WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

Pension Scheme Registry (Pensions Regulator) 10175688

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EXPLANATORY FOREWORD AND THE REPORT OF THE TREASURER OF THE WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

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 01 April 2015 to 31 March 2016.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 ('the 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 9th February 2009 under Statutory Instrument 2009 No. 107 (C.08).

The West Midlands Integrated Transport Authority ('ITA') is responsible for the administration of the Fund, but has appointed the City of Wolverhampton Council as agents to administer the Fund on its behalf. 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 2009 (as amended)

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 ('WMPF') 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.

On 17 June 2016, the West Midlands Combined Authority ('WMCA') became responsible for the administration of the Fund. The WMCA was established 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 is substituted for the ITA as administrator of the fund.

2. Management of the Fund

On 1 April 2015, the strategic management of the assets was transferred from the Finance, Delivery and Performance Monitoring Committee established by the ITA (the administering authority) to the West Midlands Pension Fund Pension Committee. The role of the Committee is to:

- Discharge functions of the administering authority (ITA);
- 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 Wolverhampton City Council.

During the year, the Fund appointed a new actuary, Barnett Waddingham, to replace the outgoing actuary, Mercer Human Resource Consulting.

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 2015 No		31 March 2016 No
518	Active members	470
3,775	Pensioner members	3,845
887	Deferred members	814
5,180	**Total members**	**5,129**

5. Funding

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 2016 depending on the level of pay.

Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The latest valuation completed as at 31 March 2013 has set the rates for the period from 1 April 2014 to 31 March 2017. The details of employer's contributions and the actuarial valuation are set out in note 20 to the accounts.

The next valuation will take place as at 31 March 2016.

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 18th 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 11th 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

In 2014/15, the ITA Pension Fund's Investment Strategy Panel agreed to change the investment strategy for the Preston Bus Limited section in order to improve its diversification characteristics while West Midlands Travel Limited maintained its original investment strategy. From 1 April 2015, the investments of these companies 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.

James Aspinall
Director of Corporate Services, West Midlands Combined Authority
(formerly Treasurer to the West Midlands Integrated Transport Authority)

Date:

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The West Midlands Integrated Transport Authority's responsibilities

The 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 Account 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 2016.

In preparing this statement of account, 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 Account presents fairly the position of the West Midlands Integrated Transport Authority Pension Fund at 31 March 2016 and the financial transactions for the year ended 31 March 2016.

James Aspinall
Director of Corporate Services, West Midlands Combined Authority
(formerlyTreasurer to the West Midlands Integrated Transport Authority)
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 22 July 2016.

Councillor Roger Lawrence
Member of the West Midlands Combined Authority
Date:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS COMBINED AUTHORITY

We have audited the pension fund financial statements of the West Midlands Integrated Transport Authority ("the Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Pension 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 2015/16.

This report is made solely to the members of the West Midlands Combined 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 Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer 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 2015/16, 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 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 Treasurer; 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 2015/16 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 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 is consistent with the audited pension fund financial statements.

Grant Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date

INVESTMENT REPORT

1. Investment managers

During the year, the Fund had investments with three managers: Legal & General Investment Management, Baillie Gifford and BNY Mellon (who manages the Newton Real Return fund). Legal & General manages equities, gilts and corporate bonds whilst Baillie Gifford and BNY Mellon manage diversified growth funds.

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

Total market value 31 March 2015 £'m	%		Total market value 31 March 2016 £'m	%
132.0	62%	Legal and General Investment Management	128.4	62%
39.3	19%	Baillie Gifford	38.8	19%
40.1	19%	Newton	40.5	19%
211.4	100%		**207.7**	100%

2. Investment principles

As required by Section 35 of the Pensions Act 1995 a Statement of Investment Principles (SIP) was reviewed in September 2015 and is available on request or can be found within the Investments section of the Fund's website (http://www.wmpfonline.com/Investments). This SIP is reviewed on a regular basis.

