

# Pensions Committee

9 December 2020

<b>Report title</b>	Budget Monitoring 2020/2021 and Quarterly Accounts 30 September 2020	
<b>Originating service</b>	Pension Services	
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## Recommendation for decision:

The Committee is asked to approve:

1. The delegation for the review and sign-off of the budget in connection with Fund premises to the Director of Pensions in consultation with the Chair and Vice Chair.

## Recommendations for noting:

The Committee is asked to note:

1. The quarterly accounts for the period ending 30 September 2020 which estimate the value of West Midlands Pension Fund at this date to be £17.8 billion, an increase of £2.5 billion (16%) since 31 March 2020.
2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of September 2020 is an overspend of £6.3m primarily attributable to increased estimates for investment management costs on implementation of planned changes to the investment strategy.

## 1.0 Purpose

- 1.1 The purpose of this report is to update Committee on the forecast out-turn against operating budget for 2020/2021 and present the quarterly accounts to 30 September 2020.
- 1.2 The operating budget was approved by Committee in March 2020.

## 2.0 Forecast Out-turn against Operating Budget 2020/2021

- 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:

	Budget 2019/20	Budget 2020/21	Forecast 2020/21	Variance Outturn
	£000	£000	£000	£000
Employees	7,358	9,066	8,189	(877)
Premises	302	300	306	5
Transport	37	38	21	(17)
Other Supplies and Services	430	437	387	(50)
Service Development	949	1,027	796	(231)
Professional Fees	1,484	1,552	1,597	45
Communications and Computing	585	613	545	(68)
Support Services	634	723	738	15
Miscellaneous Income	(584)	(595)	(593)	2
<b>Net Expenditure</b>	<b>11,195</b>	<b>13,161</b>	<b>11,985</b>	<b>(1,176)</b>
External Investment Management Costs	73,836	77,970	85,556	7,586
LGPS Central Charges	4,669	4,949	4,877	(72)
<b>Total External Investment Costs</b>	<b>78,505</b>	<b>82,919</b>	<b>90,433</b>	<b>7,514</b>
<b>Total</b>	<b>89,700</b>	<b>96,080</b>	<b>102,419</b>	<b>6,338</b>

\*There may be slight differences due to rounding.

- 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. The figures now combine both WMPF Main Fund and the former WMITA Pension Fund following regulations to merge the Pension Funds during 2019/20.

The budget monitoring report at the end of quarter one already anticipated an underspend on staffing due to challenges posed to recruitment by the Covid 19 pandemic, particularly during the initial lockdown period and transition to home working. Some activity has taken place in the quarter to end of September, but there are a number of roles envisaged at the outset of the budgeting process, together with posts which have become available due to natural turnover, which remain to be recruited to and the

forecast underspend on employee costs is increased accordingly. These delays in recruiting to vacant posts will in turn reduce associated computing and ICT support costs from the numbers originally budgeted for in March 2020.

The pandemic has continued to halt business related travel and so this quarter's forecast factors in additional underspend on transport costs. For the same reason, the forecast for training has also been reduced further as courses are either deferred or cancelled for this year altogether. This is reflected in the "other supplies and services" summary budget line.

At this half-way stage through the financial year, there is now further clarity around projects and service development initiatives that are not going to fully complete in year and the corresponding costs of which will defer or partly run into 2021/2022. Service development is therefore forecast down since the outlook at the end of the last quarter.

At this time, we forecast an overspend on professional fees due in part to the increase to the external audit fee agreed in March and in anticipation of additional legal fees to be incurred on investment related activities before year end.

- 2.3 As at the end of September 2020, annual external investment management costs are forecast to be approximately £7.6m above the level projected and budgeted in March 2020. There is a slight increase in the forecast since last quarter, as estimates of fees calculated by reference to assets under management are higher due to gains in investment valuations. The latest forecast anticipates implementation of changes to the strategic asset allocation following approval of the updated Investment Strategy Statement in March, and the consequent impact that investment in different asset classes will have on overall fees. The actual timing of any changes will be subject to the existence of favourable market conditions. This is particularly relevant in the context of transition of Fund assets to products launched by the LGPS Central pool, with an update on plans for the remainder of 2020/21 covered in a separate report.

