



WEST MIDLANDS
COMBINED AUTHORITY



West Midlands Integrated Transport Authority (ITA) Pension Fund

Statement of Accounting Policies 2016/17

November 2016

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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 in the year in which they are payable under the schedule of contributions set by the scheme actuary.

b) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who elect to transfer benefits to or from 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 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 to the accounts) 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 (provided by Prudential). 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, change in market value is 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.

- For the purpose of the 2013 actuarial valuation, the value of the buy-in was 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. The approach used at 31 March 2017 was based on the actuary's advice and valuation as part of the 2016 actuarial valuation.

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 (see note to the accounts).

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.

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 and Equitable Life as its AVC providers (new AVCs only with Prudential). 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 (see note to the accounts).

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