3. Review of investment performance

With the exception of corporate bonds, Legal & General manage 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 2012	2013	2014	2015	2016
Fund	+6.5%	+12.6%	+3.0%	+12.7%	-0.7%
Benchmark	+6.8%	+12.3%	+3.8%	+11.5%	+0.9%
Relative	-0.3%	+0.3%	-0.8%	+1.2%	-1.6%

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

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

	1 Year	3 Years	5 Years	10 Years
Fund	-0.7%	4.8%	6.7%	5.9%
Benchmark	0.9%	5.3%	7.0%	6.0%
Relative	-1.6%	-0.4%	-0.3%	-0.1%

During the year to 31 March 2016, the Fund underperformed the benchmark by 1.6%. Most of this underperformance was attributable to the diversified growth funds which returned -0.1% against a target of 4.3% for the 12-month period. The equity portfolio matched its benchmark returning -2.4%. The fixed income sector produced a positive return of 1.2% outperforming its benchmark of 1.1%.

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

4. Custodial arrangements

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.

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

FUND ACCOUNT

2014/15 £'000		Notes	2015/16 £'000
	Dealings with members, employers and others directly involved in the fund		
(10,125)	Contributions	5	(10,482)
(4)	Transfers in from other pension funds	6	(65)
(1,991)	Other employer contributions	7	(2,766)
(12,120)			(13,313)
28,364	Benefits	8	28,829
34	Payments to and on account of leavers	9	457
4	Other payments	10	6
872	Management expenses	11	917
29,274			30,209
17,154	**Net withdrawals from dealing with members**		**16,896**
	Returns on investments		
(17,267)	Investment income	12	(18,161)
(24,113)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	2,440
(18,900)	(Increase)/decrease in value of bulk annuity insurance buy-in	14	12,846
(60,280)	**Net return on investments**		**(2,875)**
(43,126)	**Net (increase)/decrease in the net assets available for benefits during the year**		**14,021**
431,760	Net assets of the fund brought forward		474,886
474,886	**Net assets of the fund carried forward**		**460,865**

NET ASSETS STATEMENT

31 March 2015 £'000		Notes	31 March 2016 £'000
211,418	Investment assets	13	207,731
263,720	Bulk annuity insurance buy-in	14	250,874
1,027	Current assets	15	2,746
(1,279)	Current liabilities	16	(486)
474,886	**Net assets of the fund available to fund benefits at the period end**		**460,865**

These financial statements replaced the unaudited financial statements certified by Linda Horne on 27 May 2016. They were approved for issue by the West Midlands Combined Authority Board Committee on 22 July 2016. Events after the balance sheet have been considered up to the date of approval.

NOTES TO THE ACCOUNTS

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at the year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 21 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 Wolverhampton City 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 Wolverhampton City 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 and the insurance buy-in as shown in the Net Assets Statement have been determined as follows:

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. In the case of pooled investment vehicles that are accumulation funds, changes in market value are based on the difference between holding value at the beginning of the year or purchase price to the year end. Income that is reinvested in the fund is net of applicable withholding tax, and is treated as a purchase, with changes in the market value of the investment based on any increment or reduction from the date of purchase.

Diversified growth funds invest in a variety of liquid assets. The value of the underlying assets 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.

The Fund's actuary provides a valuation of the bulk annuity insurance buy-in based on the original value 'rolled forward' subject to actuarial assumptions being applied. On a triennial basis, the value of the buy-in will be revised based upon the detailed outcomes of the actuarial valuation exercise, with the value being ‘rolled forward’ in the intervening years.

The value of the buy-in is derived by mapping projected cashflows to a yield curve (based on market returns on UK government gilt stocks and other instruments of varying durations) in order to determine a market consistent gilt yield for the profile and duration of the buy-in beneficiaries, alongside other demographic assumptions consistent with the 2013 valuation of the Fund.

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 21).

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 2009 (SI 2009/3093) 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 20. 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:

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

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

Change in assumptions – year ended 31 March 2016	Approx % increase in liabilities	Approx monetary value £m
0.5% p.a. decrease in discount rate	6%	35
One- year increase in member life expectancy	3%	19
0.5% p.a. increase in salary increase rate	1%	3
0.5% p.a. increase in CPI inflation	6%	32

Bulk annuity insurance buy-in:

As detailed in note 14, 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.

