

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Committee

Wednesday, 17 June 2020

Dear Councillor,

PENSIONS COMMITTEE - WEDNESDAY 17 JUNE 2020

I am now able to enclose, for consideration at next Wednesday 17 June 2020 meeting of the Pensions Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
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| 8 | <u>Statement of Accounts 2019-2020 (Pages 3 - 8)</u> |
| 9 | <u>Budget Monitoring and Quarterly Accounts to 31 March 2020 (Pages 9 - 16)</u> |

If you have any queries about this meeting, please contact the Democratic Services team:

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 17 June 2020
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Report title	Statement of Accounts 2019-2020	
Originating service	Pension Services	
Accountable employee	Jill Davys	Assistant Director, Investments and Finance
	Tel	01902 555055
	Email	jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

The Committee is recommended to approve:

1. Delegation of authority to the Chair of Pensions Committee:
 - a. To approve the Statement of Accounts once finalised and certified by the Section 151 officer; and
 - b. To approve the final publication of the Fund's 2019-2020 Annual Report and Accounts following audit in July, consideration of audit opinion and approval of the draft by Pensions Committee in September 2020.

The Committee is recommended to note:

1. The draft Statement of Accounts for West Midlands Pension Fund (incorporating the merger with the West Midlands ITA Pension Fund (WMITA Pension Fund) is currently being finalised and will be subject to audit by the Fund's external auditors, Grant Thornton, with the final version and audit opinion due to be reported to the Committee in September 2020.
2. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have extended the statutory accounting deadlines for completion of draft and final Statement of Accounts.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Committee with an update on the progress in finalising the Fund's draft Statement of Accounts for the year ending 31 March 2020.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are ordinarily required by law to produce a Statement of Accounts by 31 May each year. These must be subject to external audit and published no later than 31 July.

However, considering recent events due to Covid 19, timescales for closing and auditing of accounts for the current year have been extended. With effect from 30 April 2020 and applicable to the Statement of Accounts for the year ended 31 March 2020 only, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extend the above statutory accounting deadlines to 31 July and 30 November 2020 respectively.

- 2.2 In preparing their accounts, funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are for the Statement of Accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' (CIPFA) ('the Code').
- 2.3 As well as being published in the Fund's own annual report, its accounts must be included in the Statement of Accounts of the Administering Authority (in this case, the City of Wolverhampton Council). It is important to note that the transactions and balances of the Fund are completely separate and not combined with those of the Administering Authority.
- 2.4 This year, the draft accounts are required to be certified by the Section 151 Officer on or before 31 August 2020. This certification will be provided by the City of Wolverhampton Council's Director of Finance.
- 2.5 The Committee will receive a further report in September presenting the final version of the Statement of Accounts for publication with the Annual Report and the findings of the external auditor's work including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited Statement of Accounts rests with its Audit Committee; this does not apply to the other parts of the Annual Report which will be presented to Pensions Committee for approval.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite extraordinarily challenging circumstances this year which have created new and unanticipated conflicting pressures, the Fund has succeeded in preparing its draft Statement of Accounts (incorporating merger with the WMITA Pension Fund), currently in the process of final review, in time to allow the external audit to follow closely the timetable outlined in Grant Thornton's Audit Plan as presented to Committee in March.

In practice the timetable has been delayed by 2-3 weeks, impacting the timing of reporting to the Pensions Committee.

- 3.2 An Annual Report will be prepared to include the finalised version of the Statement of Accounts and presented to the September meeting of the Pensions Committee.
- 3.3 With effect from 2017/18, the accounts closure timetable was brought forward significantly with certification of draft accounts required by the end of May and the audited accounts to be published by the end of July. As noted above, for the 2020 year-end, timescales have been extended in view of the anticipated impact of Coronavirus on Authorities meeting the statutory deadlines. Authority has previously been delegated to the Chair of Pensions Committee to approve the final publication of the 2019/20 Annual Report and Accounts following audit in July and approval of the draft Statement of Accounts by Committee in June. The recommendation within this report reflects the revised timetable and change in order of events for 2020.
- 3.4 The Fund's external auditors have already undertaken interim audit work with the Fund, testing the investments valuations and transactions records to end of December 2019. In addition the auditors have, undertaken review work on the WMITA Pension Fund and the unitisation of the two separate funds with no concerns on the implementation and operation of the unitised funds ahead of transfer to the Admitted Body Separate Funds.