It should be noted that investment management costs are heavily influenced by market movements and investment performance. Actual costs are uncertain, with estimates expected to fluctuate during the year.

- 2.4 The majority of investment management costs and fees are deducted at source by fund managers, total projected investment management costs for the Fund for 2020/2021 are estimated to be in the region of £91m, as follows:

	Budget 2019/20	Budget 2020/21	Forecast 2020/21
	£'000	£'000	£'000
External Costs:			
- Invoiced	9,960	9,678	11,339
- Deducted at Source	63,876	68,292	74,217
- LGPS Central	4,669	4,949	4,877
<b>Total External Investment Management Costs</b>	<b>78,505</b>	<b>82,919</b>	<b>90,433</b>
Internal Investment Management Costs	1,188	1,261	809
<b>Total Investment Management Costs</b>	<b>79,693</b>	<b>84,180</b>	<b>91,242</b>

- 2.5 Investment costs and the management thereof, 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. However, it is recognised that as the new investment strategy is implemented, the Fund is likely to see increased costs given the higher allocation to more expensive asset classes required to achieve strategic investment goals.
- 2.6 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.

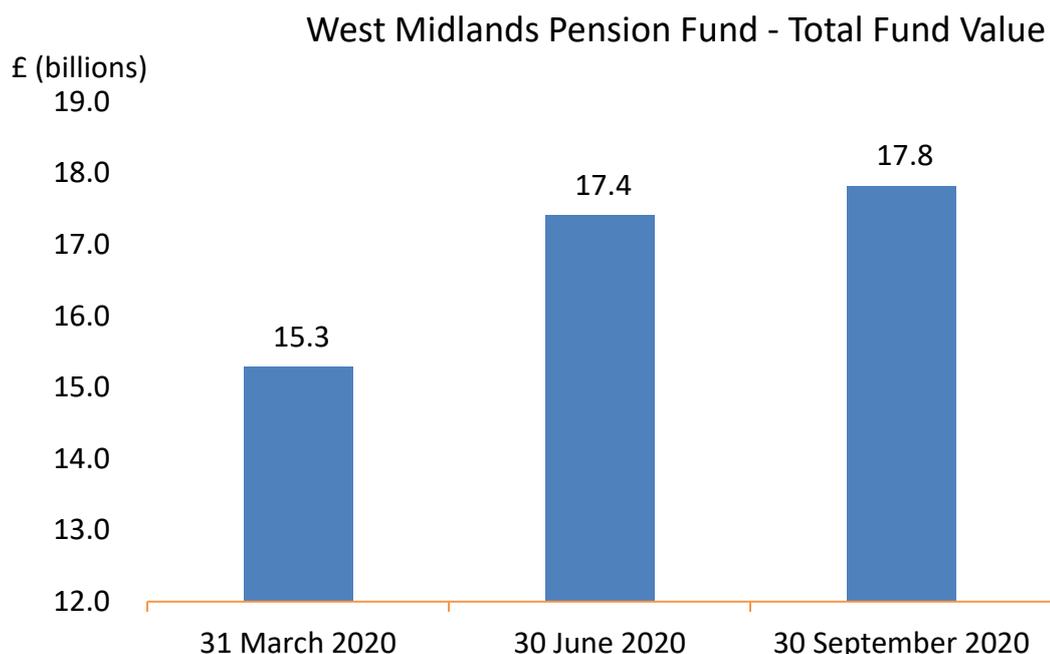
At this time, we are forecasting a slight reduction on expenditure relative to budget for total administration, oversight & governance cost from £34.91 to £33.22 per member.