The value of the buy-in is recalculated at each year end by the consulting actuary. The value as at 31 March 2016 is based on the roll-forward of the actuarial valuation as at 31 March 2013 and adjusted for estimated pension payments and discount rate.

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes in these is shown below:

Change in assumptions - year ended 31 March 2016	**Approx % increase in liabilities**	**Approx monetary value £m**
0.5% decrease in discount rate	5%	12
One-year increase in member life expectancy	4%	9

5. Contributions receivable

2014/15 £'000		**2015/16 £'000**
	Employers	
3,232	Normal contributions	3,057
5,850	Deficit funding	5,850
43	Early retirement costs	624
9,125		9,531
	Members	
996	Normal contributions	947
4	Additional contributions	4
1,000		951
10,125	**Total by category**	**10,482**
	Analysed by member body:	
10,125	Admitted bodies	10,482
10,125	**Total by authority**	**10,482**

Following the 31 March 2013 valuation, employers' contributions for the period from 1 April 2014 to 31 March 2017 have been set at 21.5% (normal contributions) plus £5,500,000 deficit funding for West Midlands Travel Limited and £350,000 deficit funding for Preston Bus Limited (see note 20 for details).

6. Transfer in from other pension funds

2014/15 £'000		2015/16 £'000
	Transfers in	
4	Individual transfers	65
4	**Total**	**65**

7. Other employer contributions

Pre-October 1986 pension increase liablities are the responsibility of the West Midlands Passenger Transport Executive (‘PTE’). The PTE makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.766m (2015: £2.957m) were made.

In 2014/15, the payments were offset by £966k after a trueing-up exercise conducted by the Fund’s actuary following a review of payments made, resulting in net other employer contributions of £1.991m.

8. Benefits payable

2014/15 £'000		2015/16 £'000
	Pensions	
22,356	Retirement pensions	22,833
1,709	Widows' pensions	1,865
16	Children's pensions	13
17	Widowers' pensions	18
24,098		24,729
3,917	Commutation and lump-sum retirement benefits	3,922
358	Lump-sum death benefits	213
(9)	Benefits recharged	(35)
28,364	**Total by category**	**28,829**
	Analysed by member body:	
28,364	Admitted bodies	28,829
28,364	**Total by authority**	**28,829**

9. Payments to and on account of leavers

2014/15 £'000		2015/16 £'000
34	**Transfers out** Individual transfers out to other schemes and personal pensions	457
34	**Total**	**457**

10. Other payments

2014/15 £'000		2015/16 £'000
4	Interest on late payments	6
4	**Total**	**6**

11. Management expenses

2014/15 £'000		2015/16 £'000
	Administration expenses	
120	Administration - City of Wolverhampton Council	120
120		120
	Investment management expenses	
567	Management fees - external	615
30	Management fees - internal	30
597		645
	Oversight and governance costs	
33	Administration and accountancy - ITA	41
8	Subscriptions	9
14	Actuarial fees	1
19	Audit fees	21
10	Performance monitoring service	15
5	Legal fees	12
64	Professional advisors' fees	51
2	Bank charges and interest	2
155		152
872	**Total**	**917**

Administrative expenses of £194k and investment management expenses of £678k for 2014/15 have been re-analysed under the three separate headings in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Costs.

