

Report title	Budget Monitoring 2020-2021 and Quarterly Accounts 31 December 2020	
Originating service	Pension Services	
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Recommendations for noting:

The Pensions Committee is asked to note:

1. The quarterly accounts for the period ending 31 December 2020 which estimate the value of West Midlands Pension Fund at this date to be £18.7 billion, an increase of £3.4 billion (22%) since 31 March 2020.
2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of December 2020 is an overspend of £2m 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 Pensions Committee on the forecast out-turn against operating budget for 2020/2021 and present the quarterly accounts to 31 December 2020.
- 1.2 The operating budget was approved by the 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 third quarter:

	Budget 2019/20	Budget 2020/21	Forecast 2020/21	Variance Outturn
	£000	£000	£000	£000
Employees	7,358	9,066	8,082	(983)
Premises	302	300	305	5
Transport	37	38	21	(17)
Other Supplies and Services	430	437	383	(54)
Service Development	949	1,027	796	(231)
Professional Fees	1,484	1,552	1,604	52
Communications and Computing	585	613	540	(74)
Support Services	634	723	740	17
Miscellaneous Income	(584)	(595)	(565)	30
Net Expenditure	11,195	13,161	11,906	(1,255)
External Investment Management Costs	73,836	77,970	80,962	2,992
LGPS Central Charges	4,669	4,949	5,225	276
Total External Investment Costs	78,505	82,919	86,187	3,268
Total	89,700	96,080	98,093	2,013

*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 funds during 2019/20.

Budget monitoring reports for the previous two quarters already anticipated an underspend on staffing due to challenges posed to recruitment by the Covid-19 pandemic. Recruitment activity increased in quarter three and continues to do so in 2021 however, a number of roles envisaged at the outset of the 2020/21 budgeting process, together with posts which have become available due to natural turnover, will not be filled until after the end of the current budget year. These delays in recruiting to vacant posts in

turn reduce associated computing and ICT support costs from the numbers originally budgeted for in March 2020.

As reported to the Committee previously, due to the impact of the pandemic and associated lockdown restrictions, the Fund forecasts underspends on transport, training and conference activities compared to the levels budgeted for approval in March 2020, prior to the emergence of the impact of Covid-19. For the same reasons, some service development initiatives will not complete in 2020/2021 and their costs will defer fully or partly into the next financial year.

- 2.3 As at the end of December 2020, annual external investment management costs are forecast to be approximately £3.2m above the level projected and budgeted in March 2020. There is a reduction in the forecast since last quarter due to the review and timing of implementation changes to the strategic asset allocation following approval of the updated Investment Strategy Statement in March 2020. The increase in LGPS Central charges reflects revised forecast of recharges to Partner Funds following review and recalibration of the cost sharing and investment products utilised during the year.

It should be noted that investment management costs are heavily influenced by market movements and investment performance during the year and the forecast remains an estimate.

- 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 £87m, as follows:

	Budget 2019/20	Budget 2020/21	Forecast 2020/21
	£'000	£'000	£'000
External Costs:			
- Invoiced	9,960	9,678	13,124
- Deducted at Source	63,876	68,292	67,838
- LGPS Central	4,669	4,949	5,225
Total External Investment Management Costs	78,505	82,919	86,187
Internal Investment Management Costs	1,188	1,261	803
Total Investment Management Costs	79,693	84,180	86,990

- 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 implementation

routes and relative value, in the context of target risk and return. As the new investment strategy is implemented and transitions (including those to the LGPS Central pool) complete, the Fund is likely to see some increase in costs as changes are made to align the portfolio with strategic investment goals.

- 2.6 Cost-per-member and relative to assets under management are used as measures of pension schemes' cost-effectiveness but on comparison would not reflect differences in the level of service provided to employers or scheme members or within the investment strategies adopted. 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 both total administration, oversight and governance cost from £34.91 to £33.25 per member and investment management costs relative to assets under management from 0.50% to 0.47%. The latter is largely driven by increasing asset values over the year to date.

