

CITY OF  
WOLVERHAMPTON  
COUNCIL

# Pensions Committee

23 June 2021

<b>Report title</b>	Budget Monitoring 2020/2021 and Quarterly Accounts 31 March 2021	
<b>Originating service</b>	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 March 2021 which estimate the value of West Midlands Pension Fund at this date to be £18.9 billion, an increase of £3.6 billion (23%) since 31 March 2021.
2. The Fund out-turn for 2020/21 against the operating budget for the year, noting the underspend in Fund management costs and increased disclosure of investment management costs over the year.

## 1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the out-turn for the year against operating budgets as at the end of March 2021.
- 1.2 The operating budget for the year to 31 March 2021 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 financial year 2020/2021:

2.2

	Budget 2019/20	Budget 2020/21	Out-turn 2020/21	Variance Out-turn
	£000	£000	£000	£000
Employees	7,358	9,066	6,935	(2,131)
Premises	302	300	295	(5)
Transport	37	38	15	(23)
Other Supplies and Services	430	437	382	(55)
Service Development	949	1,027	340	(687)
Professional Fees	1,484	1,552	1,396	(156)
Communications and Computing	585	613	549	(64)
Support Services	634	723	686	(37)
Miscellaneous Income	(584)	(595)	(438)	157
<b>Net Expenditure</b>	<b>11,195</b>	<b>13,161</b>	<b>10,160</b>	<b>(3,001)</b>
External Investment Management Costs	73,836	77,970	95,397	17,427
LGPS Central Charges	4,669	4,949	4,693	(257)
<b>Total External Investment Costs</b>	<b>78,505</b>	<b>82,919</b>	<b>100,090</b>	<b>17,171</b>
<b>Total</b>	<b>89,700</b>	<b>96,080</b>	<b>110,250</b>	<b>14,170</b>

\*There may be slight differences due to rounding.

- 2.3 Budget monitoring reports to Committee during the past year already anticipated an underspend on staffing due to challenges posed to recruitment by the Covid-19 pandemic. Recruitment activity restarted to some degree from quarter three onwards and continues into 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, were not/will not be filled until after the end of the current budget year.

These delays in recruiting to vacant posts contributed to an overall underspend on employees of £2.1m. Included in this underspend is £0.6m across all budgeted posts on employer's pension contributions arising due to a reduction in the actual rate paid during the year, with the rate finalised as part of the 2019 Actuarial Valuation, after the WMPF budget for 2020/21 had already been set. The employee underspend in turn reduced associated computing and ICT support costs from the numbers originally budgeted for in March 2020.

- 2.4 Resulting from the pandemic and associated lockdown restrictions, the Fund has underspends on transport, training and conference activities in comparison to the levels originally budgeted for. These are reflected in the "transport" and "other supplies and services" summary budget lines. For the same reasons service development is underspent by £0.6m as delivery of a number of projects and initiatives has had to be carried forward to 2021/2022, most notably, allowance for further phases of the Digital Transformation Project to enhance functionality of the Fund's administration systems, work in developing the Fund's website, improving and expanding the Fund's data management capabilities and review of the investment recording and reporting systems. Professional fees were lower than budget with savings on actuarial fees, legal fees and covenant work from reduction in activity for part of the year and efficiency savings arising from the 2019/2020 merger with the WMITA Fund.
- 2.5 Reported external investment management costs as shown in 2.2 above and disclosed in the Fund's 2020/2021 draft Statement of Accounts are £100.1m which is above the estimate at the start of year based on prior year cost data collection. Part of the increase is a consequence of the gains in the value of the Fund's invested assets over the year as investment fees calculated by reference to the valuation of assets under management will be higher as this value grows. However, the most significant driver of change is the increased disclosure and reporting of investment management costs deducted at source by the Fund's investment managers. These include reported costs of transitions and transactions undertaken by both the Fund (on transfer between investment mandates) and by investment managers (on transactions within investment mandates) during the year.
- 2.6 Further commentary on the analysis and reporting on investment management costs during the year is included with the paper to the Committee on the Statement of Accounts.
- 2.7 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 and between years. Portfolio changes during the year and asset allocation or strategic changes will also impact the development of costs over time..
- 2.8 LGPS Central Limited management costs have come in slightly lower (£257k) than budgeted due to similar COVID-19 impacts slowing down expenditure on employees during 2020/21 together with some savings realised by the Company on implementation of new risk and client reporting systems.

2.9 The majority of investment management costs and fees are deducted at source by fund managers. Total investment management costs of £100.8m can be broken down as follows:

	<b>Actual 2019/20 £'000</b>	<b>Budget 2020/21 £'000</b>	<b>Actual 2020/21 £'000</b>
External Costs:			
- Invoiced	10,476	9,678	14,827
- Deducted at Source	67,180	68,292	80,570
- LGPS Central	4,022	4,949	4,693
<b>Total External Investment Management Costs</b>	<b>81,678</b>	<b>82,919</b>	<b>100,090</b>
Internal Investment Management Costs	860	1,261	760
<b>Total Investment Management Costs</b>	<b>82,538</b>	<b>84,180</b>	<b>100,850</b>

2.10 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.