12. Investment income

2014/15 £'000		2015/16 £'000
-	Interest on cash deposits	4
17,267	Benefits underwritten	17,076
-	Dividend income	1,081
17,267	**Total**	**18,161**

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. Investments

Reconciliation of movements in investments:

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						
Unquoted:						
UK - unitised insurance policies	56,244	-	(990)	-	(844)	54,410
Overseas - unitised insurance policies	75,789	-	-	-	(1,756)	74,033
Quoted:						
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**

Prior year comparatives:

Movements during 2014/15	Market value 1 April 2014 £'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 2015 £'000
Pooled investment vehicles						
Unquoted:						
UK - unitised insurance policies	52,472	7,325	(7,299)	-	3,746	56,244
Overseas - unitised insurance policies	64,567	5,350	(8,869)	-	14,741	75,789
Quoted:						
Diversified growth funds	66,280	43,600	(35,906)	(215)	5,626	79,385
Total investments	**183,319**	**56,275**	**(52,074)**	**(215)**	**24,113**	**211,418**

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 2015			31 March 2016	
Market value £'000	% of total fund		Market value £'000	% of total fund
132,033	62%	Legal and General Investment Management	128,442	62%
39,288	19%	Baillie Gifford	38,838	19%
40,097	19%	BNY Mellon	40,451	19%
211,418	100%		**207,731**	100%

Investments analysed by security:

31 March 2015			31 March 2016	
Market value £'000	% of total fund		Market value £'000	% of total fund
		UK equities		
8,153	4%	UK Equity Index	7,635	4%
8,153	4%		7,635	4%
		Overseas equities		
21,149	10%	Europe (ex UK) Equity Index	20,257	10%
25,412	12%	North America Equity Index	26,326	13%
9,106	4%	Japan Equity Index	8,825	4%
12,005	6%	World Emerging Markets Equity Index	10,943	5%
8,117	4%	Asia Pacific (ex Japan) Dev Equity Index	7,682	4%
75,789	36%		74,033	36%
		Gilts and bonds		
24,402	12%	All Stocks Index-Linked Gilts	23,663	11%
23,689	11%	Active Corporate Bond - All Stocks	23,111	11%
-	0%	All Stocks Gilts Index	-	0%
48,091	22%		46,774	22%
		Diversified growth funds*		
39,288	19%	Baillie Gifford	38,838	19%
40,097	19%	Newton	40,451	19%
79,385	38%		79,289	38%
211,418	**100%**	**Total market value**	**207,731**	**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 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.

Benefits recharged to Prudential during the year have been credited to the Fund account and the buy-in recognised in the net assets statement as follows:

31 March 2015 £'000		31 March 2016 £'000
244,820	Opening market value of buy-in contract	263,720
18,900	Increase/(decrease) in value	(12,846)
263,720	**Closing market value**	**250,874**

The main reason for the reduction in the valuation of the buy-in asset from 31 March 2015 to 31 March 2016 is the payment of pensions due under the policy. In isolation, this led to a reduction in the value of the buy-in asset of approximately £17m. Otherwise, market conditions used to value the buy-in asset have remained at a similar level to last year.

15. Current Assets

31 March 2015 £'000		31 March 2016 £'000
	Debtors	
151	Contributions due - employers	232
47	Contributions due - members	73
50	Sundry debtors	93
248		398
779	Cash balances	2,348
1,027	**Total**	**2,746**
	Analysis of debtors:	
19	Other local authorities and pension funds	63
229	Other entities and individuals	335
248	**Total**	**398**

Included within cash balances is £2.07m (2015: £nil) placed in West Midlands Pension Fund's RBS Corporate Cash Manager account.

16. Current liabilities

31 March 2015 £'000		31 March 2016 £'000
10	Benefits payable	65
1,269	Sundry creditors	421
1,279	**Total**	**486**
	Analysis of creditors:	
238	Central government bodies	246
859	Other local authorities and pension funds	64
182	Other entities and individuals	176
1,279	**Total**	**486**

Within sundry creditors is an amount of £nil (2015: £966k) due to West Midlands Pension Fund following the pre-86 recharge true-up exercise carried out (see note 7).

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 (2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

2014/15			2015/16	
Equitable Life £'000	Prudential £'000		Equitable Life £'000	Prudential £'000
159	670	**Opening value of the fund**	165	719
1	125	Income	1	109
(4)	(145)	Expenditure	(11)	(135)
9	69	Change in market value	2	3
165	**719**	**Closing value of the fund**	**157**	**696**

18. Financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Aassets Statement heading, together with a comparison to their fair value. No financial assets were reclassified during the accounting period.

