

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Board

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Report title

Statement of Accounts 2022/23

Originating service

Pension Services

Accountable employee

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Report to be/has been considered by

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Recommendation for action:

The Pensions Board are asked to note:

1. The process for preparing the Fund's 2023 Statement of Accounts and Annual Report together with the process for approval and external audit.

1.0 Purpose

- 1.1 The purpose of this report is to update the Board on the preparation and approval of the draft Statement of Accounts for the year ending 31 March 2023.

2.0 Background

- 2.1 LGPS funds are required by law to produce an Annual Statement of Accounts. These form part of the wider Administering Local Authority's accounts and are subject to Local Government Accounts and Audit regulations and publication deadlines. They are also included in the LGPS Fund's own Annual Report and Accounts for audit and publication by 1 December each year.
- 2.2 In preparing their accounts, Funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are for the Statement of Accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23' (Chartered Institute of Public Finance & Accountancy (CIPFA)) ('the Code').
- 2.3 In line with the above, as well as being published in the Fund's own Annual Report, the West Midlands Pension Fund accounts are included in the Statement of Accounts of the the City of Wolverhampton Council. In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the transactions and balances of the Fund are completely separate and not combined with those of the Administering Authority. Monies held by the Fund are for the purposes of the pension fund only.
- 2.4 The Board will receive a further report in the Autumn presenting the final version of the Statement of Accounts, along with the draft Annual Report and the findings of the external auditor's work including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited Statement of Accounts rests with its Audit Committee; this does not apply to the other parts of the Annual Report, which will be presented to Pensions Committee for approval.

3.0 Draft Statement of Accounts 2022/23

- 3.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves at the year-end. There are two primary statements: the Fund Account, which is concerned with transactions during the year and the Net Assets Statement, which reports balances at the year-end. These are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.
- 3.2 The draft Statement of Accounts show the estimated value of the Fund decreased by £0.6bn over the year due to changes in the value of investment assets (£0.3bn) and by benefits paid and expenditure in excess of contribution income (£0.3bn) during the financial year.

- 3.3 Overall, during 2022/23, volatility in investment markets resulted in them falling overall despite gains in the later part of the year, and contribution receipts were in line with the previous year as a result of advance payments received from employers during 2020/21. Cash receipts for advance contribution payments were fully recognised in the 2020/21 Statement of Accounts.
- 3.4 Net assets of the Fund at 31 March 2023 stood at £19.7bn, down from £20.3bn at 31 March 2022. This comprises investment assets of £19.4bn, an insurance contract valued at £160m and working balances of £72m.
- 3.5 The Fund has taken the option under the Code to disclose the present value of all Fund employer pension liabilities in a note to the accounts. This value, calculated on an International Accounting Standard Nineteen (IAS 19) basis, stood at £19.8bn at 31 March 2023. This is a decrease on the 31 March 2022 figure of £27.5bn due to adjustments to the actuarial assumptions.
- 3.6 The draft Statement of Accounts for the West Midlands Pension Fund is attached at Appendix A and has now been passed across to the external auditors.

4.0 Investment Management Expenses 2022/23

- 4.1 CIPFA guidance, introduced in 2014, requires the disclosure of all investment management costs including fees, which are deducted at source by external investment managers. Total investment management expenses reported in the draft accounts for 2022/23 are £96 million, compared to £107 million reported for 2021/22.
- 4.2 The Fund continues to take a transparent approach with investment management costs using industry-wide cost capture templates to obtain even higher levels of cost transparency from the investment managers, most notably in the recording of performance fees and transaction costs associated with turnover within individual portfolios. The following table summarises the breakdown of the total investment management expenses noted above:

	Actual 2021/22 £m	Actual 2022/23 £m
External Investment Management Costs – Invoiced	14.5	13.1
External Investment Management Costs – Deducted at Source	87.6	77.3
External Investment Management Costs – LGPS Central	4.4	5.1
Total External Investment Management Costs	106.5	95.5
Custody Fees	0.2	0.1
Total Investment Management Expenses	106.7	95.6

- 4.3 Based on cost collection and analysis to mid-June, the investment management costs deducted at source can be broken down further, and included within Note 13 to the draft accounts is the split between management fees, performance fees and transaction costs.
- 4.4 The challenges of cost data collection and comparison have been previously highlighted by the Fund and in research by the Cost Transparency Initiative (CTI) published by the Pensions and Lifetimes Savings Association (PLSA) in May 2021. The Fund has once again used an external company to support on the collection of this data and whilst not all managers have returned cost reporting templates in time for review ahead of publication of the draft Statement of Accounts an increase in returns has been seen for the 2022/23 year end. Information returned to date represents 92.3% of the net asset value of the Fund's investments and 72.5% by number (52.8% at the same point last year). The balance of fees are calculated based on information available from the fund and investment managers.
- 4.5 It should be noted that actual investment management costs are linked to asset values and are therefore 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. It is therefore likely that costs will increase in 2023/24 as the Fund implements the new Investment Strategy.
- 4.6 The analysis of the benchmarking of investment management fees for 2021/22 are detailed within agenda item 11.

5.0 Financial Implications

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

6.0 Legal Implications

- 6.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015 (together with any subsequent Amendments). The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.
- 6.2 Under LGPS Regulations, Administering Authorities are required to produce and publish a pension fund annual report, including information about the management and financial performance of the Fund by 1 December each year.

7.0 Equalities Implications

- 7.1 This report has no direct equalities implications.

8.0 All Other Implications

8.1 This report has no other direct implications.

9.0 Schedule of Background Papers

9.1 This report has no schedule of background papers.

10.0 Schedule of Appendices

10.1 Appendix A – West Midlands Pension Fund Statement of Accounts for the year ending 31 March 2023