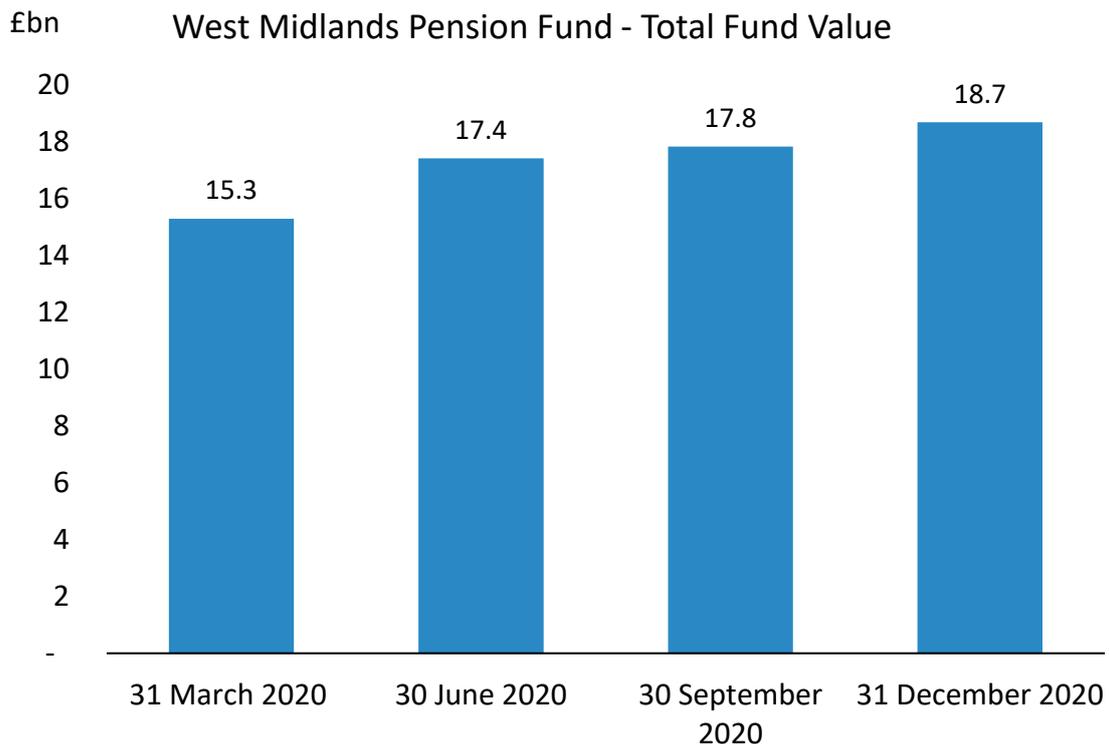
	2019/20 Actual	2020/21 Budget	2020/21 Forecast
Total Administration Costs (£000)	6,067	7,710	7,496
Administration Cost per Member (£)	18.17	22.62	22.45
Total Oversight and Governance Costs (£000)	2,869	4,190	3,607
Oversight and Governance Cost per Member (£)	8.59	12.29	10.80
Number of Members	333,934	340,903	333,895
Total Administration, Oversight and Governance cost per Member (£)	26.76	34.91	33.25
Total Investment Management Costs (£000)	82,537	84,180	86,990
Investment Management Cost per Member (£)	247.17	246.93	260.53
Investment Management Costs as a Percentage of Forecast Net Assets	0.54%	0.50%	0.47%

- 2.7 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 nine months ended December 2020 and a Net Assets Statement as at 31 December 2020.

3.2 The Net Assets Statement estimates a value for the Fund at 31 December of £18.7 billion. This is an increase of £3.4 billion (22%) 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 prior 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 2020/2021 – 2022/2023 future service and past service deficit contributions as a lump sum before the end of April 2020 and these payments were accounted for in full in the first quarter of the year.

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 (the effect is that the contributions income shown in the Fund Account is significantly more than one quarter of the total amount that will be due for the year);
- Management expenses have been estimated on an accruals 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.

4.0 Financial implications

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

5.0 Legal implications

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

6.0 Equalities implications

6.1 The report has no direct equalities implications.

7.0 Environmental implications

7.1 The report has no direct environmental implications.

8.0 Human resources implications

8.1 The report has no direct human resources implications.

9.0 Corporate landlord implications

9.1 The report has no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of appendices

11.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 31 December 2020.