31 March 2015					31 March 2016			
Carrying amount £'000	Amortised cost £'000	Fair value £'000	Gains and losses/ interest income £'000		Carrying amount £'000	Amortised cost £'000	Fair value £'000	Gains and losses/ interest income £'000
				Financial assets				
				Designated at fair value through profit and loss:				
211,418	-	211,418	24,113	Investment assets	207,731	-	207,731	(2,440)
263,720	-	263,720	18,900	Bulk annuity insurance - buy in	250,874	-	250,874	(12,846)
475,138	-	475,138	43,013		458,605	-	458,605	(15,286)
				Loans and receivables:				
248	248	-	-	Debtors	398	398	-	-
779	779	-	-	Cash balances	2,348	2,348	-	-
1,027	1,027	-	-		2,746	2,746	-	-
476,165	**1,027**	**475,138**	**43,013**	**Total financial assets**	**461,351**	**2,746**	**458,605**	**(15,286)**
				Financial liabilities				
(1,279)	(1,279)	-	-	Creditors	(486)	(486)	-	-
(1,279)	**(1,279)**	**-**	**-**	**Total financial liabilities**	**(486)**	**(486)**	**-**	**-**

The following methods and assumptions were used to estimate fair values:

Debtors, cash balances and creditors approximate to their carrying amounts due to the short-term nature of these instruments. Investment assets are carried in the Net Assets Statement at fair value. These all consist of pooled investment vehicles valued by the respective fund managers based on the bid market quotation of the relevant stock exchange of the individual investments making up the fund portfolio.

The Fund’s actuary provides a valuation of the bulk annuity insurance buy-in based on the original value ‘rolled forward’ subject to actuarial assumptions being applied. On a triennial basis, the value of the buy-in will be revised based upon the detailed outcomes of the actuarial valuation exercise, with the value being ‘rolled forward’ in the intervening years. The next valuation will take place as at 31 March 2016.

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments 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. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments 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. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	132,033	79,385	263,720	475,138
Total financial assets	**132,033**	**79,385**	**263,720**	**475,138**

19. Pension fund risk management

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 Pension 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 ITA Pension 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 2015 or the 31 March 2016 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 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 2015/16 closing values:

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	79,288	12.0%	88,803	69,773
Cash	2,349	0.0%	2,349	2,349
Total assets	**210,079**		**239,152**	**181,006**

The potential price changes on the 2014/2015 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	8,153	17.2%	9,555	6,751
Overseas equities	75,789	17.2%	88,825	62,753
Total bonds	23,689	3.6%	24,542	22,836
Index linked	24,402	8.4%	26,452	22,352
Diversified growth funds	79,385	11.6%	88,594	70,176
Cash	779	4.5%	814	744
Total assets	**212,197**		**238,782**	**185,612**

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 2016 and 31 March 2015 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 2015 £'000	Change in year in the net assets available to pay benefits £'000	£'000	Asset type	Carrying amount as at 31 March 2016 £'000	Change in year in the net assets available to pay benefits £'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
779	8	(8)	Cash and cash equivalents	2,348	23	(23)
48,091	481	(481)	Fixed interest securities	46,774	468	(468)
48,870	**489**	**(489)**	**Total change in assets**	**49,122**	**491**	**(491)**

***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.

20. 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 2013. As a result, employers' contributions have been adjusted from 1 April 2014.

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 2010 and 31 March 2013 and the actuarial assumptions used are shown below.

