the Fund has no financial assets denominated in foreign currencies, it is exposed to currency risk on its overseas equity portfolio as the movement in value takes account of changes in exchange rates of the underlying investments.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

Price risk sensitivity analysis

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than

bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations. In consultation with the Fund's performance advisors, the Fund has determined that the following future movements in market price risk are reasonably possible based on 2016/17 closing values:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	9,697	15.8%	11,229	8,165
Overseas equities	87,586	18.4%	103,702	71,470
Total bonds	27,209	10.9%	30,175	24,243
Index linked	28,122	23.0%	34,590	21,654
Diversified growth funds	94,559	12.5%	106,379	82,739
Cash	876	0.0%	876	876
Total assets	**248,049**		**286,951**	**209,147**

The potential price changes on the 2015/2016 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	7,635	17.1%	8,941	6,329
Overseas equities	74,033	19.6%	88,543	59,523
Total bonds	23,111	8.0%	24,960	21,262
Index linked	23,663	8.0%	25,556	21,770
Diversified growth funds	79,289	12.0%	88,803	69,773
Cash	2,348	0.0%	2,349	2,349
Total assets	**210,079**		**239,152**	**181,006**

Interest rate risk and sensitivity analysis

The Fund's investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Carrying amount as at 31 March 2016 £'000	Change in year in the net assets available to pay benefits £'000	£'000	Asset type	Carrying amount as at 31 March 2017 £'000	Change in year in the net assets available to pay benefits £'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
2,348	23	(23)	Cash and cash equivalents	876	9	(9)
46,774	468	(468)	Fixed interest securities	55,331	553	(553)
49,122	**491**	**(491)**	**Total change in assets**	**56,207**	**562**	**(562)**

***BPS – basis points**

Regulatory risk

These include any changes to pension regulations e.g. more favourable benefits packages and/or HMRC rules. In order to manage this risk, changes to regulations are continuously monitored.

21. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. As a result, employers' contributions have been adjusted from 1 April 2017.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and, ultimately, to the council tax payer from an employer defaulting on its pension obligations.

The results of the valuation as at 31 March 2013 and 31 March 2016 and the actuarial assumptions used are shown below.

Valuation results	**31 March 2016 Valuation**	**31 March 2013 Valuation**
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	25.1%	21.5%
Market value of the fund	£464m	£449m
Actuarial value of the fund	£569m	£563m
Funding level in relation to past service liabilities	82%	84%
Offset to allow for market changes after the valuation date*	n/a	(£28m)
Deficit in relation to past service	(£105m)	(£86m)

*allows for impact on assets and liabilities

Valuation assumptions	2016 valuation	2013 valuation
Discount rate - West Midlands Travel Limited		
Pre-retirement (non-retired members)	4.5% p.a.	5.5% p.a.
Post-retirement (non-retired members)	As above	3.5% p.a.
Post retirement (retired members - non buy-in)	As above	3.5% p.a.
Post retirement (retired members - buy-in)	1.9% p.a.	3.0% p.a.
Buy-in asset valuation	1.9% p.a.	2.5% p.a.
Discount rate - Preston Bus Limited		
Pre-retirement	2.8% p.a.	5.0% p.a.
Post-retirement	As above	3.0% p.a.
Salary increases	2.3% p.a.	2.6% p.a.
Pension increases in payment	2.3% p.a.	2.6% p.a.
Retired members' mortality - base tables	S2PA tables with a multiplier of 110% for current pensioners (both normal and ill-health) and future dependants	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2015 model methodology with 1.5%p.a. long-term trend	CMI 2013 model methodology with 1.25%p.a. long-term trend
Commutation assumption	Members will commute pension to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum for pre April 2008 service

Key:
CMI – The Continuous Mortality Investigation
S2PA – Post retirement mortability tables

Following the 31 March 2016 valuation, employers' contribution rates for the period from 1 April 2017 to 31 March 2020 have been set at 25.1% per annum plus £7,300,000 (2017/18), £7,467,900 (2018/19) and £7,639,700 (2019/20) for West Midlands Travel Limited. The contributions have taken into consideration the support of the Group guarantee which has been extended following discussions as part of the valuation process. The contributions certified are conditional on the guarantee remaining in place for the employer relating to its participation in the Fund.

A rate of 0% plus £325,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2016 valuation. This followed the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rate. The funding method adopted is known as the ‘attained age method’ which is consistent with the funding objective and appropriate as the Fund is closed to new members and has an ageing membership profile.

