

# Pensions Committee

21 January 2020

<b>Report title</b>	Budget Monitoring 2019/20 and Quarterly Accounts September 2019	
<b>Originating service</b>	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 30 September 2019 which show that:
  - the value of West Midlands Pension Fund at this date was £16.4 billion, an increase of £705 million from 31 March 2019.
  - the value of West Midlands ITA Pension Fund at this date was £506.7 million, a slight increase from the £491.7 million as at 31 March 2019.
2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of September 2019 is an underspend of £0.85m primarily attributable to posts in the process of being recruited to, service development activities in the pipeline and reduced forecasts for investment manager 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 September 2019.
- 1.2 The operating budget was approved by Committee on 27 March 2019 with an additional £7.9m increase to account for greater disclosure of external investment management costs approved on 25 September 2019 and now included in the table below.

## 2.0 Forecast Out-turn against Operating Budget 2019-2020

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

	<b>2018-2019 Actual</b>	<b>Budget 2019- 2020</b>	<b>2019- 2020 Forecast</b>	<b>Variance Outturn</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Employees	5,369	7,358	7,220	(138)
Premises	271	302	278	(24)
Transport	51	37	18	(19)
Other Supplies and Services	423	430	420	(10)
Service Development	583	949	794	(155)
Professional Fees	1,111	1,483	1,496	13
Communications and Computing	372	585	565	(20)
Support Services	560	634	634	-
Miscellaneous Income	(679)	(584)	(584)	-
<b>Net Expenditure</b>	<b>8,061</b>	<b>11,194</b>	<b>10,841</b>	<b>(353)</b>
External Investment Management Costs	75,562	73,836	73,466	(370)
LGPS Central Charges	3,771	4,670	4,546	(124)
<b>Total</b>	<b>87,394</b>	<b>89,700</b>	<b>88,853</b>	<b>(847)</b>
		-	-	-
<b>Funded by:</b>		-	-	-
West Midlands Pension Fund	86,644	88,950	88,103	(847)
West Midlands ITA Pension Fund	750	750	750	-
<b>Net Budget</b>	<b>87,394</b>	<b>89,700</b>	<b>88,853</b>	<b>(847)</b>

- 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 underspend on staffing due in part to ongoing recruitment to

vacant posts. Being only midway through the year however, the underspend position may well be subject to change. At this point, there is also an anticipated overspend on professional fees attributable to additional employer covenant work in relation to the triennial actuarial valuation, commissioned after the start of the financial year.

- 2.3 As at the end of September 2019, reported external investment management costs are forecast to be £0.37m below the level of the adjusted budget. The adjustment to budget reflects changes in the way that investment costs are now being captured and reported following transition to the new industry-standard reporting template launched in May 2019. Members were informed at the June Committee of the increased cost transparency data capture for the final accounts which reflected higher costs for the financial year 2018-19 than had previously been reported.

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.

- 2.4 LGPS Central Management costs are expected to come in slightly lower (£0.12m) than budgeted due to some 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 estimated to be around £79m, as follows:

	<b>Actual 2018/19 £'000</b>	<b>Forecast 2019/20 £'000</b>
External Costs:		
- Invoiced	13,362	9,580
- Deducted at Source	62,200	63,886
- LGPS Central	3,771	4,546
<b>Total External Investment Management Costs</b>	<b>79,333</b>	<b>78,012</b>
Internal Investment Management Costs	578	789
<b>Total Investment Management Costs</b>	<b>79,911</b>	<b>78,801</b>

- 2.6 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.

- 2.7 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 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 underspend compared to budget from £31.68 to £30.64 per member.

	2018/19 Actual £000	2019/20 Budget £000	2019/20 Forecast £000
Total Administration Costs (£000)	5,068	7,710	7,402
Administration Cost per Member (£)	15.65	23.38	22.57
Total Oversight and Governance Costs (£000)	2,415	2,735	2,647
Oversight and Governance Cost per Member (£)	7.46	8.29	8.07
Number of Members	323,795	329,746	327,950
<b>Total Administration, Oversight and Governance cost per Member (£)</b>	<b>23.11</b>	<b>31.68</b>	<b>30.64</b>
Total Investment Management Costs (£000)	79,911	78,506	78,801
Investment Management Cost per Member (£)	246.79	238	240.28
<b>Investment Management Costs as a Percentage of Forecast Net Assets</b>	<b>0.51%</b>	<b>0.49%</b>	<b>0.48%</b>

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

### 3.0 Quarterly Accounts – West Midlands Pension Fund

- 3.1 Appendix A provides a Fund Account for the half year ended 30 September 2019 and a Net Assets Statement as at that date.
- 3.2 The Net Assets Statement provides a value for the Fund at 30 September 2019 of £16.4 billion. This is an increase of £705 million from the 31 March 2019 value.

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

- Past Service Deficit Contributions for the year have been recognised in full in the first quarter;
- Management expenses have been calculated on an accrual's basis, being equal to one-half 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 increase in the value of the Fund assets over the first half of the year are market movements and investment performance. Total gains from investments for the half year to 30 September 2019 were £870 million and net expenditure on benefits plus management expenses came to -£165 million.

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

4.1 Appendix B provides a Fund Account for the half year ended 30 September 2019 and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 30 September 2019 of £506.7 million. This is an increase of £15 million from the 31 March 2019 value.

4.3 The main reasons for the increase in the value of the Fund for the year so far are investment gains and investment income mitigated by net expenditure on benefits for the first six months.

#### **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 None.

**12.0 Schedule of Appendices**

12.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 30 September 2019.

12.2 Appendix B – West Midlands ITA Pension Fund Quarterly Accounts 30 September 2019.