2.11 Cost-per-member is used as a measure of pension schemes' cost-effectiveness but does not necessarily 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. The out-turn represents a decrease on budget from £34.91 per member to £28.05 with disclosed investment management costs relative to assets under management emerging at 0.54% in line with 2019/2020 as a result of the growth in asset valuation offsetting the impact of increased cost disclosure within this measure.

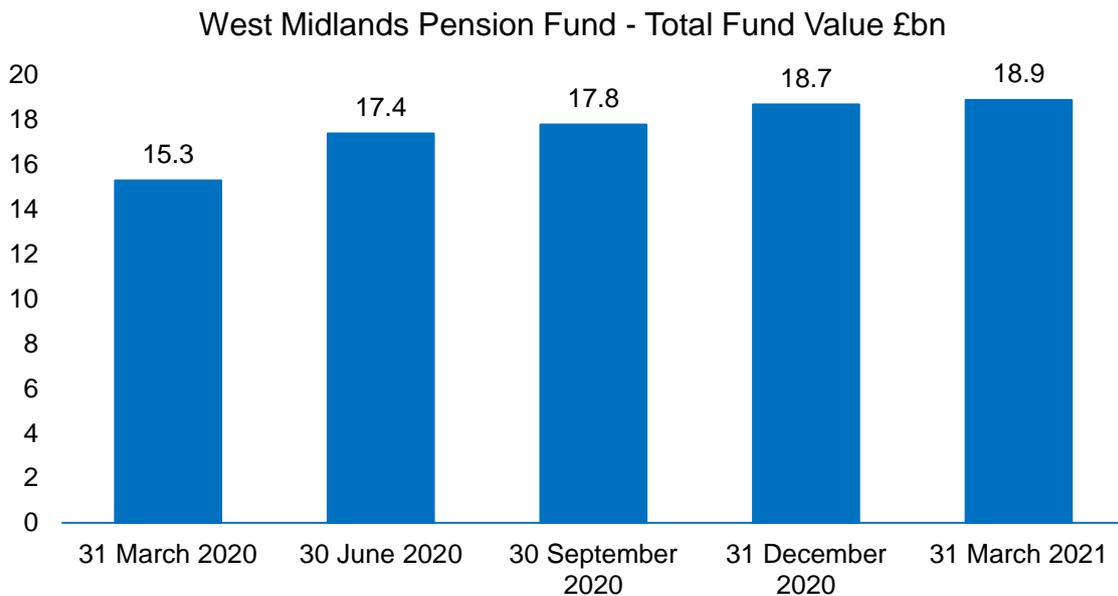
	2019/20 Actual	2020/21 Budget		2020/21 Actual
Total Administration Costs (£000)	6,067	7,710		6,268
Administration Cost per Member (£)	18.17	22.62		18.70
Total Oversight and Governance Costs (£000)	2,869	4,190		3,133
Oversight and Governance Cost per Member (£)	8.59	12.29		9.35
Number of Members	333,934	340,903		335,101
<b>Total Administration, Oversight and Governance cost per Member (£)</b>	<b>26.76</b>	<b>34.91</b>		<b>28.05</b>
Total Investment Management Costs (£000)		82,538	84,180	100,850
Investment Management Cost per Member (£)		247.17	246.93	300.95
<b>Investment Management Costs as a Percentage of Forecast Net Assets</b>		<b>0.54%</b>	<b>0.50%</b>	<b>0.54%</b>

2.12 The Fund, like all public-sector bodies, remains cost-conscious and keeps its operating costs and procedures under constant review.

### 3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the final quarter ending 31 March 2021 together with a Net Assets Statement as at that date.

3.2 The Net Assets Statement estimates a value for the Fund at 31 March 2021 of £18.9 billion. This is an increase of £3.6 billion (23%) from the 31 March 2020 value shown in last year's 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 and the valuation of the Fund's investments was therefore, some £1.4bn lower than had originally been forecast for end of March 2020. Global investment markets have since made significant recoveries over 2020/2021 pushing valuations back up to and beyond 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 this year.

3.3 The Fund's 2020/2021 Statement of Accounts is currently subject to external audit review and initial commentary is included as another report at this Committee.

#### **4.0 Financial implications**

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

#### **5.0 Legal implications**

5.1 This report contains no direct legal implications.

#### **6.0 Equalities implications**

6.1 This report has no direct equalities implications.

**7.0 All other implications**

7.1 This report has no other direct implications.

**8.0 Schedule of background papers**

8.1 Budget Monitoring 2020/2021 and Quarterly Accounts to 31 December 2020, Report to Pensions Committee, 24 March 2021

**9.0 Schedule of appendices**

9.1 Appendix A: West Midlands Pension Fund Quarterly Accounts to 31 March 2021