4.0 Draft Statement of Accounts 2019/20

- 4.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves at the year-end. There are two primary statements: The Fund Account, which is concerned with transactions during the year and the Net Assets Statement which reports balances at the year-end. These are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.
- 4.2 During 2019/20, the market value of the Fund, fell by some £0.42 bn, primarily due to falls in investment assets of £0.72bn.
- 4.3 It is worth noting that the balance of contributions and benefits is negative in 2019/20 by £0.27 bn due to most of the Council bodies having already paid three years Future Service and Past Service Deficit contributions in advance in 2017/18 (based on the 2016 Actuarial Valuation). The balance between the two is likely to be positive in 2020/21 as in April 2020, Councils have again paid significant amounts of contributions in advance following the results of the March 2019 triennial Actuarial Valuation.

The figure for contributions receivable includes £19.2 million paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.

- 4.4 Net assets of the Fund at 31 March 2020 stood at £15.3 billion, down from £15.7 billion at 31 March 2019. This comprised investment assets of £14.9 billion, an insurance contract valued at £229m and working balances of £122 million.
- 4.5 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £23.1 billion at 31 March 2020. This is an increase on the 31 March 2019 figure of £22.4 billion as it includes WMITA Pension Fund liabilities of £0.5 billion and the net impact of adjustments to the actuarial assumptions was to increase liabilities.
- 4.6 The draft Statement of Accounts for the West Midlands Pension Fund is currently being prepared for audit. The Statement of Accounts will be issued to Committee when finalised.

5.0 Investment Management Costs 2019/20

- 5.1 CIPFA guidance introduced in 2014 requires the disclosure of all investment management costs including fees which are deducted at source by external investment managers. External investment management costs in aggregate amounted to £81.7m up from £79.3m of which those deducted at source saw a further increase on the prior year at £67.7million up from £62.2 million. Reported costs include performance fees and transaction costs (both within and between investment sub-funds). The Fund has been gathering cost transparency data from its external managers and at this time is completing validation the data received to ensure accuracy and consistency in reporting by Fund managers. The following table analyses the total investment management costs reported above:

	Actual 2018/19 £m	Actual 2019/20 £m
External Investment Management Costs – Invoiced	13.3	10.5
External Investment Management Costs – Deducted at Source	62.2	67.2
External Investment Management Costs – LGPS Central	3.8	4.0
Total External Investment Management Costs	79.3	81.7
Internal Investment Management Costs	0.6	0.9
Total Investment Management Costs	79.9	82.6

6.0 Financial implications

- 6.1 The financial implications are discussed in the body of the report.

7.0 Legal implications

- 7.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.
- 7.2 The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, came into force on 30 April, extend the publication date for local authority audited accounts to 30 November 2020 with the public inspection period starting on the first working day of September 2020.
- 7.3 Under LGPS Regulations, Administering Authorities are required to produce and publish a pension fund annual report, including information about the management and financial performance of the Fund by 1 December each year.

8.0 Equalities implications

- 8.1 This report has no equalities implications.

9.0 Environmental implications

- 9.1 This report has no environmental implications.

10.0 Human resources implications

- 10.1 The report has no human resources implications.

11.0 Corporate landlord implications

- 11.1 This report has no corporate landlord implications.

12.0 Schedule of background papers

- 12.1 Budget Monitoring 2019/20 and Quarterly Accounts to September 2020 – 21 January 2020 - Pensions Committee
- 12.2 External Audit Plan 2020-2021 – 25 March 2020 - Pensions Committee

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 17 June 2020
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Report title	Budget Monitoring & Quarterly Accounts to 31 March 2020	
Originating service	Pension Services	
Accountable employee	Jill Davys Tel Email	Assistant Director, Investments & Finance 01902 55 0555 jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendation(s) for noting:

The Committee is recommended to note:

1. The quarterly accounts for the period ending 31 March 2020 which:
 - account for the merger of West Midlands ITA Pension Fund with West Midlands Pension Fund and,
 - show that the value of West Midlands Pension Fund at this date was £15.3 billion, a decrease of £0.4 billion from 31 March 2019.

