

# Pensions Committee

19 June 2019

<b>Report title</b>	Budget Monitoring 2018/19 and Quarterly Accounts March 2019	
<b>Originating service</b>	Pension Services	
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## Recommendations for information:

The Committee is asked to note:

1. The quarterly accounts for the period ending 31 March 2019, which show that:
  - the value of West Midlands Pension Fund at this date was £15.7 billion, an increase of £294 million from 31 March 2018;
  - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £491.7 million, a decrease of £0.3 million from 31 March 2018.
2. The outturn against operating budgets as at the end of March 2019, is an over spend of £8.7million, primarily attributable to greater transparency over reported investment management costs following early adoption of new industry-wide reporting templates developed with the Cost Transparency Initiative.

## 1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the outturn for the year against operating budgets and quarterly accounts as at the end of March 2019.
- 1.2 The operating budgets for the year to 31 March 2019 were approved by the Committee on 21 March 2018 as part of the Service Plan 2018-2024, a full copy of which can be found on the Fund's website: [www.wmpfonline.com](http://www.wmpfonline.com).

## 2.0 Outturn against Operating Budget 2018/19

- 2.1 The following table sets out the outturn compared with the Fund's operating budget as at the end of the final quarter.

	2017/18 Actual	2018/19 Budget	2018/19 Outturn	2018/19 Variance
	£000	£000	£000	£000
Employees	5,579	5,527	5,369	(158)
Premises	382	221	271	50
Transport	65	65	51	(14)
Other Supplies and Services	430	1,177	1,006	(171)
Professional Fees	1,801	1,171	1,111	(60)
Communications and Computing	665	534	372	(163)
Support Services	508	544	560	17
Miscellaneous Income	(810)	(180)	(679)	(499)
<b>Net Expenditure</b>	<b>8,620</b>	<b>9,059</b>	<b>8,061</b>	<b>(998)</b>
External Investment Management Costs	58,900	65,201	75,562	10,336
LGPS Central Charges	-	4,425	3,771	(629)
<b>Total</b>	<b>67,520</b>	<b>78,685</b>	<b>87,394</b>	<b>8,709</b>
<b>Funded by:</b>				
West Midlands Pension Fund	66,770	77,935	86,644	8,709
West Midlands ITA Pension Fund	750	750	750	-
<b>Net Budget</b>	<b>67,520</b>	<b>78,685</b>	<b>87,394</b>	<b>8,709</b>

- 2.2 The under spend on employee costs (£158,000) is due to posts being vacant, or in the process of recruitment during the year. Temporary support has been utilised to support ongoing delivery during recruitment. The underspend on other supplies and services (£171,000) is largely due to project spend in connection with Guaranteed Minimum Pension (GMP) reconciliation work being later than planned and also due to later commissioning of elements of service development work from the administration system provider. The higher premises cost reflected taking on additional floor-space on the 8<sup>th</sup> floor in Mander house to accommodate increasing workforce and meeting room facilities, replacing some of the space agreed to sub-let to LGPS Central Limited. The underspend on communications and computing relates to reduced expenditure on hardware. Professional fees underspend (£60,000) is due to lower than budgeted actuarial fees for 2018-19. The higher income (£679,000) versus budget (£180,000) relates to actuarial and legal costs recharged to employers for work undertaken on their behalf plus additional income due to additional legal work, ITA management and administration, divorce quotes and other work undertaken by the Fund and recharged. This area can be difficult to forecast as it is affected by the amount of additional work that employers require impact, for example, by the incidence of employer restructuring during the year.
- 2.3 The Fund has been working closely with the Pensions and Lifetime Savings Association (PLSA), the Investment Association and Scheme Advisory Board on the new cost transparency initiative and was part of the trial group to test and develop industry-wide cost reporting templates, capturing for West Midlands, some further previously unreported costs. Whilst the Fund has taken a transparent approach with investment management costs as far as possible, the new cost capture templates that have been developed have enabled even higher levels of transparency from the investment managers. Consequently, as at the end of March 2019, investment management costs were £10 million over the amount estimated for budgeting purposes at the start of the year. The review of 2018/19 investment costs was completed in May 2019, following several months engagement with the Fund's investment managers. The results this year reflect improved cost capture coupled with higher manager response rates, with greater detail, particularly in relation to transaction costs.
- 2.4 LGPSC Ltd costs came in slightly under budget due to some delays in recruitment and recognising the need to avoid building up costs too early as part of product development. The internal investment costs are lower than forecast due to a combination of holding vacant posts following difficulties in recruiting and also reflecting how time is apportioned.
- 2.5 The majority of investment management costs and fees and other costs are deducted at source by fund managers, total investment management costs for the main fund were £79.9m, as follows:

