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CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

13 December 2017

Report title	Budget Monitoring 2017/18 and Quarterly Accounts September 2017	
Originating service	Pensions	
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Recommendations for noting:

The Committee is asked to note:

1. The quarterly accounts for the period ending 30 September 2017, which show that:

    - the value of West Midlands Pension Fund at this date was £15.3 billion, an increase of £1.0 billion from 31 March 2017;

    - the value of West Midlands ITA Pension Fund at this date was £507.5 million, an increase of £4.6 million from 31 March 2017.

2. The forecast outturn against operating budgets as at the end of September 2017, which is an under spend of £8.7 million.

1.0 Purpose

1.1 The purpose of this report is to update the Committee on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of September 2017.

1.2 The operating budgets were approved by the Committee on 22 March 2017 as part of the Service Plan 2017-2022, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

2.0 Forecast Outturn against Operating Budget 2017/18

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

Budget Heading	Actual 2016/17 £000	Approved Budget 2017/18 £000	Forecast 2017/18 £000	Forecast Variance £000
Employees	4,759	6,270	5,748	(522)
Premises	283	300	339	39
Transport	45	83	86	3
Other Supplies and Services	478	640	662	22
Professional Fees	1,437	1,410	1,590	180
Communications and Computing	447	639	600	(39)
Support Services	523	558	558	-
Miscellaneous Income	(426)	(5)	(381)	(376)
Net Expenditure	**7,546**	**9,895**	**9,202**	**(693)**
External Investment Management Costs	64,146	70,200	62,222	(7,978)
Total	**71,692**	**80,095**	**71,424**	**(8,671)**
Funded by:				
West Midlands Pension Fund	70,896	79,345	70,674	(8,671)
West Midlands ITA Pension Fund	796	750	750	-
Total	**71,692**	**80,095**	**71,424**	**(8,671)**

2.2 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.

2.3 The forecast under spend on employee costs (£522,000) is due to posts being vacant, or in the process of being recruited to, during the year to date.

2.4 As at the end of September 2017, investment management costs are forecast to be £8.0 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.

2.5 Taking into account internal investment management costs and fees and other costs deducted at source by fund managers, total investment management costs for the main fund are forecast to be £64.0 million, as follows:

	Actual 2016/17 £000	**Forecast 2017/18 £000**
External Costs:		
- Invoiced	6,142	6,760
- Deducted at Source	57,358	54,861
Total External Investment Management Costs	**63,500**	**61,621**
Internal Investment Management Costs	2,217	2,370
Total Investment Management Costs	**65,717**	**63,991**

2.6 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: administration, oversight and governance, and investment management. 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.

	2016/17 Actual	**2017/18 Budget**	**2017/18 Forecast**
Total Administration Costs (£000)	3,303	4,660	4,300
Administration Cost per Member (£)	10.93	15.29	14.02
Total Oversight and Governance Costs (£000)	2,027	2,409	2,185
Oversight and Governance Cost per Member (£)	6.71	7.91	7.13
Number of Members	302,092*	304,774**	306,646***
Total Administration, Oversight and Governance Cost per Member (£)	**17.64**	**23.20**	**21.15**
Total Investment Management Costs (£000)	65,717	72,275	64,187
Investment Management Cost per Member (£)	217.54	237.14	209.32
Investment Management Cost as a Percentage of Investment Assets	**0.46%**	**0.47%**	**0.42%**

* As at 31 March 2017
** As estimated for purpose of 2017/18 budget preparation.
*** As at 30 September 2017

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

2.8 During the 2016/17 financial year and the current year to date, the Fund has incurred costs on the set-up of LGPS Central Limited. These costs are being shared, on an equal-eighths basis, with the other seven partner funds. The total implementation budget (to April 2018) is approximately £4 million, of which £1.3 million has been incurred to date.

2.9 West Midlands' share of this spend to date is £166,000, and its share of the total budget is £500,000. This expenditure has been capitalised as investment in the company, and therefore has not impacted on the operating budget. No costs are chargeable to the ITA Fund, as it will not be a share-holder.

2.10 Strong budget management arrangements are in place, including monthly reporting to the LGPS Central Programme Board. The forecast budget requirement is kept under continuous review, with any changes requiring the approval of the Programme Board.

3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the half-year ending 30 September 2017, and a Net Assets Statement as at that date.

3.2 The Net Assets Statement provides a value for the Fund at 30 September 2017 of £15.3 billion. This is an increase of £1.0 billion from the 31 March 2017 value.

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 for the first six months of the year is significantly more than one half of the total amount that will be due for the year);
- Management expenses have been calculated on an accruals 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.

3.4 The main reason for the increase in the value of the Fund for the year so far is contributions receivable, amounting to £877.0 million for the year so far. In addition, gains in the value of investment assets have increased the value of the Fund by £395.7 million. Together, net of income and benefits paid, these have led to a £1.0 billion increase in asset value over the first six months of the year.

4.0 Quarterly Accounts – West Midlands ITA Pension Fund

4.1 Appendix B provides a Fund Account for the quarter ending 30 September 2017, and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 30 September 2017 of £507.5 million. This is an increase of £4.6 million from the 31 March 2017 value.

4.3 The main reason for the increase in the value of the Fund for the year so far is gains in the value of investment assets (£4.8 million).

5.0 Financial implications

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

6.0 Legal implications

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

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

- Service Plan 2017-22, Report to Pensions Committee, 22 March 2017

12.0 Schedule of Appendices

Appendix A – West Midlands Pension Fund Quarterly Accounts 30 September 2017

Appendix B – West Midlands ITA Pension Fund Quarterly Accounts 30 September 2017