2. The Fund out-turn for 2019/20 against the operating budget for the year, noting the underspend in Fund management costs and higher investment management costs over the year.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the out-turn for the year against operating budgets as at the 2019/20 year-end.
- 1.2 The operating budget was approved by Committee on 27 March 2019 with a revision approved on 25 September 2019 to reflect increased transparency in reported investments costs at the 2018/19 year-end.

2.0 Forecast Out-turn against Operating Budget 2019/20

- 2.1 The following table sets out the forecast out-turn compared with the Fund's operating budget as at the end of the financial year 2019/20:

	2018/19 Actual	Budget 2019/20	2019/20 Outturn	Variance Outturn
	£'000	£'000	£'000	£'000
Employees	5,369	7,358	6,545	(813)
Premises	271	302	258	(44)
Transport	51	37	28	(9)
Other Supplies and Services	423	430	422	(8)
Service Development	583	949	453	(496)
Professional Fees	1,111	1,483	1,629	146
Communications and Computing	372	585	459	(126)
Support Services	560	634	565	(69)
Miscellaneous Income	(679)	(584)	(576)	8
Net Expenditure	8,061	11,194	9,784	(1,410)
External Investment Management Costs	75,562	73,836	77,655	3,819
LGPS Central Charges	3,771	4,670	4,022	(648)
Total	87,394	89,700	91,462	1,762
Funded by:				
West Midlands Pension Fund	86,644	89,700	91,462	1,762
West Midlands ITA Pension Fund	750			
Net Budget	87,394	89,700	91,462	1,762

- 2.2 The figures now combine both WMPF main fund and the WMITA Pension Fund following regulations made in November 2019 to merge the Funds effective from 1 April 2019. Both the budget and out-turn figures incorporate the costs previously attributable to the WMITA Pension Fund.

- 2.3 Key highlights of the out-turn compared to the operating budget are an underspend on employees of £0.8m, due to delays in recruiting to vacant posts, including a number of specialist investment and actuarial professionals, with posts now being re-evaluated. Other areas of note include a £0.5m underspend on service development, where delivery and costs of some projects have been carried forward to 2020/21, most notably allowance to complete GMP reconciliation work on receipt of delayed information from HMRC and further phases of the Digital Transformation Project, further enhancing functionality of the Fund's administration systems. Professional fees were higher than budgeted due in part to additional covenant work undertaken with employers, including consideration of climate change risk and additional support to progress and complete the 2019 actuarial valuation in the absence of additional recruitment to the in-house team.
- 2.4 At the time of writing, the Fund continues to review all the cost transparency templates that have been submitted post year end and are still validating a number of these. As at the end of March 2020, the draft reported external investment management costs were £81.7m, £3.1m above the revised budget, with fees deducted at source comprising the key component of the increase mainly attributable to higher transaction costs, which includes both the cost of transitions and transactions undertaken by the external fund managers. The Fund continues to strive to obtain full transparency over investment costs and continues to capture costs, hitherto which have not been transparent.
- 2.5 It should be noted that actual investment management costs are heavily influenced by market movements and investment performance and are therefore expected to fluctuate during the year. Portfolio changes during the year and asset allocation or strategic changes could also impact on the final outcome for the full year.
- 2.6 LGPS Central Management costs have come in slightly lower (£648k) than budgeted due to delayed product launches, recruitment and resourcing for new product developments.
- 2.7 The majority of investment management costs and fees are deducted at source by fund managers, total investment management costs are £82.54m, as follows:

	Actual 2018/19 £'000	Forecast 19/20 £'000
External Costs:		
- Invoiced	13,362	10,476
- Deducted at Source	62,200	67,180
- LGPS Central	3,771	4,022
Total External Investment Management Costs	79,333	81,678
Internal Investment Management Costs	578	860
Total Investment Management Costs	79,911	82,538

- 2.8 Investment costs remain a key consideration throughout the Fund's investment decision making and the Fund continues to review and seek opportunities for cost reduction where these can be achieved on implementation without impacting risk or expected return.
- 2.9 Cost-per-member is used as a measure of pension schemes' cost-effectiveness but does not reflect the level of service provided to employers or scheme members. The following table sets out the forecast cost-per-member compared to the budget using the three standard headings specified by CIPFA: administration, oversight and governance and investment management costs. The out-turn was a decrease on budget from £31.68 per member to £26.76, due as per earlier comments on lower employee costs along with delayed service development expenditure.