The Fund’s assets at 31 March 2016 valuation was £464m, of this £256m was in respect of the buy-in asset value with the remaining representing the Fund’s invested assets.

22. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see note 21). The actuary has also used valued ill health and death benefits in line with IAS 19. Demographic assumptions are the same as those used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2017 was £650.6m (2016: £560.6m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2016	Assumptions used	31 March 2017
3.1%	Discount rate	2.4%
2.0%	Salary increases	2.5%
2.0%	Pensions increases	2.5%

23. Related party transactions

The West Midlands Combined Authority recharges administrative costs incurred to the Fund. The recharges for the year ended 31 March 2017 are £22,000 (2016: £41,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pensions Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

24. Events after the Reporting Date

The Fund worked with eight other LGPS funds across the Midlands to set up LGPS Central Limited, an FCA-authorised investment manager which will manage the investment assets of the nine funds. The company was incorporated in October 2016, although it will not begin trading until April 2018. On incorporation and at 31 March 2017, West Midlands Pension Fund was the only shareholder.

In 2017/18, shares will be issued to the other seven pension funds and the Fund will not be a shareholder in the company.

1. Tax status of the scheme

The scheme is a registered scheme and, to the trustee's knowledge, there is no reason why such registration should be prejudiced or withdrawn.

2. Pension increases

There was no increase in pensions during the year in line with legislative requirements and no further discretionary increases were applied.

3. Calculation of transfers

Transfer values quoted and subsequently paid by the Fund includes monetary amounts where relevant, to represent any discretionary benefits awarded by an employer or otherwise.

Where awarded, discretionary benefits are in the form of service which is included within the total service used to calculate a cash equivalent transfer value which represent the monetary value of the member’s pension rights.

Introduction

The last full triennial valuation of the West Midlands Integrated Transport Authority Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2016 including the value of the insurance policy held with Prudential in relation to certain pension payments from the Fund was £463.9m. The value of the Fund's accrued liabilities was £568.6m at that date, allowing for future increases in pay and pensions in payment, resulting in a deficit of £104.7m. This corresponded to a funding level of 82%.

The deficit of £104.7m was taken into account when considering the deficit contribution requirements for employers.

The valuation also showed that a primary rate of contribution of 25.1% of pensionable pay p.a. was required from employers. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

In addition, further "secondary" contributions were required in order to pay off the Fund's deficit. The total secondary contributions payable by the employers over the three years to 31 March 2020 was estimated to be as follows:

Secondary contributions	2017/18	2018/19	2019/20
Total monetary amounts	£7,625,000	£7,792,900	£7,639,700

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (both ill health and non-ill health retirements) will be made to the Fund by the employers.

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Assumptions

- The assumptions used to value the benefits at 31 March 2016 are summarised below (split between the two employers):

Assumption	31 March 2016
Discount rate (West Midlands Travel Ltd)	Non-buy-in-pensioners – 4.5% p.a. Buy-in pensioners – 1.9% p.a. Buy-in asset valuation – 1.9% p.a.
Discount rate (Preston Bus Ltd)	2.8% p.a.
Consumer Price Inflation (CPI)	2.3% p.a.
Salary increases	2.3% p.a. in addition to a promotional scale set with reference to tables published by the Government Actuary's Department (GAD)
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Pre-retirement mortality	Set with reference to GAD tables
Post-retirement mortality	S2PA tables with a multiplier of 110% for current pensioners and future dependents 140% of the S2PMA tables for current male dependents and 120% of the S2DFA tables for current female dependents

Retirement	Each member retires at their weighted average "tranche retirement age" i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits plus 3 years for active members of WMTL and plus 2 years for deferred members of WMTL. The future service rate has been calculated using the retirement assumption above plus 1 year rather than 3 years for active members.
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Further details regarding the assumptions are contained in the formal report on the actuarial valuation dated March 2017.

The Fund's invested assets were assessed at market value. The buy-in asset valuation was derived based on the assumptions set out in the report which are consistent with the assumptions to calculate the liabilities allowing for the profile of payments expected from the buy-in asset.

Updated position since the 2016 valuation

Since March 2016, the financial position of the Fund is likely to have improved, mainly due to asset returns being better than assumed at the 2016 valuation.

The next actuarial valuation is due as at 31 March 2019 and the resulting contribution rates required by the employers will take effect from 1 April 2020. We will continue to monitor the financial position of the Fund on a regular basis.

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