Valuation results	**31 March 2013 Valuation**	**31 March 2010 Valuation**
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	21.5%	18.4%
Market value of the fund	£449m	£382m
Actuarial value of the fund	£563m	£453m
Funding level in relation to past service liabilities	84%	84%
Offset to allow for market changes after the valuation date*	(£28m)	n/a
Deficit in relation to past service	(£86m)	(£71m)

*allows for impact on assets and liabilities

Valuation assumptions	2013 valuation	2010 valuation
	Funding target	Funding target
Investment return pre-retirement	5.5% p.a.	7.0% p.a.
Investment return post-retirement (non-retired members)	3.5% p.a.	5.0% p.a.
Investment return (retired members - non buy-in)	3.5% p.a.	4.5% p.a.
Investment return (retired members - buy-in)	3.0% p.a.	n/a
Salary increases	2.6% p.a.	4.5% p.a.
Pension increases in payment	2.6% p.a.	3.0% p.a.
Retired members' mortality - base tables	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2013 model methodology with 1.25%p.a. long-term trend	CMI 2009 model methodology with 1.0%p.a. long-term trend
Commutation assumption	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum	

Following the 31 March 2013 valuation, employers' contribution rates for the period from 1 April 2014 to 31 March 2017 have been set at 21.5% plus £5,500,000 per annum for West Midlands Travel Limited. This is conditional on the provision of suitable guarantee arrangements being put in place relating to its participation in the fund. These arrangements were approved by the Pension Fund Committee in May 2011 and continue to apply.

A rate of 0% plus £350,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2013 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 £461m, of this £251m was in respect of the buy-in asset value with the remaining representing the Fund's invested assets.

21. 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 20). 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 2016 was £560.6m (2015: £562m). 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 2013 triennial funding valuation (see note 20) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2015	Assumptions used	31 March 2016
3.2%	Discount rate	3.1%
2.0%	Salary increases	2.0%
2.0%	Pensions increases	2.0%

22. Related party transactions

West Midlands Passenger Transport Executive recharges administrative costs incurred to the Pension Fund. The recharges for the year ended 31 March 2016 are £41,000 (2015: £33,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pension Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

THE COMPLIANCE STATEMENT

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 a 1.2% 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 members pension rights.

STATEMENT BY THE CONSULTING ACTUARY

Introduction

The last full triennial valuation of the West Midlands Pension Fund was carried out as at 31 March 2013 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 2014.

Asset value and funding level

The market value of the Fund’s assets as at 31 March 2013 including the value of the insurance policy held with Prudential in relation to certain pension payments from the Fund was £449m. The value of the Fund’s accrued liabilities was £563m at that date, allowing for future increases in pay and pensions in payment, resulting in a deficit of £114m. An allowance for significant changes in financial markets following the valuation date reduced the deficit to £86m and a funding level of 84%.

The deficit of £86m was taken into account when considering the deficit contribution requirements for employers (alongside any previous arrangements with employers regarding contribution rates that were in place).

2013 valuation results

The valuation also showed that a common rate of contribution of 21.5% of pensionable pay p.a. was required from employers. The common 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.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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 2013 are summarised below (split between the two employers):

Assumption	31 March 2013
Discount rate (West Midlands Travel Ltd)	Pre-retirement (non-pensioners) – 5.5% p.a. Post-retirement (non-pensioners) – 3.5% p.a. Post-retirement (non-buy-in pensioners) – 3.5% p.a. Post-retirement (buy-in pensioners) – 3.0% p.a. Buy-in asset valuation – 2.5% p.a.
Discount rate (Preston Bus Ltd)	Pre-retirement – 5.0% p.a. Post-retirement – 3.0% p.a.
Pension increases	2.6% p.a.
Salary increases	2.6% p.a.
Mortality	S1PA tables with a multiplier of 111% for males and 103% for females with projected improvements in line with the 2013 CMI model allowing for a long term rate of improvement of 1.25% p.a.
Retirement	For those members who are entitled to receive their accrued benefits (or part of those benefits) prior to the Fund's normal pension age, a proportion of the active membership is assumed to retire in normal health prior to age 65
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Further details regarding the assumptions, and the allowance for changes in post valuation date market conditions are contained in the formal report on the actuarial valuation dated 31 March 2014.

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 2013 valuation

Since March 2013, the financial position of the Fund is likely to have deteriorated, mainly due to a decrease in the real discount rates underlying the valuation funding model.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017. We will continue to monitor the financial position of the Fund on a regular basis.

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