	2018/19 Actual £000	2019/20 Budget £000	2019/20 Actual £000
Total Administration Costs (£000)	5,068	7,710	6,067
Administration Cost per Member (£)	15.65	23.38	18.17
Total Oversight and Governance Costs (£000)	2,415	2,735	2,869
Oversight and Governance Cost per Member (£)	7.46	8.29	8.59
Number of Members	323,795	329,746	333,934
Total Administration, Oversight and Governance cost per Member (£)	23.11	31.68	26.76
Total Investment Management Costs (£000)	79,911	78,506	82,537
Investment Management Cost per Member (£)	246.79	238	247.17
Investment Management Costs as a Percentage of Forecast Net Assets	0.51%	0.49%	0.54%

- 2.10 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under continuous review.
- 2.11 The Fund's statement of accounts are currently being finalised, but initial commentary is included as another report at this Committee.
- 2.12 Appendix A provides a Fund Account for the final quarter ending 31 March 2020, for the merged Fund, together with a Net Assets Statement as at that date.

3.0 Financial implications

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

4.0 Legal implications

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

5.0 Equalities implications

5.1 This report has no direct equalities implications.

6.0 Environmental implications

6.1 This report has no direct environmental implications.

7.0 Human resources implications

7.1 The report has no direct human resources implications.

8.0 Corporate landlord implications

8.1 This report has no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 Budget monitoring 2019/20 and quarterly accounts to 30 September 2019 – Pensions Committee, 21 January 2020.

10.0 Schedule of appendices

10.1 Appendix A: West Midlands Pension Fund Quarterly Accounts to 31 March 2020

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WEST MIDLANDS PENSION FUND ACCOUNTS FOR YEAR ENDED 31 MARCH 2020

Fund Account

2018/19 £m		2019/20 £m
	Contributions & Benefits	
272.7	Contributions Receivable	353.2
43.5	Transfers In	31.2
14.5	Other Income	14.3
330.7	Total Contributions and Other Income	398.7
(589.7)	Benefits Payable	(637.8)
(37.3)	Payments To and On Account of Leavers	(40.0)
(4.4)	Other Payments	(0.9)
(631.4)	Total Benefits and Other Expenditure	(678.7)
-	Transfer in of WMITA Fund at market value	491.7
(87.4)	Management Expenses	(91.5)
	Returns on Investments	
237.2	Investment Income	178.2
445.2	Changes in Value of Investments	(745.1)
-	Actuarial revaluation of bulk annuity insurance contract	20.7
682.4	Net Return on Investments	(546.2)
294.3	Net increase/(decrease) in the Fund during the year	(426.0)
15,419.8	Net Assets of the Fund at the beginning of the year	15,714.1
15,714.1	Net Assets of the Fund at the end of the year	15,288.1

WEST MIDLANDS PENSION FUND ACCOUNTS FOR YEAR ENDED 31 MARCH 2020

Net Assets Statement

31 March 2019 £m		31 March 2020 £m
	Investment Assets (at Market Value)	
339.8	Bonds	494.0
40.0	UK Equities	28.9
1,301.3	Overseas Equities	1,408.8
11,481.8	Pooled Investment Vehicles	10,869.9
980.7	Property (Direct)	965.1
20.7	Derivatives - Futures	11.7
1.0	Derivatives Forward Foreign Exchange	-
690.6	Foreign Currency Holdings	582.5
821.8	Cash Deposits	569.6
51.8	Other Investment Assets	75.8
0.5	Outstanding Dividend Entitlement and Recoverable With-Holding Tax	7.0
15,730.0	Investment Assets	15,013.3
(154.9)	Investment Liabilities	(76.8)
15,575.1	Net Investment Assets	14,936.5
-	Bulk annuity insurance buy-in policy	229.4
113.7	Long-Term Debtors	14.5
47.3	Current Assets	132.4
(22.0)	Current Liabilities	(24.7)
15,714.1	Net Assets of the Fund at the end of the year	15,288.1

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