



Pensions Committee

27 March 2019

Report title	Budget Monitoring 2018/19 and Quarterly Accounts December 2018	
Originating service	Pension Services	
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Recommendation(s) for action or decision:

The Committee is recommended to note:

1. The quarterly accounts for the period ending 31 December 2018 which show that:
 - the value of West Midlands Pension Fund at this date was £15.1 billion, a decrease of £327 million from 31 March 2018.
 - the value of West Midlands ITA Pension Fund at this date was £491.5 million, a slight decrease from the £492m million as at 31 March 2018.
2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of December 2018 is an underspend of £4 million primarily attributable to lower investment management costs.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the forecast out-turn for the year against operating budgets and quarterly accounts as at the end of December 2018.
- 1.2 The operating budget was approved by the Committee on 21 March 2018.

2.0 Forecast Out-turn against Operating Budget 2018/19

- 2.1 The following table sets out the forecast out-turn compared with the Fund's operating budget as at the end of the third quarter:

	2017/18 Budget £000	2017/18 Actual £000	Budget 2018/19	2018/19 Forecast^ £000	Forecast variance £000
Employees	6,270	5,579	5,527	5,687	160
Premises	300	382	221	323	102
Transport	83	65	65	28	(37)
Other Supplies and Services	640	430	1,177	897	(280)
Professional Fees	1,410	1,801	1,171	1,168	(3)
Communications and Computing	639	665	534	492	(42)
Support Services	558	508	544	559	15
Miscellaneous Income	(5)	(810)	(180)	(574)	(393)
Net Expenditure	9,895	8,620	9,059	8,581	(478)
External Investment Management Costs	70,200	58,900	65,201	62,110	(3,091)
LGPS Central Charges	-	-	4,425	3,944	(481)
Total	80,095	67,520	78,685	74,635	(4,050)
Funded by:					
West Midlands Pension Fund	79,345	66,770	77,935	73,885	(4,050)
West Midlands ITA Pension Fund	750	750	750	750	-
Net Budget	80,095	67,520	78,685	74,635	(4,050)

* As at 31 March 2018

** As at 31 December 2018

^Forecast reflects actuals to date plus expected to year end

- 2.2 Forecasts have been made using a combination of reviewing spend to date and taking into account plans for the remainder of the financial year. At this time, it is anticipated that there is likely to be an over-spend on staffing and premises, although this is offset by lower service development spend contained in other supplies and services. The higher staffing costs reflect the need to maintain adequate resourcing levels, given the growing employer base and increasing member activity along with additional governance and oversight requirements and ongoing service review to inform development. The higher projected employee spend includes forecasting some temporary resourcing of vacant posts and additional work identified to clear temporary backlogs. The variance in other supplies and services reflect primarily a delay in timing of further work in connection with GMP reconciliation (pending feedback from HMRC) and also some delays to commissioning elements of service development work. The higher than forecast income reflects higher employer admission activity, growth in restructure at employers including work to assist College merger.
- 2.3 As at the end of December 2018, external investment management costs are forecast to be £3.0m under budget reflecting ongoing work to streamline portfolio management arrangements and focus on reducing external management costs. However, since these are heavily influenced by market movements and investment performance, they are still subject to change during the final quarter of the year. In addition, due to portfolio changes during the year, work is ongoing to assess the impact of those on costs.
- 2.4 LGPS Central Management costs are expected to come in lower (£0.48m) than budgeted due to some recruitments being delayed reflecting a combination of difficulty in recruiting to some senior posts and in recognition of product launches experiencing delay leading to later recruitment of staff required for new product developments.
- 2.5 The majority of investment management costs and fees are deducted at source by fund managers, total investment management costs for the Main Fund are forecast to be £67m, as follows:

	Actual 2017/18 £'000	Forecast 2018/19 £'000
External Costs:		
- Invoiced	11,424	10,590
- Deducted at Source	44,643	51,520
- LGPS Central		3,944
Total External Investment Management Costs	56,067	66,054
Internal Investment Management Costs	2,833	733
Total Investment Management Costs	58,900	66,788

- 2.6 Cost-per-member is a blunt but widely used measure of pension schemes cost-effectiveness. The following table sets out the forecast cost-per-member compared to budget using the three standard headings specified by CIPFA: administration, oversight and governance, and investment management costs.

At this time, we are forecasting a slight decrease on budget from £25.76 per member to £24.07. Looking at the recent 2017 SF3 data for cost per member for local authority pension funds, WMPF remains below the average for England and Wales which stood at £29.80 for 2017/18.

	2017/18 Budget £000	2017/18 Actual £000	2018/19 Budget £000	2018/19 Forecast** £000
Total Administration Costs (£000)	4,660	3,826	4,693	5,147
Administration Cost per Member (£)	15.29	12.21	14.98	16.03
Total Oversight and Governance Costs (£000)	2,409	2,776	3,378	2,582
Oversight and Governance Cost per Member (£)	7.90	8.86	10.78	8.04
Number of Members	304,750	313,339	313,339	321,077
Total Administration, Oversight and Governance cost per Member (£)	23.20	21.07	25.76	24.07
Total Investment Management Costs (£000) including LGPSC Ltd costs	72,275	60,168	69,864	66,788
Investment Management Cost per Member (£)	237.16	187.94	222.97	208.01
Investment Management Costs as a Percentage of Forecast Net Assets	0.47%	0.39%	0.44%	0.44%

- 2.7 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under continuous review.

3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the nine months ended 31 December 2018 and a Net Assets Statement as at that date.

3.2 The Net Assets Statement provides a value for the Fund at 31 December 2018 of £15.1 billion. This is a decrease of £327 million from the 31 March 2018 value.

3.3 These quarterly accounts have been prepared using a number of key assumptions, which are set out below:

- Where employers have made up-front payments for the whole year and, in some cases, for future years, these have been recognised in full in the first quarter (contributions income shown in the Fund Account for the first six months of the year is likely to be more than one half of the total amount that will be due for the full year);
- Management expenses have been calculated on an accrual's basis, being equal to three-quarters of the forecast net cost for the year;
- Investment income has been calculated based on income due for the period.

3.4 The main reasons for the decrease in the value of the Fund for the year so far are market movements and investment performance. Unrealised falls in the valuation of investments for the three quarters to 31 December 2018 are £1.831 billion. These were balanced to some extent by realised gains from disposals of investments during the period of £1.491 billion to produce a net change of -£340 million.

4.0 Quarterly Accounts – West Midlands ITA Pension Fund

4.1 Appendix B provides a Fund Account for the quarter ended 31 December 2018 and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 31 December 2018 of £491.5 million. This is a slight decrease from the 31 March 2018 value of £492m.

4.3 The increase in the value of the Fund due to investment gains is some £12.2m but this is mitigated by net expenditure on benefits for the first nine months of £12.7m.

5.0 Financial implications

5.1 The financial implications are discussed in the body of the report.

6.0 Legal implications

6.1 This report contains no direct legal implications for the authority.

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of Appendices

11.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 31 December 2018.

11.2 Appendix B – West Midlands ITA Pension Fund Quarterly Accounts 31 December 2018.