

Pensions Committee

14 September 2016

| | | |
|--|--|--|
| Report title | Service Plan Monitoring 2016/17 and Quarterly Accounts June 2016 | |
| Originating service | Pension Services | |
| Accountable employee(s) | David Kane | Head of Finance |
| | Tel | 01902 554423 |
| | Email | david.kane@wolverhampton.gov.uk |
| Report to be/has been considered by | Rachel Brothwood | Director of Pensions |
| | Tel | 01902 551715 |
| | Email | rachel.brothwood@wolverhampton.gov.uk |

Recommendation(s) for noting:

The Committee is recommended to note:

1. Performance against the Fund's key performance indicators as at the end of June 2016;
2. The forecast outturn against operating budgets as at the end of June 2016, which is an under spend of £6.3 million;
3. The quarterly accounts for the period ending 30 June 2016, which show that:
 - the value of West Midlands Pension Fund at this date was £12.5 billion, an increase of £882.0 million from 31 March 2016;
 - the value of West Midlands ITA Pension Fund at this date was £472.7 million, an increase of £11.9 million from 31 March 2016.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on performance against key performance indicators (KPIs), the forecast outturn for the year against operating budgets and quarterly accounts as at the end of June 2016.
- 1.2 The KPIs and operating budgets were approved by the Committee on 16 March 2016 as part of the Service Plan 2016-2021, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

2.0 Performance Against Medium Term Plan

- 2.1 A summary of performance against KPIs is included in Appendix A. Performance against targets for issuing retirement quotations to members was impacted in the first quarter by late notification of statutory increase factors and the guidance from DCLG on the implementation of these. This affected the calculation of benefits for members retiring having left service in the year to 31 March 2016. It is expected that performance against this measure will improve over the remainder of the year. Changes to other calculation factors and methodology have also, however, impacted other areas (mainly transfer quotations) and the impact on performance will be noted next quarter.

3.0 Forecast Outturn Against Operating Budget 2016/17

- 3.1 The following table sets out the forecast outturn compared with the Fund's operating budget as at the end of the third quarter.

| Budget Heading | Actual 2015/16 £000 | Approved Budget 2016/17 £000 | Forecast 2016/17 £000 | Forecast Variance £000 |
|--------------------------------------|---------------------------|---------------------------------------|-----------------------------|------------------------------|
| Employees | 4,226 | 5,405 | 5,192 | (213) |
| Premises | 290 | 294 | 292 | (2) |
| Transport | 63 | 48 | 44 | (4) |
| Other Supplies and Services | 523 | 610 | 624 | 14 |
| Professional Fees | 1,523 | 1,823 | 1,825 | 2 |
| Communications and Computing | 524 | 591 | 595 | 4 |
| Support Services | 448 | 515 | 515 | - |
| Miscellaneous Income | (500) | (5) | (5) | - |
| Net Expenditure | 7,097 | 9,281 | 9,082 | (199) |
| External Investment Management Costs | 68,585 | 72,800 | 66,749 | (6,051) |
| Total | 75,682 | 82,081 | 75,831 | (6,250) |
| | | | | |
| Funded by: | | | | |
| West Midlands Pension Fund | 74,917 | 81,331 | 75,081 | (6,250) |
| West Midlands ITA Pension Fund | 765 | 750 | 750 | - |
| Total | 75,682 | 82,081 | 75,831 | (6,250) |

- 3.2 Forecasts have been made using a combination of reviewing spend to date and considering plans for the remainder of the financial year. A prudent approach has been taken in forecasting the cost of those plans, and the figures set out above are therefore likely to be subject to change by year-end.
- 3.3 The forecast under spend on staffing budgets (£208,000) is due to posts being vacant, or in the process of being recruited to, during the year to date. In addition, there are forecast savings across a range of other headings, reflecting the inclusion of up-to-date information and forecasts.
- 3.6 As at the end of June 2016, external investment management costs are forecast to be £6.1 million under budget, reflecting the on-going work to streamline portfolio management arrangements. However, since these are heavily influenced by market movements and investment performance, this is particularly subject to change during the remainder of the year.
- 3.7 Taking into account internal investment management costs and fees and other costs deducted at source by fund managers, total investment management costs for West Midlands Pension Fund are forecast to be £68.6 million, as follows:

| | Actual 2015/16 £000 | Forecast 2016/17 £000 |
|---|------------------------|--------------------------|
| External Costs: | | |
| - Invoiced | 7,383 | 8,091 |
| - Deducted at Source | 60,587 | 58,058 |
| Total External Investment Management Costs | 67,970 | 66,149 |
| Internal Investment Management Costs | 1,844 | 2,420 |
| Total Investment Management Costs | 69,814 | 68,569 |