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	<b>Actual 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>	<b>Actual 2018/19 £000</b>
External Costs:			
- Invoiced	11,424	10,590	13,362
- Deducted at Source	44,643	51,520	62,200
- LGPS Central		3,944	3,771
<b>Total External Investment Management Costs</b>	<b>56,067</b>	66,054	79,333
Internal Investment Management Costs	2,833	733	578
<b>Total Investment Management Costs</b>	<b>58,900</b>	66,788	79,911

2.6 Cost-per-member is a blunt but widely used measure of pension schemes in assessing 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. The cost per member at £23.11 whilst showing an increase on the prior year, shows a decrease against budget. These figures are stated for West Midlands Pension Fund only taking into account the £150,000 recharge to the ITA Fund.

	<b>2017/18 Actual £000</b>	<b>2018/19 Budget £000</b>	<b>2018/19 Outturn £000</b>
Total Administration Costs (£000)	3,826	4,693	5,068
Administration Cost per Member (£)	12.21	14.98	15.65
Total Oversight and Governance Costs (£000)	2,776	3,378	2,415
Oversight and Governance Cost per Member (£)	8.86	10.78	7.46
Number of Members	313,339	313,399	*323,795
<b>Total Administration, Oversight and Governance cost per Member (£)</b>	<b>21.07</b>	<b>25.76</b>	<b>23.11</b>
Total Investment Management Costs (£000)	58,900	69,864	79,911
Investment Management Cost per Member (£)	187.94	222.97	246.79
<b>Investment Management Costs as a Percentage of Forecast Net Assets</b>	<b>0.39%</b>	<b>0.43%</b>	<b>0.51%</b>

\*As at 31 March 2019

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 final quarter ending 31 March 2019, and a Net Assets Statement as at that date.

3.2 The Net Assets Statement provides a value for the Fund at 31 March 2019 of £15.7 billion. This is an increase of £294 million from the 31 March 2018 value.

3.3 These quarterly accounts have been prepared in accordance with the key assumptions, set out below:

- One employer made one off lump sum Past Service Deficit Contribution in April 2018 for the year which have been recognised in full in the first quarter;
- Investment income has been calculated based on income due for the period.

3.4 The main reason for the increase in the value of the Fund is a combination of investment income and investment gains over the year amounting to £294.3 million increase overall for 2018/19.

### **4.0 Quarterly Accounts – West Midlands ITA Pension Fund**

4.1 Appendix B provides a Fund Account (unaudited) for the year ended 31 March 2019, and a Net Assets Statement (unaudited) as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 31 March 2019 of £492 million. This is a decrease of £0.3 million from the 31 March 2018 value.

4.3 The main reason for the decrease in the value of the Fund for the year is the change to the value of the bulk annuity buy in (£13.8 million) held to meet pension benefit payments offset with an increase in value of invested assets of £13.4 million.

### **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 background papers**

11.1 Service Plan 2019-24

<http://www.wmpfonline.com/CHttpHandler.ashx?id=12474&p=0>

**12.0 Schedule of Appendices**

12.1 Appendix A: West Midlands Pension Fund Quarterly Accounts 31 March 2019

12.2 Appendix B: West Midlands ITA Pension Fund Quarterly Accounts 31 March 2019 (unaudited).