	2019/20 Actual	2020/21 Budget	2020/21 Forecast
Total Administration Costs (£'000)	6,067	7,710	7,482
Administration Cost per Member (£)	18.17	22.62	22.24
Total Oversight and Governance Costs (£'000)	2,869	4,190	3,694
Oversight and Governance Cost per Member (£)	8.59	12.29	10.98
Number of Members	333,934	340,903	336,351
<b>Total Administration, Oversight and Governance cost per Member (£)</b>	<b>26.76</b>	<b>34.91</b>	<b>33.22</b>
Total Investment Management Costs (£'000)	82,537	84,180	91,242
Investment Management Cost per Member (£)	247.17	246.93	271.27
<b>Investment Management Costs as a Percentage of Forecast Net Assets</b>	<b>0.54%</b>	<b>0.50%</b>	<b>0.52%</b>

2.7 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under continuous review. It was recognised that with the increasing workload due to regulatory changes, increasing employer and scheme members demands that there were increased resourcing requirements for the Fund, and this was reflected in the budget set out for the current financial year.

### 3.0 Quarterly Accounts – West Midlands Pension Fund

- 3.1 Appendix A provides a Fund Account for the six months ended September 2020 and a Net Assets Statement as at 30 September 2020.
- 3.2 The Net Assets Statement estimates a value for the Fund at 30 September 2020 of £17.8 billion. This is an increase of £2.5 billion (16%) from the 31 March 2020 value shown in the year end accounts.



There are two main reasons for this increase.

- Investment markets experienced sharp falls in the last few weeks of the financial year due to the impact of the Covid-19 pandemic and lockdown of economies around the world so the valuation of the Fund's investments was some £1.4bn lower than had originally been forecast for end of March 2020. Post year end, investment markets have made significant recoveries pushing valuations on listed investments back up to pre-Covid levels.
- Following the actuarial valuation as at 31 March 2019, some employers chose to pay their full 2020/21 – 2022/23 future service and past service deficit contributions as a lump sum before the end of April 2020 and these payments have been accounted for fully in the first quarter.

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;
- 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 (the combined effect of these two points is that the contributions income shown in the Fund Account is significantly more than one half of the total amount that will be due for the year);
- Management expenses have been estimated 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.

#### **4.0 Outlook for Fund budget 2021/22**

4.1 In keeping with prior years, Fund Officers are in the process of reviewing the Fund Service plan and budget requirements for next year. This will be developed in consultation with the Chair and Vice Chair prior to presentation to the Committee at the next meeting.

4.2 Based on preliminary discussions and review of future Service Plan requirements, discussed at the joint Pensions Committee and Local Pension Board training day in October 2020, two areas already identified for closer review ahead of finalising the budget are:

- Implementation of the McCloud ruling and remedy for the LGPS – as reported to the Pensions Committee in September, substantial additional work will be required to review and update member benefits records. Further work is underway to inform estimates of the additional cost to implementation over the next 1-2 years which is likely to involve recruitment of additional resource and system development. This will be presented to the Committee as part of the budget in March 2021.
- Review of the Fund premises and future accommodation – following review of future requirements and spatial needs, work will shortly complete to confirm options and costs for future arrangements ahead of lease expiry mid-2021. Some additional expenditure on Fund premises is expected to be required to address challenges with the current arrangements and better align with the Fund's future requirements.

4.3 The Committee are asked to approve delegation for the review and sign off of the budget in connection with Fund premises to the Director of Pensions in consultation with the Chair and Vice Chair.

## **5.0 Financial implications**

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

## **6.0 Legal implications**

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

## **7.0 Equalities implications**

7.1 The report contains no direct equalities implications.

## **8.0 Environmental implications**

8.1 The report contains no direct environmental implications.

## **9.0 Human resources implications**

9.1 The report contains no direct human resources implications.

## **10.0 Corporate landlord implications**

10.1 The report contains no direct 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 2020