- 3.8 Cost-per-member is a critical measure for the Fund of its cost-effectiveness. The following table sets out the forecast cost-per-member compared to budget, using the three standard headings specified by CIPFA. These figures are stated for West Midlands Pension Fund only, reflecting the £150,000 recharge to the ITA Fund. The forecast cost-per-member is lower than budgeted for each of the three headings.

| | 2015/16 Actual | 2016/17 Budget | 2016/17 Forecast |
|--|-------------------|-------------------|---------------------|
| Total Administration Costs (£000) | 3,310 | 4,186 | 3,968 |
| Administration Cost per Member (£) | 11.50 | 14.58 | 13.55 |
| | | | |
| Total Oversight and Governance Costs (£000) | 1,792 | 2,580 | 2,544 |
| Oversight and Governance Cost per Member (£) | 6.22 | 8.98 | 8.69 |
| | | | |

| | 2015/16 Actual | 2016/17 Budget | 2016/17 Forecast |
|---|---------------------------|---------------------------|-----------------------------|
| Number of Members | 287,874* | 287,166** | 292,854*** |
| Total Administration, Oversight and Governance Cost per Member (£) | 17.72 | 23.56 | 22.24 |
| Total Investment Management Costs (£000) | 69,814 | 74,566 | 68,569 |
| Investment Management Cost per Member (£) | 242.52 | 259.66 | 234.14 |
| Investment Management Cost as a Percentage of Investment Assets | 0.60% | 0.62% | 0.55% |

* As at 31 March 2016

** As estimated for purpose of 2016/17 budget preparation.

*** As at 30 June 2016

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

4.0 Quarterly Accounts – West Midlands Pension Fund

4.1 Appendix B provides a Fund Account for the three months ending 30 June 2016, and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 30 June 2016 of £12.5 billion. This is an increase of £882.0 million from the 31 March 2016 value.

4.3 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 (meaning 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 calculated on an accruals basis, being equal to one quarter of the forecast net cost for the year.
- Investment income has been calculated based on income due for the period.

4.4 The main reason for the increase in the value of the Fund during the quarter is gains in the value of investment assets, the net gain over the period being £701.5 million.

4.5 It should be noted that the figure for current liabilities at 30 June 2016 is much higher than the 31 March 2016 equivalent: this is almost entirely due to early payment of contributions, recognised as receipts in advance. Of the £107.3 million current liabilities, £79.9 million is receipts in advance; of this, £68.3 million is represented by four councils. Over the remainder of the financial year, this will unwind and current liabilities will reduce.

5.0 Quarterly Accounts – West Midlands ITA Pension Fund

5.1 Appendix C provides a Fund Account for the three months ending 30 June 2016, and a Net Assets Statement as at that date.

5.2 The Net Assets Statement provides a value for the Fund at 30 June 2016 of £472.7 million. This is an increase of £11.9 million from the 31 March 2016 value.

5.3 As with West Midlands Pension Fund, the main reason for the increase in the value of the Fund during the quarter is gains in the value of investment assets (£11.9 million). The gain in the value for the ITA Fund is proportionally less than that for the main Fund, reflecting the differing investment strategies, in particular the buy-in, the valuation of which is unchanged from 31 March 2016.

6.0 Financial implications

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

7.0 Legal implications

7.1 This report contains no direct legal implications for the authority.

8.0 Equalities implications

8.1 This report has no equalities implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 The report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.

12.0 Schedule of background papers

- Service Plan 2016-21, Report to Pensions Committee, 16 March 2016

13.0 Schedule of Appendices

13.1 Appendix A – Key Performance Indicator Monitoring June 2016

13.2 Appendix B – West Midlands Pension Fund Quarterly Accounts 30 June 2016

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

13.3 Appendix C – West Midlands ITA Pension Fund Quarterly Accounts 30 June 2016